ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P8 FINANCIAL ASSETS

INVESTMENTS IN SUBSIDIARY COMPANIES, JOINT VENTURES AND ASSOCIATED COMPANIES	Subsidiary companies		Joint ventures		Associated companies	
	2010	2009	2010	2009	2010	2009
Opening balance	**75,540**	74,571	**12,736**	4,136	**330**	330
Acquisitions and stock issues	**2,083**	1,480	**–**	8,384	**–**	–
Shareholders' contribution	**25**	508	**–**	209	**–**	–
Write-downs	**–82**	–551	**–**	–	**–**	–
Disposals	**–**	–461	**–**	–	**–**	–
Reclassification	**–**	–7	**–**	7	**–**	–
Closing balance	**77,566**	75,540	**12,736**	12,736	**330**	330

OTHER FINANCIAL ASSETS	Other investments in shares and participations		Receivables from subsidiaries, non-current		Customer finance, non-current [1]		Other financial assets, non-current	
	2010	2009	2010	2009	2010	2009	2010	2009
Accumulated acquisition costs								
Opening balance	**19**	19	**10,316**	15,781	**1,093**	974	**1,179**	3,030
Additions	**81**	–	**651**	–	**406**	363	**4**	178
Disposals/repayments/deductions	**–7**	–	**–55**	–1	**–136**	–84	**–38**	–2,029
Reclassifications	**–**	–	**–4,212**	–5,464	**–241**	–111	**–843**	–
Translation difference	**–**	–	**–34**	–	**–49**	–49	**–**	–
Closing balance	**93**	19	**6,666**	10,316	**1,073**	1 093	**302**	1,179
Accumulated write-downs/allowances								
Opening balance	**–9**	–8	**–**	–	**–247**	–64	**–**	–
Write-downs/allowances	**–**	–1	**–**	–	**–**	–208	**–**	–
Disposals/repayments/deductions	**–**	–	**–**	–	**197**	22	**–**	–
Translation difference	**–**	–	**–**	–	**4**	3	**–**	–
Closing balance	**–9**	–9	**–**	–	**–46**	–247	**–**	–
Net carrying value	**84**	10	**6,666**	10, 316	**1,027**	846	**302**	1,179

[1] From time to time, customer finance amounts may include equity instruments or equity-related instruments in our customers due to reconstruction activities of troubled receivables. We sometimes receive such instruments as security for our receivable and our policy is to sell them as soon as feasible.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P9 INVESTMENTS

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2010. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External Reporting, SE-164 83 Stockholm, Sweden.

SHARES OWNED DIRECTLY BY THE PARENT COMPANY

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK million
Subsidiary companies						
I	Ericsson AB	556056-6258	Sweden	100	50	20,731
I	Ericsson Shared Services AB	556251-3266	Sweden	100	361	2,216
I	Netwise AB	556404-4286	Sweden	100	2	306
II	AB Aulis	556030-9899	Sweden	100	14	6
III	Ericsson Credit AB	556326-0552	Sweden	100	5	5
	Other (Sweden)			–	–	2,083
I	Ericsson Austria GmbH		Austria	100	4	115
I	Ericsson Danmark A/S		Denmark	100	90	216
I	Oy LM Ericsson Ab		Finland	100	13	196
II	Ericsson Participations France SAS		France	100	26	524
I	Ericsson GmbH		Germany	100	20	4,227
I	Ericsson Hungary Ltd.		Hungary	100	1,301	120
II	LM Ericsson Holdings Ltd.		Ireland	100	2	15
I	Ericsson Telecomunicazioni S.p.A.		Italy	53 [1]	23	3,151
II	Ericsson Holding International B.V.		The Netherlands	100	222	3,200
I	Ericsson A/S		Norway	100	75	114
II	Ericsson Television AS		Norway	100	161	1,788
I	Ericsson Corporatia AO		Russia	100	5	5
I	Ericsson AG		Switzerland	100	–	–
II	Ericsson Holding Ltd.		United Kingdom	100	328	4,094
	Other (Europe, excluding Sweden)			–	–	428
II	Ericsson Holding II Inc.		United States	100	2,830	29,006
I	Cía Ericsson S.A.C.I.		Argentina	95 [2]	41	178
I	Ericsson Telecom S.A. de C.V.		Mexico	100	n/a	1,550
	Other (United States, Latin America)			–	–	61
II	Teleric Pty Ltd.		Australia	100	20	100
I	Ericsson Ltd.		China	100	2	2
I	Ericsson (China) Company Ltd.		China	100	65	475
I	Ericsson India Private Ltd.		India	100	725	147
I	Ericsson India Global Services PVT. Ltd		India	100	389	65
I	LG-Ericsson Ltd.		Korea	50	100	1,943
I	Ericsson (Malaysia) Sdn. Bhd.		Malaysia	70	2	4
I	Ericsson Telecommunications Pte. Ltd.		Singapore	100	2	1
I	Ericsson South Africa PTY. Ltd		South Africa	100	10	108
I	Ericsson Taiwan Ltd.		Taiwan	80	240	20
I	Ericsson (Thailand) Ltd.		Thailand	49 [3]	90	17
	Other countries (the rest of the world)			–	–	349
	Total				**–**	**77,566**
Joint ventures and associated companies						
I	Sony Ericsson Mobile Communications AB	556615-6658	Sweden	50	50	4,136
II	ST-Ericsson SA		Switzerland	50	436	8,325
III	ST-Ericsson AT SA		Switzerland	51	5	275
I	Ericsson Nikola Tesla d.d.		Croatia	49	65	330
	Total				**–**	**13,066**

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies
III Finance companies

[1] Through subsidiary holdings, total holdings amount to 100% of Ericsson Telecomunicazioni S.p.A.
[2] Through subsidiary holdings, total holdings amount to 100% of Cia Ericsson S.A.C.I.
[3] Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

SHARES OWNED BY SUBSIDIARY COMPANIES				
Type	Company	Reg. No.	Domicile	Percentage of ownership
Subsidiary companies				
II	Ericsson Cables Holding AB	556044-9489	Sweden	100
I	Ericsson France SAS		France	100
I	LHS Telekommunikation GmbH & Co. KG [1]		Germany	100
I	LM Ericsson Ltd.		Ireland	100
II	Ericsson Nederland B.V.		The Netherlands	100
I	Ericsson Telecommunicatie B.V.		The Netherlands	100
I	Ericsson España S.A.		Spain	100
I	Ericsson Telekomunikasyon A.S.		Turkey	100
I	Ericsson Ltd.		United Kingdom	100
I	Ericsson Canada Inc.		Canada	100
I	Ericsson Inc.		United States	100
I	Ericsson IP Infrastructure Inc.		United States	100
I	Ericsson Services Inc.		United States	100
I	Drutt Corporation Inc.		United States	100
I	Optimi Corporation		United States	100
I	Redback Networks Inc.		United States	100
I	Ericsson Telecommunicações S.A.		Brazil	100
I	Ericsson Australia Pty. Ltd.		Australia	100
I	Ericsson (China) Communications Co. Ltd.		China	100
I	Nanjing Ericsson Panda Communication Co. Ltd.		China	51
I	Nippon Ericsson K.K.		Japan	100
I	Ericsson Communication Solutions Pte Ltd.		Singapore	100

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies

[1] **Disclosures Pursuant to Section 264b of the German Commercial Code (Handelsgesetzbuch – HGB)**
Applying Section 264b HGB, LHS Holding GmbH & Co. KG, LHS Communication GmbH & Co. KG and LHS Telekommunikation GmbH & Co. KG, all located in Frankfurt am Main/Germany, are exempted from the obligation to prepare, have audited and disclose financial statements and a management report in accordance with the legal requirements being applicable for German corporations.

P10 INVENTORIES

	2010	2009
Finished products and goods for resale	57	61
Inventories	57	61

P11 TRADE RECEIVABLES AND CUSTOMER FINANCE

Credit risk management is governed on a Group level.

For further information, see Notes to the Consolidated Financial Statements – Note C14, “Trade Receivables and Customer Finance” and Note C20, “Financial Risk Management and Financial Instruments”.

TRADE RECEIVABLES AND CUSTOMER FINANCE	2010	2009
Trade receivables excluding associated companies and joint ventures	57	70
Allowances for impairment	–24	–37
Trade receivables, net	33	33
Trade receivables related to associated companies and joint ventures	3	9
Trade receivables, total	36	42
Customer finance	2,599	1,829
Allowances for impairment	–93	–393
Customer finance, net	2,506	1,436

MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT	Trade receivables		Customer finance	
	2010	2009	2010	2009
Opening balance	37	2	393	94
Additions	–	38	–	355
Utilization	–	–	–87	–12
Reversal of excess amounts	–10	–	–206	–20
Translation difference	–3	–3	–7	–24
Closing balance	24	37	93	393

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

AGING ANALYSIS AS PER DECEMBER 31, 2010							
				Of which past due in the following time intervals		Of which past due and impaired in the following time intervals	
	Amount	Of which neither impaired nor past due	Of which impaired not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
Trade receivables excluding associated companies and joint ventures	57	16	–	4	13	1	23
Allowances for impairment of receivables	–24	–	–	–	–	–1	–23
Trade receivables related to associated companies and joint ventures	3	3	–	–	–	–	–
Customer finance	2,599	2,020	516	24	–	18	21
Allowances for impairment of customer finance	–93	–	–54	–	–	–18	–21

AGING ANALYSIS AS PER DECEMBER 31, 2009							
				Of which past due in the following time intervals		Of which past due and impaired in the following time intervals	
	Amount	Of which neither impaired nor past due	Of which impaired not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
Trade receivables excluding associated companies and joint ventures	70	12	–	18	3	1	36
Allowances for impairment of receivables	–37	–	–	–	–	–1	–36
Trade receivables related to associated companies and joint ventures	9	5	–	4	–	–	–
Customer finance	1,829	709	1,043	1	–	20	56
Allowances for impairment of customer finance	–393	–	–317	–	–	–20	–56

OUTSTANDING CUSTOMER FINANCE	2010	2009
On-balance sheet customer finance	**2,599**	1,829
Financial guarantees for third parties	**212**	135
Total customer finance	**2,811**	1,964
Accrued interest	**34**	18
Less third-party risk coverage	**–1,353**	–382
Parent Company's risk exposure	**1,492**	1,600
On-balance sheet credits, net carrying value	**2,506**	1,436
Of which short term	***1,479***	*590*
Credit commitments for customer finance	**1,104**	762

During 2010 the Parent Company transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred is SEK 3,808 million, the amount of the assets that the Parent Company continues to recognize is SEK 190 million, and the carrying amount of the associated liabilities is SEK 190 million. Maturity date for major part of the issued guarantees occurs in 2019 the latest.

P12 RECEIVABLES AND LIABILITIES – SUBSIDIARY COMPANIES

RECEIVABLES AND LIABILITIES – SUBSIDIARY COMPANIES		Payment due by period			
	Total 2010	< 1 year	1–5 years	>5 years	Total 2009
Non-current receivables [1]					
Financial receivables	**6,666**	4	613	6,049	10,316
Current receivables					
Trade receivables	**882**	882	–	–	2,358
Financial receivables	**14,503**	14,503	–	–	17,677
Total	**15,385**	15,385	**–**		20,035
Non-current liabilities [1]					
Financial liabilities	**26,862**	–	–	26,862	28,966
Current liabilities					
Trade payables	**828**	828	–	–	560
Financial liabilities	**45,128**	45,128	–	–	38,575
Total	**45,956**	45,956	–	–	39,135

[1] Including non interest-bearing receivables and liabilities, net, amounting to SEK –20,196 million in 2010 (SEK –18,650 million in 2009).

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P13 OTHER CURRENT RECEIVABLES

OTHER CURRENT RECEIVABLES	2010	2009
Receivables from associated companies and joint ventures	69	88
Prepaid expenses	590	430
Accrued revenues	246	125
Derivatives with a positive value	3,038	1,762
Other	356	272
Total	4,299	2,677

P14 STOCKHOLDERS' EQUITY

Capital stock 2010

Capital stock at December 31, 2010, consisted of the following:

CAPITAL STOCK	Number of shares	Capital stock
Class A shares [1]	261,755,983	1,309
Class B shares [1]	3,011,595,752	15,058
Total	3,273,351,735	16,367

[1] Class A shares (quotient value SEK 5.00) and Class B shares (quotient value SEK 5.00).

CHANGES IN STOCKHOLDERS' EQUITY 2010	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
2010									
January 1, 2010	16,367	20	31,472	47,859	100	–	41,853	41,953	89,812
Net income	–	–	–	–	–	–	6,594	6,594	6,594
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	136	–	136	136
Amounts transferred to initial carrying amount of hedged items	–	–	–	–	–	–136	–	–136	–136
Tax on items relating to components of OCI	–	–	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	6,594	6,594	6,594
Transactions with owners									
Stock issue	–	–	–	–	–	–	–	–	–
Sale of own shares	–	–	–	–	–	–	52	52	52
Stock Purchase Plans	–	–	–	–	–	–	8	8	8
Repurchase of own shares	–	–	–	–	–	–	–	–	–
Contribution from/to (–) subsidiary companies							1,029	1,029	1,029
Tax on contributions							–271	–271	–271
Dividends paid	–	–	–	–	–	–	–6,391	–6,391	–6,391
December 31, 2010	16,367	20	31,472	47,859	100	–	42,874	42,974	90,833

CHANGES IN STOCKHOLDERS' EQUITY 2009	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
2009									
January 1, 2009	16,232	20	31,472	47,724	100	569	41,285	41,954	89,678
Net income	–	–	–	–	–	–	8,179	8,179	8,179
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	612	–	612	612
Amounts transferred to initial carrying amount of hedged items	–	–	–	–	–	–1,385	–	–1,385	–1,385
Tax on items relating to components of OCI	–	–	–	–	–	204	–	204	204
Total other comprehensive income	–	–	–	–	–	–569	–	–569	–569
Total comprehensive income	–	–	–	–	–	–569	8,179	7,610	7,610
Transactions with owners									
Stock issue	135	–	–	135	–	–	–	–	135
Sale of own shares	–	–	–	–	–	–	75	75	75
Stock Purchase and Stock Option plans	–	–	–	–	–	–	139	139	139
Repurchase of own shares	–	–	–	–	–	–	–135	–135	–135
Contribution from/to (–) subsidiary companies							–2,403	–2,403	–2,403
Tax on contributions							610	610	610
Dividends paid	–	–	–	–	–	–	–5,897	–5,897	–5,897
December 31, 2009	16,367	20	31,472	47,859	100	–	41,853	41,953	89,812

Telcordia05137

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P15 UNTAXED RESERVES

UNTAXED RESERVES			
2010	Jan 1	Additions/ withdrawals (–)	Dec 31
Accumulated depreciation in excess of plan			
Intangible assets	875	56	931
Tangible assets	40	44	84
Total accumulated depreciation in excess of plan	915	100	1,015
Total untaxed reserves	**915**	**100**	**1,015**

Change in depreciation in excess of plan of intangible assets relates mainly to Marconi and Redback trademarks. Deferred tax liability on untaxed reserves, not accounted for in deferred taxes, amounts to SEK 267 million (SEK 241 million in 2009).

P16 PENSIONS

The Parent Company has two types of pension plans:

- Defined contribution plans: post-employment benefit plans where the Parent Company pays fixed contributions into separate entities and has no legal or constructive obligation to pay further contributions if the entities do not hold sufficient assets to pay all employee benefits relating to employee service. The expenses for defined contribution plans are recognized during the period when the employee provides service.
- Defined benefit plans: post-employment benefit plans where the Parent Company's undertaking is to provide predetermined benefits that the employee will receive on or after retirement. The FPG/PRI plan for the Parent Company is partly funded. FPG is a Swedish credit insurance company for pension obligations and PRI is a pension registration institute. Pension obligations are calculated annually, on the balance sheet date, based on actuarial assumptions.

DEFINED BENEFIT OBLIGATION – AMOUNT RECOGNIZED IN THE BALANCE SHEET		
	2010	2009
Present value of wholly or partially funded pension plans [1]	**618**	582
Fair value of plan assets	**–714**	–640
Unfunded/net surplus(-) of funded pension plans	**–96**	–58
Present value of unfunded pension plans	**389**	372
Excess from plan assets not accounted for	**96**	58
Closing balance provision for pensions	**389**	372

[1] This FPG/PRI obligation is covered by the Swedish law on safeguarding of pension commitments.

The defined benefit obligations are calculated based on the actual salary levels at year-end and based on a discount rate of 3.7 percent. Weighted average life expectancy after the age of 65 is 24 years for women and 21 years for men.

In 2005, SEK 524 million was transferred into the Swedish pension trust and in 2010 an additional transfer of SEK 31 million was made.

The Parent Company utilizes no assets held by the pension trust. Return on plan assets for 2010 is 17.4 percent (16.5 percent).

PLAN ASSETS ALLOCATION		
	2010	2009
Equities	**249**	224
Interest-bearing securities	**-**	416
Fixed income	**433**	-
Other	**32**	–
Total	**714**	640
Of which Ericsson securities	**–**	–

CHANGE IN THE DEFINED BENEFIT OBLIGATION		
	2010	2009
Opening balance	**372**	403
Payment to pension trust	**–31**	–23
Pension costs, excluding taxes, related to defined benefit obligations accounted for in the income statement	**98**	63
Pension payments	**–44**	–42
Return on plan assets for the year	**–102**	–87
Return on plan assets not accounted for	**96**	58
Previous excess from plan assets reclassified	**–**	–
Closing balance provision for pensions	**389**	372

Estimated pension payments for 2011 are SEK 49 million.

TOTAL PENSION COST AND INCOME RECOGNIZED IN THE INCOME STATEMENT		
	2010	2009
Defined benefit obligations		
Costs excluding interest and taxes	**54**	28
Interest cost	**44**	35
Credit insurance premium	**–2**	2
Total cost defined benefit plans excluding taxes	**96**	65
Defined contribution plans		
Pension insurance premium	**96**	107
Total cost defined contribution plans excluding taxes	**96**	107
Return on plan assets	**–5**	–29
Total pension cost, net excluding taxes	**187**	143

Of the total pension cost SEK 149 million (SEK 137 million in 2009) is included in operating expenses and SEK 38 million (SEK 6 million in 2009) in the financial net.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P17 OTHER PROVISIONS

OTHER PROVISIONS	Warranty commitments	Restruc-turing	Customer finance	Other	Total other provisions [1]
2010					
Opening balance	–	349	95	253	**697**
Additions	–	70	2	–	**72**
Reversal of excess amounts	–	–9	–6	–13	**–28**
Utilization/Cash out	–	–92	–	–78	**–170**
Reclassification	–	–	–	–	**–**
Closing balance	**–**	**318**	**91**	**162**	**571**
2009					
Opening balance	1	109	162	384	**656**
Additions	–	297	–	295	**592**
Reversal of excess amounts	–	–7	–16	–303	**–326**
Utilization/Cash out	–1	–50	–51	–123	**–225**
Reclassification	–	–	–	–	**–**
Closing balance	**–**	**349**	**95**	**253**	**697**

[1] Of which SEK 203 million (SEK 230 million in 2009) are expected to be utilized within one year.

P18 INTEREST-BEARING LIABILITIES

As per December 31, 2010, the Parent Company's outstanding interest-bearing liabilities, excluding liabilities to subsidiaries, were SEK 24.6 billion.

INTEREST-BEARING LIABILITIES	2010	2009
Borrowings, current		
Current maturities of long-term borrowings	–	–
Total current borrowings	–	–
Borrowings, non-current		
Notes and bond loans	**20,646**	23,801
Liabilities to credit institutions	**4,000**	4,000
Total non-current interest-bearing liabilities	**24,646**	27,801
Total interest-bearing liabilities	**24,646**	27,801

NOTES AND BOND LOANS						
Issued-maturing	Nominal amount	Coupon	Currency	Book value (SEK million)	Maturity date (yy-mm-dd)	Unrealized hedge gain/loss (incl. in book value)
2004–2012	450	2.420%	SEK	450	12-12-07 [2]	
2007–2012	1,000	5.100%	SEK	1,035	12-06-29	–35
2007–2012	2,000	2.200%	SEK	2,000	12-06-29 [3]	
2007–2014	375	1.314%	EUR	3,383	14-06-27 [4]	
2007–2017	500	5.380%	EUR	5,059 [1]	17-06-27	–571
2009–2013	600	5.000%	EUR	5,521 [1]	13-06-24	–129
2009–2016	300	3.35281%	USD	2,041	16-06-23 [5]	
2010–2020	170	2.69281%	USD	1,157	20-12-23 [6]	
Total				**20,646**		**–735**

[1] Interest rate swaps are designated as fair value hedges.
[2] Next contractual repricing date 2011-06-03 (semi annual).
[3] Next contractual repricing date 2011-03-25 (quarterly).
[4] Next contractual repricing date 2011-03-24 (quarterly).
[5] Next contractual repricing date 2011-03-21 (quarterly).
[6] Next contractual repricing date 2011-03-18 (quarterly).

All outstanding notes and bond loans are issued under the Euro Medium-Term Note (EMTN) program. Bonds issued at a fixed interest rate are swapped to a floating interest rate using interest rate swaps, resulting in a weighted average interest rate of 2.65 (2.88) percent at December 31, 2010. These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

Telcordia05139

ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

On December 23, 2010, the USD 625 million bilateral loan with Swedish Export Credit Corporation (SEK) was renegotiated to reduce interest expense and to prolong the maturity profile. USD 325 million was amortized. The remaining USD 300 million will mature in 2016 according to the original plan. At the same time a new bilateral bond of USD 170 million was issued with maturity 2020. Consequently gross cash was reduced by USD 155 million. The new bond is not guaranteed by EKN (The Swedish Export Credit Guarantee Board).

In 2008 Ericsson signed a seven year loan of SEK 4.0 billion with the European Investment Bank. The loan supports Ericsson's R&D activities to develop the next generation of mobile broadband technology at sites in Kista, Gothenburg and Linköping in Sweden.

P19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk management

Ericsson's financial risk management is governed on a Group level. For further information see Notes to the Consolidated Financial Statements – Note C20, "Financial Risk Management and Financial Instruments".

OUTSTANDING DERIVATIVES

Fair value	Asset 2010	Liability 2010	Asset 2009	Liability 2009
Currency derivatives				
Maturity within 3 months	600	1,031	606	531
Maturity between 3 and 12 months	945	1,291	1,039	817
Maturity 1 to 3 years	10	27	134	44
Maturity 3 to 5 years	–	–	84	–
Maturity more than 5 years	–	–	3	–
Total currency derivatives	1,556 [1]	2,350 [2][3]	1,866 [4]	1,392
Of which designated in cash flow hedge relations	–	–	–	–
Interest rate derivatives				
Maturity within 3 months	6	28	–	–
Maturity between 3 and 12 months	76	61	28	40
Maturity 1 to 3 years	544	118	49	151
Maturity 3 to 5 years	184	34	175	40
Maturity more than 5 years	705	87	685	58
Total interest rate derivatives	1,515	329 [3]	937 [4]	289
Of which designated in fair value hedge relations	*862*	–	*845*	–

[1] Of which internal counterparts SEK 33 million.
[2] Of which internal counterparts SEK 817 million.
[3] Of which SEK 902 million is reported as non-current liabilities for 2010.
[4] Of which SEK 843 million is reported as non-current assets for 2009

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

SEK billion	Remaining time to maturity < 3 months	< 1 year	1–5 years	> 5 years	2010	2009
Bank deposits	13.9	–	–	–	13.9	6.9
Type of issuer/ counterpart						
Governments	–	9.3	23.5	2.9	35.7	36.9
Banks	1.5	–	4.0	–	5.5	3.1
Corporations	–	–	–	–	–	0.2
Mortgage institutes	–	–	15.3	1.2	16.5	15.3
Total	15.4	9.3	42.8	4.1	71.6	62.4

The instruments are classified as held for trading and are therefore short-term investments.

During 2010, cash, cash equivalents and short-term investments increased by SEK 9.2 billion to SEK 71.6 billion.

REPAYMENT SCHEDULE OF LONG-TERM BORROWINGS

Nominal amount SEK billion	Current maturities of long-term debt	Borrowings (non-current)	Total
2011	–	–	–
2012	–	3.5	3.5
2013	–	5.4	5.4
2014	–	3.4	3.4
2015	–	4.0	4.0
2016 and later	–	7.7	7.7
Total	–	24.0	24.0

Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

FUNDING PROGRAMS [1]

	Amount	Utilized	Unused
Euro Medium-Term Note program (USD million)	5,000	3,003	1,997
Euro Commercial Paper program (USD million)	1,500	–	1,500
Swedish Commercial Paper program (SEK million)	5,000	–	5,000
Long-Term Committed Credit facility (USD million)	2,000	–	2,000

[1] There are no financial covenants related to these programs.

At year-end Ericsson's credit rating remained at Baa1 (Baa1) by Moody's and BBB+ (BBB+) by Standard & Poor's, both considered to be "Solid Investment Grade".

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Financial instruments carried at other than fair value

In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit and loss had a net gain of SEK 0.3 billion. For further information about valuation principles, see Notes to the Consolidated Financial Statements – Note C1, "Significant Accounting Policies".

FINANCIAL INSTRUMENTS CARRYING AMOUNT

SEK billion	Trade receivables P11	Short-term investments	Receivables and liabilities subsidiaries P12	Borrowings P18	Trade payables P21	Financial assets P8	Other current receivables P13	Other current liabilities P20	Other non-current liabilities	2010	2009
Assets at fair value through profit or loss	–	57.6	–0.8	–	–	–	3.0	–1.0	–0.9	**58.0**	56.7
Loans and receivables	2.5	–	22.0	–	–	–	0.1	–	–	**24.6**	31.8
Available for sale assets	–	–	–	–	–	–	–	–	–	**–**	–
Financial liabilities at amortized cost	–	–	–72.0	–24.6	–0.4	–	–	–	–	**–97.0**	–95.7
Total	**2.5**	**57.6**	**–50.8**	**–24.6**	**–0.4**	**–**	**3.1**	**–1.0**	**–0.9**	**–14.5**	–9.7

FINANCIAL INSTRUMENTS CARRIED AT OTHER THAN FAIR VALUE

SEK billion	Carrying amount 2010	Carrying amount 2009	Fair value 2010	Fair value 2009
Current maturities of long-term borrowings	–	–	–	–
Borrowings non-current	**24.6**	27.8	**24.5**	26.0
Total	**24.6**	27.8	**24.5**	26.0

Financial instruments excluded from the tables, such as trade receivables and payables, are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the carrying value is considered to represent a reasonable estimate of a fair value.

P20 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

	2010	2009
Accrued interest	**320**	341
Accrued expenses, of which	**362**	327
Employee related	***294***	*283*
Other	***68***	*44*
Deferred revenues	**12**	23
Derivatives with a negative value	**960**	1,143
Other current liabilities	**125**	147
Total	**1,779**	1,981

P21 TRADE PAYABLES

TRADE PAYABLES

	2010	2009
Trade payables excluding associated companies and joint ventures	**399**	335
Total	**399**	335

All trade payables fall due within 90 days.

P22 ASSETS PLEDGED AS COLLATERAL

ASSETS PLEDGED AS COLLATERAL

	2010	2009
Bank deposits	**658**	550
Total	**658**	550

The major item in bank deposits is the internal bank's clearing and settlement commitments of SEK 467 million (SEK 383 million in 2009)

P23 CONTINGENT LIABILITIES

CONTINGENT LIABILITIES

	2010	2009
Total contingent liabilities	**13,783**	13,072

Contingent liabilities include pension commitments of SEK 11,004 million (SEK 10,797 million in 2009) and guarantees for Sony Ericsson Mobile Communications AB's borrowing from financial institutions of SEK 1,053 million (SEK 779 million in 2009).

In accordance with standard industry practice, Ericsson enters into commercial contract guarantees related to contracts for the supply of telecommunication equipment and services. Total amount for 2010 was SEK 19,691 million (SEK 18,001 million in 2009). Potential payments due under these bonds are related to Ericsson's performance under applicable contracts.

For information about financial guarantees, see Note P11, "Trade Receivables and Customer Finance"

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P24 STATEMENT OF CASH FLOWS

Interest paid in 2010 was SEK 657 million (SEK 508 million in 2009 and SEK 2,376 million in 2008) and interest received was SEK 816 million (SEK 2,083 million in 2009 and SEK 3,520 million in 2008). Income taxes paid were SEK 269 million (SEK 341 million in 2009 and SEK 370 million in 2008).

ADJUSTMENTS TO RECONCILE NET INCOME TO CASH	2010	2009	2008
Tangible assets			
Depreciation	149	193	127
Total	149	193	127
Intangible assets			
Amortization	228	385	385
Impairment losses	945	–	–
Total	1,173	385	385
Total depreciation and amortization on tangible and intangible assets	1, 322	578	512
Taxes	–152	463	1,363
Write-downs and capital gains (–)/ losses on sale of fixed assets, excluding customer finance, net	50	–521	5,545
Additions to/withdrawals from (–) untaxed reserves	100	–902	478
Unsettled dividends	–	–1,254	–5
Other non-cash items	86	–2,195	–2,747
Total adjustments to reconcile net income to cash	1,288	–3,831	5,146

P25 LEASING

Leasing with the Parent Company as lessee

At December 31, 2010, future payment obligations for leases were distributed as follows:

FUTURE PAYMENT OBLIGATIONS FOR LEASES	Operating leases
2011	927
2012	826
2013	605
2014	650
2015	299
2016 and later	1,045
Total	4,352

Leasing with the Parent Company as lessor

At December 31, 2010, future minimum payment receivables were distributed as follows:

FUTURE MINIMUM PAYMENT RECEIVABLES	Operating leases
2011	15
2012	2
2013	1
2014	1
2015	1
2016 and later	1
Total	21

The operating lease income is mainly income from sublease of real estate. See Notes to the Consolidated Financial Statements – Note C27, “Leasing”.

P26 TAX ASSESSMENT VALUES IN SWEDEN

TAX ASSESSMENT VALUES IN SWEDEN	2010	2009
Land and land improvements	8	8
Total	8	8

P27 INFORMATION REGARDING EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES	2010			2009		
	Men	Women	Total	Men	Women	Total
Northern Europe & Central Asia [1) 2)]	198	148	346	194	147	341
Middle East	121	14	135	108	15	123
Total	319	162	481	302	162	464
[1)] *Of which Sweden*	*198*	*148*	*346*	*194*	*147*	*341*
[2)] *Of which EU*	*198*	*148*	*346*	*194*	*147*	*341*

ABSENCE DUE TO ILLNESS Percent of working hours	2010	2009
Absence due to illness for men	1%	0%
Absence due to illness for women	2%	2%
Employees 30–49 years old	1%	1%
Employees 50 years or older	1%	1%
Long-term absence due to illness total [1)]	1%	1%

[1)] Defined as absence during a consecutive period of time of 60 days or more. Information Absence due to illness regards employees employed in Sweden.

Remuneration

WAGES AND SALARIES AND SOCIAL SECURITY EXPENSES	2010	2009
Wages and salaries	518	480
Social security expenses	384	421
Of which pension costs	210	*174*

WAGES AND SALARIES PER GEOGRAPHICAL AREA	2010	2009
Northern Europe & Central Asia [1) 2)]	409	380
Middle East	109	100
Total	518	480
[1)] *Of which Sweden*	*409*	*380*
[2)] *Of which EU*	*409*	*380*

Remuneration in foreign currency has been translated to SEK at average exchange rates for the year.

Remuneration policy and remuneration to the Board of Directors and the President and CEO

See Notes to the Consolidated Financial Statements – Note C29, “Information Regarding Members of the Board of Directors, the Group Management and Employees”.

Long-term variable remuneration

THE STOCK PURCHASE PLAN

Compensation costs for all employees of the Parent Company amounted to SEK 8.0 million in 2010 (SEK 9.1 million in 2009).

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

P28 RELATED PARTY TRANSACTIONS

During 2010, various transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis.

Sony Ericsson Mobile Communications AB (SEMC)

In October 2001, SEMC was organized as a joint venture between Sony Corporation and Ericsson. A substantial portion of Ericsson's handset operations was sold to SEMC. As part of the formation of the joint venture, contracts were entered into between the Parent Company and SEMC.

For the Parent Company, the major transactions are license revenues for SEMC's usage of trademarks and patents and received dividends.

SEMC has been granted a long-term loan with a maximum amount of SEK 3,606 million. The Parent Company and Sony Corporation have issued guarantees for this loan on a 50/50 basis, without joint responsibility. As of December 31, 2010, the Parent Company´s share of the outstanding principle and accrued interest, in the total amount of SEK 1,053 million, has been reported as a contingent liability in the Parent Company.

SONY ERICSSON MOBILE COMMUNICATIONS	2010	2009
Related party transactions		
License revenues	296	293
Dividends	–	–
Related party balances		
Receivables	69	90

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla d.d. is a joint stock company for design, sales and service of telecommunications systems and equipment and an associated member of the Ericsson Group. The Parent Company holds 49.07 percent of the shares.

For the Parent Company, the major transactions are license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks and received dividends.

ERICSSON NIKOLA TESLA D.D.	2010	2009
Related party transactions		
License revenues	2	7
Dividends	104	66
Related party balances		
Payables	–	3

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees toward Ericsson Nikola Tesla d.d.

ST-Ericsson

ST-Ericsson was formed on February 2, 2009, by merging Ericsson Mobile Platforms with STMicroelectronics' wireless business. It is an industry leader in design, development and the creation of cutting-edge mobile platforms and wireless semiconductors.

The Parent Company holds 49.99 percent of shares in ST-Ericsson SA and 51 percent in ST-Ericsson AT SA, both in Switzerland.

ST-Ericsson has been granted a revolving credit facility of USD 200 million which is equally shared by LME and STMicroelectronics. As per December, 2010, the amount drawn on the facility was SEK 1,030 million, SEK 515 million lent per parent. The Parent Company's accrued interest towards ST-Ericsson amounted of SEK 1.7 million.

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees toward ST-Ericsson.

ST-ERICSSON	2010	2009
Related party transactions		
License revenues	–	–
Dividends	–	–
Related party balances		
Receivables	3	–

Other related parties

For information regarding the remuneration of management, see Notes to the Consolidated Financial Statements – Note C29, "Information Regarding Members of the Board of Directors, the Group Management and Employees".

P29 FEES TO AUDITORS

FEES TO AUDITORS	PwC
2010	
Audit fees	19
Audit related fees	12
Tax services fees	1
Other fees	3
Total	35
2009	
Audit fees	23
Audit related fees	12
Tax services fees	2
Other fees	1
Total	38
2008	
Audit fees	23
Audit related fees	11
Tax services fees	1
Other fees	1
Total	36

Allocation of fees to auditors is based on the requirements in the Swedish Annual Accounts Act. 2008 and 2009 figures are restated for comparability.

During the period 2008–2010, in addition to audit services, PwC provided certain audit related services, tax and other services to the Parent Company. The audit related services include quarterly reviews, SAS 70 reviews and services in connection with issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

RISK FACTORS

You should carefully consider all the information in this Annual Report and in particular the risks and uncertainties outlined below. Any of the factors described below, or any other risk factors discussed elsewhere in this report, could have a material negative effect on our business, operational and after-tax results, financial position, cash flow, liquidity, credit rating, brand and/or our share price. Furthermore, our operational results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also "Forward-Looking Statements".

CONTENTS

MARKET, TECHNOLOGY AND BUSINESS RISKS 119
REGULATORY, COMPLIANCE AND CORPORATE GOVERNANCE RISKS 123
RISKS ASSOCIATED WITH OWNING ERICSSON SHARES 124

MARKET, TECHNOLOGY AND BUSINESS RISKS

Demand is difficult to predict

Adverse economic conditions could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. We have established flexibility to cost-effectively accommodate fluctuations in demand. However, if demand were to fall in the future, we may experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we may even incur operating losses. If demand is significantly weaker or more volatile than expected, this may have a material adverse impact on our credit rating, borrowing opportunities and costs as well as on the trading price of our shares. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives are sufficient, successful or executed in time to deliver necessary improvements in earnings.

Some of the risk factors we are exposed to may exacerbate in an adverse condition in the financial market. Most of our customers are financially stable and have networks with good utilization. However, some operators, in particular in markets with weak currencies, may incur borrowing difficulties and lower traffic than expected, which may affect their investment plans. The potential adverse effects of an economic downturn include:

- Reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not being possible to compensate with reduced costs.
- Risks of excess and obsolete inventories and excess manufacturing capacity and risk of financial difficulties or failures among our suppliers.
- Increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterpart failures.
- Risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products.
- Increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results.
- Decline in the value of the assets in the Company's pension plans.

Short-term volatility has an impact

Our sales to network operators represent a mix of equipment, software and services, which normally generate different gross margins. Third party products normally have lower margins than own products. As a consequence, reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Network expansions and upgrades have much shorter lead times for delivery than initial network buildouts. Such orders are normally placed with short notice by customers, i.e. less than a month, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus.

Convergence brings opportunity and risk

We are affected by market conditions within the telecom industry, including the convergence of the telecom, data and media industries. The convergence is largely driven by technological development related to IP-based communications. This change increases our addressable market, changes the competitive landscape, and affects our objective setting, risk assessment and strategies. If we fail to understand the market development, acquire the necessary competence or develop and market products, services and solutions that are competitive in this changing market, our future results will suffer.

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We depend on growth and the success of new services

Most of our business depends on continued growth in mobile communications in terms of both number of subscriptions and usage per subscriber, which in turn requires the continued deployment and evolution of our network systems by customers. If operators are not successful in their attempts to increase the number of subscribers and/or stimulate increased usage, our business and operational results could be materially adversely affected. Also, if operators experience a decline in ARPU or profitability despite the introduction of new non-voice services, their willingness for further investments will be reduced and thus adversely affect our business.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon the market acceptance of such services, e.g. music, internet and navigation in the handset, and on the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization or market acceptance occur, this could adversely affect our business and operational results.

We operate in a highly competitive industry

The markets we operate in are highly competitive in price, functionality and service quality as well as in the timing of development and introduction of new products and services.

We face intense competition from significant competitors and Chinese companies in particular have become relatively stronger in recent years. Our competitors may implement new technologies before we do, offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that we do not provide. Some of our competitors may have greater resources in certain business segments or geographic markets than we do. We may also encounter increased competition from new market entrants, alternative technologies or evolving industry standards. The rapid technological change also results in shorter life-cycles for products, increasing the risk in all product investments.

Continuous price erosion is a symptom of this rapid technological change and we must counteract this by introducing new products to the market and by continuously enhancing the functionality while reducing the cost of new and existing products. Our operating results depend largely on our ability to compete in this market environment.

Vendor consolidation may lead to a new competitive landscape

Industry convergence and consolidation among equipment suppliers could potentially result in stronger competitors that are competing as end-to-end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources than we have or in reduction of our current scale advantages. This could have a material adverse effect on our business, operating results, and financial condition.

Operator consolidation may increase our dependence on a limited number of customers

We derive most of our business from large, multi-year agreements with a limited number of significant customers. Although no single customer currently represents more than 5 percent of sales, a loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in a large number of operators with activities in several countries. This trend is expected to continue, and also intra-country consolidation is likely to accelerate as a result of competitive pressure.

A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services will be required. Another possible consequence of customer consolidation could be a delay in network investments pending negotiations of e.g. merger/acquisition agreements, securing necessary approvals, or integration of their businesses. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment.

Long-term frame agreements can expose us to risk

Long-term agreements are typically awarded on a competitive bidding basis. In some cases, such agreements also include commitments to future price reductions. In order to maintain the gross margin with such price reductions, we continuously strive to reduce the costs of our products. We reduce costs through design improvements, negotiation of better purchase prices, allocation of more production to low-cost countries and increased productivity in our own production. However, there can be no assurance that our actions to reduce costs will be sufficient or quick enough to maintain our gross margin in such contracts.

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Transforming into a more service-based company

Operators are increasingly outsourcing parts of their operations as a way to reduce cost and focus on new services. This has opened up a market which we have addressed. The growth rate is difficult to forecast and each new contract carries a risk that transformation and integration of the operations is not as fast or smooth as planned. Early contract margins are generally lower and the mix of new/old contracts may affect reported results negatively in a given period. Contracts normally cover several years and revenues are of a recurring nature. However, sometimes contract scopes are reduced with negative impact on sales and earnings. Ericsson is the market leader in managed services but competition in this area is increasing, which may have adverse effects on growth and profitability.

Success of R&D investments is uncertain

To be a player in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend significant amounts and resources in innovation work for new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time or are not successful in the marketplace our sales and earnings may suffer.

Acquisitions and divestments

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits, e.g. to reduce time-to-market, to gain access to technology and/or competence, to increase our scale or to broaden our product portfolio or expand our customer base. From time to time we also divest parts of our operations to optimize our product portfolio or operations. There are no guarantees that such acquisitions or divestments are successful or that we will succeed in integrating the acquired entities to gain the expected benefits within the time frame we expect or at all.

Joint ventures and partnerships

If our partnering arrangements fail to perform as expected (whether through an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners), our ability to work with these partners or develop new products and solutions may be constrained and this may harm our competitive position in the market. Additionally, our share of any losses from, or commitments to contribute additional capital to, such partnerships may adversely affect our results of operations or financial position.

A limited number of suppliers of components, production capacity and R&D and IT services

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining timely and adequate supply of materials, components and production capacity and other vital services on competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Failure by any of our suppliers could interrupt our product supply or operations and significantly limit our sales or increase our costs. To find an alternative supplier or re-design products to replace components may take significant time. If we fail to anticipate customer demand properly, an over/under-supply of components and production capacity could occur. In many cases, some of our competitors utilize the same contract manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers or could increase our costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers where we pay in advance. We conduct regular supplier audits and evaluations to mitigate the risks mentioned as well as brand risks related to the suppliers' compliance with e.g. labor and environmental regulations.

Product or service quality issues

Sales contracts normally include warranty undertakings for faulty products and often also provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may affect our results negatively.

Significant foreign exchange exposures

With the majority of our cost base in SEK and a very large share of sales in other currencies, and significant operations outside Sweden, our foreign exchange exposures are significant. Currency exchange rate fluctuations affect our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

As market prices are predominantly established in USD or EUR, and with a net revenue exposure in foreign currencies, a stronger SEK exchange rate would generally have a negative effect on our reported results. Our attempts to reduce the effects of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results.

Telcordia05146

Intellectual property rights (IPR)

Although we have a large number of patents, there can be no assurance that they will not be challenged, invalidated, or circumvented, or that any rights granted in relation to our patents will in fact provide competitive advantages to us.

In 2005, the European Union considered placing restrictions on the patentability of software. Although the European Union ultimately rejected this proposal, we cannot guarantee that they will not revisit this issue in the future. We rely on many software patents, and any limitations on the patentability of software may materially affect our business.

We utilize a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing laws of some countries in which we conduct business offer only limited protection of intellectual property rights, if at all.

Our solutions may also require us to license technologies from third parties. It may be necessary in the future to seek or renew licenses and there can be no assurance that they would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect proprietary rights in our products.

Many key aspects of telecommunications and data network technology are governed by industry-wide standards usable by all market participants. As the number of market entrants and the complexity of technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. Third parties have asserted, and may assert in the future, claims, directly against us or indirectly against our customers, alleging infringement of their intellectual property rights. Defending such claims may be expensive, time-consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we could be required to pay damages and other compensation directly or indemnifying our customers for such damages and other compensation, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that such licenses will be available to us on commercially reasonable terms or at all.

Litigations

In the normal course of our business we are involved in legal proceedings. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

As a publicly listed company, Ericsson may be exposed to lawsuits, in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulation or other laws, regulations or requirements. Whether or not there is merit to such claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs may have significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see “Legal and Tax Proceedings” in the Board of Directors’ Report.

Business interruption

Our business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced a significant portion of our IT operations, we depend partly on security and reliability measures of external companies. Regardless of protection measures, essentially all systems and communications networks are susceptible to disruption due to failure, vandalism, computer viruses, security breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, e.g. for R&D, production, network operation centers, logistic centers and shared services centers, where business interruptions could cause material damage and costs. Transport of goods from suppliers, and to customers, could also be hampered for the reasons stated above. Although we have assessed these risks, implemented controls, performed business continuity planning and selected reputable companies for outsourced services, we cannot be sure that interruptions with material adverse effects will not occur.

Attract and retain highly qualified employees

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefit policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future.

Access to short-term and long-term capital

If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the times and on the terms

required by us, our business is likely to be adversely affected. Access to short-term funding may decrease or become more expensive as a result of our operational and financial condition and market conditions or due to deterioration in our credit rating. We cannot assure that additional sources of funds that we from time to time may need will be available or available on reasonable terms.

REGULATORY, COMPLIANCE AND CORPORATE GOVERNANCE RISKS

Regulatory environment changes

Telecommunications is an industry subject to particular regulation and regulatory changes affect both our customers' and our own operations. For example, regulations imposing more stringent, time-consuming or costly planning and zoning requirements or building approvals for radio base stations and other network infrastructure could adversely affect the timing and costs of network construction or expansion, and ultimately the commercial launch and success of these networks. Similarly, tariff and roaming regulations or rules on network neutrality could also affect operators' ability or willingness to invest in network infrastructure, which in turn could affect the sales of our systems and services. Also radio frequency spectrum allocation between different types of usage may affect operator spending adversely or force us to develop new products to be able to compete.

License fees, environmental, health and safety, privacy and other regulatory changes, in general or particular to our industry, may increase costs and restrict operations for network operators and service providers or us. Also indirect impacts of such changes could affect our business adversely even though the specific regulations may not apply directly to our products or us.

Country-specific political, economic and regulatory risks

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to a specific country or region. We conduct business in more than 180 countries, with a significant proportion of our sales to emerging markets in Asia Pacific, Latin America, Eastern Europe, the Middle East and Africa. We expect that sales to such emerging markets will represent an increasing portion of total sales, as developing nations and regions around the world increase their investments in telecommunications. We already have extensive operations in many of these countries, which involve certain risks, including volatility in gross domestic product, civil disturbances, economic and political instability, nationalization of private assets and the imposition of exchange controls.

Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls or other governmental policies in the countries where we do business could limit our operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. In addition we must comply with the export control regulations of the countries and any trade embargoes in force at the time of sale and/or delivery. Although we seek to comply with all such regulations, even unintentional violations could have material adverse effects on our business, operational results and brand.

Compliance with high standards of corporate governance

Ericsson applies mandatory corporate governance statutes and rules, such as the Swedish Corporate Governance Code and is also committed to several corporate responsibility and environmental initiatives. To ensure that our operations are executed in accordance with these requirements, our management system includes a robust corporate culture and a Code of Business Ethics as well as policies and directives to govern our processes and operations. We regularly perform communication and training in these areas, and we monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Supplier Code of Conduct. There is however no guarantee that violations will not occur, which could have material adverse effects on our brand, reputation and business.

Compliance with environmental, health and safety regulations

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. We believe that we are in compliance with all material laws and regulations. However, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters.

Potential health risks related to electromagnetic fields

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

perceived risk or new scientific findings of adverse health effects of mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot guarantee that we or the jointly owned Sony Ericsson Mobile Communications or ST-Ericsson will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business.

RISKS ASSOCIATED WITH OWNING ERICSSON SHARES

Our share price has been and may continue to be volatile

Our share price has been volatile partly due to the high volatility in the securities markets generally and for telecommunications and technology companies in particular. The share price is also likely to be affected by the development in our market, our reported financial results and the expectations of financial analysts, as well as statements and market speculation regarding our future prospects or the timing or content of any profit warning by us or our competitors.

Factors other than our financial results that may affect our share price include, but are not limited to:

- A weakening of our brand name or other circumstances with adverse effects on our reputation
- Announcements by our customers, competitors or us regarding capital spending plans of network operators
- Financial difficulties for our customers
- Awards of large supply or service contracts
- Speculation in the press or investment community about the business level or growth in the market for mobile communications
- Technical problems, in particular those relating to the introduction and viability of new network systems like LTE/4G and new platforms such as the RBS 6000 (multi-standard radio base station) platform
- Actual or expected results of ongoing or potential litigation
- Announcements concerning bankruptcy or investigations into the accounting procedures of other telecommunications companies, even if we are not involved
- Our ability to forecast and communicate our future results in a manner consistent with investor expectations.

Currency fluctuations may adversely affect share value or value of dividends

Because our shares are quoted in SEK on NASDAQ OMX Stockholm (our primary stock exchange), but in USD on NASDAQ (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of your investment. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions if arrangements with your bank, broker or depositary call for distributions to you in currencies other than SEK. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on NASDAQ OMX Stockholm or NASDAQ,

Telcordia05149

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

AUDITORS' REPORT

To the Annual General Meeting of the shareholders of Telefonaktiebolaget LM Ericsson (publ), organization number 556016-0680

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President and CEO of Telefonaktiebolaget LM Ericsson (publ) for the year 2010. (The Company's annual accounts are included in the printed version on pages 17–124). The Board of Directors and the President and CEO are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 CEO and significant estimates made by the Board of Directors and the President and CEO 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 and CEO. We also examined whether any Board Member or the President and CEO 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 consolidated accounts have been prepared in accordance with international financial reporting standards, IFRSs, as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The Board of Directors' 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 of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Stockholm, February 21, 2011

Peter Clemedtson

Authorized Public Accountant
PricewaterhouseCoopers AB

Telcordia05150

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events and expected operational and financial performance. The words "believe", "expect", "foresee", "anticipate", "assume", "intend", "may", "could", "plan", "estimate", "will", "should", "could", "aim", "target", "might" or, in each case, their negative, and similar words are intended to help identify forward-looking statements. Forward-looking statements may be found throughout this document, but in particular in the chapter "Board of Directors' Report" and include statements regarding:

- our goals, strategies and operational or financial performance expectations;
- development of corporate governance standards, stock market regulations and related legislation;
- the growth of the markets in which we operate;
- our liquidity, capital resources, capital expenditures, our credit ratings and the development in the capital markets, affecting our industry or us;
- the expected demand for our existing as well as new products and services;
- the expected operational or financial performance of our joint ventures and other strategic cooperation activities;
- the time until acquired entities will be accretive to income;
- technology and industry trends including regulatory and standardization environment, competition and our customer structure;
- our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions, judgments and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein. Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

- our ability to respond to changes in the telecommunications market and other general market conditions in a cost effective and timely manner;
- developments in the political, economic or regulatory environment affecting the markets in which we operate, including trade embargoes, changes in tax rates, changes in patent protection regulations, allegations of health risks from electromagnetic fields, cost of radio licenses for our customers, allocation of radio frequencies for different purposes and results of standardization activities;
- the effectiveness of our strategies and their execution, including partnerships, acquisitions and divestments;
- financial risks, including changes in foreign exchange rates or interest rates, lack of liquidity or access to financing, changes in tax liabilities, credit risks in relation to counterparties, customer defaults under significant customer finance arrangements and risks of confiscation of assets in foreign countries;
- the impact of the consolidation in the industry, and the resulting (i) reduction in the number of customers, and adverse consequences of a loss of, or significant decline in, our business with a major customer; (ii) increased strength of a competitor or the establishment of new competitors;
- the impact of changes in product demand, price erosion, competition from existing or new competitors or new technologies or alliances between vendors of different types of technology and the risk that our products and services may not sell at the rates or levels we anticipate;
- the product mix and margins of our sales;
- the volatility of market demand and difficulties to forecast such demand;
- our ability to develop commercially viable products, systems and services, to acquire licenses of necessary technology, to protect our intellectual property rights through patents and trademarks and to license them to others and defend them against infringement, and the results of patent litigation;
- supply constraints, including component or production capacity shortages, suppliers' abilities to cost effectively deliver quality products on time and in sufficient volumes, and risks related to concentration of proprietary or outsourced production in a single facility or sole source situations with a single vendor;
- our ability to successfully manage operators' networks to their satisfaction with satisfactory margins;
- our ability to maintain a strong brand and good reputation and to be acknowledged for good corporate governance;
- our ability to recruit and retain qualified management and other key employees.

Certain of these risks and uncertainties are described further in "Risk Factors". We undertake no obligation to publicly update or revise any forward-looking statements included in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

Telcordia05151

ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

REMUNERATION REPORT

CONTENTS

INTRODUCTION 127
THE REMUNERATION COMMITTEE 127
REMUNERATION 2010 128
TOTAL REMUNERATION 130
REMUNERATION OF THE BOARD OF DIRECTORS 132

REMUNERATION POLICY

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. Our remuneration policy together with the mix of remuneration elements are designed to reflect these remuneration principles by creating a balanced remuneration package. The policy for 2010 can be found in Note C29. The auditors' opinion on how we have followed our policy during 2010 is posted on the website.

INTRODUCTION

This report outlines how the remuneration policy is implemented throughout Ericsson in line with corporate governance best practice, with specific references to Group management. To begin with, the work of the Remuneration Committee 2010 and the remuneration policy are explained, followed by descriptions of plans and approaches. This report also includes information on how the remuneration programs have been evaluated and conclusions from that. More details of the remuneration of Group management and Board members' fees can be found in the Notes to the Consolidated Financial Statements – Note C29, "Information regarding members of the Board of Directors, the Group management and employees" ("Note C29").

THE REMUNERATION COMMITTEE

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration of the Group management, hereafter referred to as the Executive Leadership Team (ELT). This includes fixed salaries, pensions, other benefits and short-term and long-term variable remuneration, all in the context of pay and employment conditions throughout Ericsson. The Remuneration Committee also approves variable remuneration outcomes, prepares remuneration related proposals for Board and shareholder approval and develops and monitors the remuneration policy, strategies and general guidelines for employee remuneration.

The Remuneration Committee's work is the foundation for the governance of our remuneration processes together with our internal systems and audit controls. The Committee is chaired by Michael Treschow and its other members are Nancy McKinstry, Börje Ekholm and Karin Åberg. All the members are non-executive directors, independent (except for the employee representative) as required by the Swedish Corporate Governance Code and have relevant knowledge and experience of remuneration matters.

The Company's General Counsel acts as secretary to the Committee. The Chief Executive Officer, the Senior Vice President Human Resources & Organization and the Vice President Compensation & Benefits attend the Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed.

The Remuneration Committee has appointed an independent expert advisor, Gerrit Aronson, to assist and advise the Committee. Gerrit Aronson provided no

Telcordia05152

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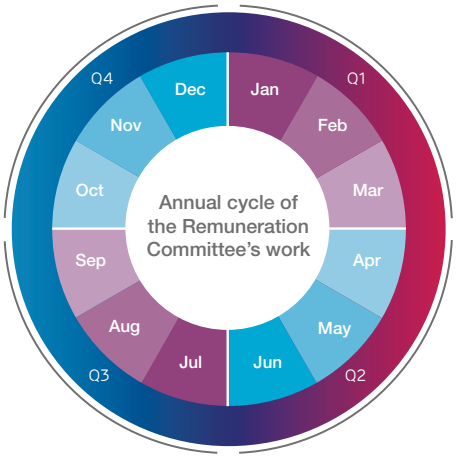
Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

ANNUAL CYCLE OF THE REMUNERATION COMMITTEE'S WORK

AUGUST–OCTOBER
- Review of committee working arrangements
- Issues, trends and market practice analyses
- Review of Executive Performance Stock Plan target achievement and vesting decision
- Review of risks associated with remuneration
- Review of remuneration policy, package construction and design of individual elements

MAY–JULY
- Review of appropriateness of targets



NOVEMBER–FEBRUARY
- Salary review for Executive Leadership Team (ELT) and other senior executives
- Review of target achievements for Short-Term Variable plan, vesting and target setting decisions
- Target setting for Long-Term Variable plan
- Proposals for AGM
- Communications to investors, including Annual Report
- Review of total remuneration outcomes and costs

- MARCH–APRIL
- Annual General Meeting of shareholders

other services to the Company during 2010. The Remuneration Committee is also provided with national and international pay data collected from external survey providers and can call on other independent expertise, should it so require. The Chairman continues to ensure that contact is maintained, as necessary and appropriate, with principal shareholders on the subject of remuneration.

The purpose and function of the Remuneration Committee will continue going forward and its responsibilities can be found on the Ericsson website (www.ericsson.com). These responsibilities, together with the remuneration policy, are reviewed and evaluated annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy. The policy for Group management remuneration is, in accordance with Swedish law, brought to shareholders annually for approval.

REMUNERATION 2010

The Remuneration Committee met nine times during the year. The winter meetings focused on following-up results from the 2009 variable remuneration programs and preparing proposals to shareholders for the 2010 Annual General Meeting (AGM). During winter and spring the committee considered the new Regional organization and new members in the Executive Leadership Team (ELT). In the fall the work began with a review of the remuneration strategy with focus on the Long-Term Variable remuneration, the Short-Term Variable remuneration plans and levels of fixed compensation. Feedback from meetings with investors, market analysis and global trend analyses served as input to the remuneration strategy discussion. As is illustrated above, the Committee has also considered market trends, existing and potential remuneration risks, target setting, its working arrangements and corporate governance.

Evaluation of remuneration policy and plans

The Remuneration Committee has supported the Board with the review and evaluation of the remuneration policy and practice. As described later in this report, all remuneration elements and levels are evaluated through benchmarking against market data provided by external sources. Analyses of market data, as well as of attrition data, show that Ericsson is in general competitive in local markets and that total remuneration is appropriate but not excessive.

The remuneration policy is evaluated annually in light of the long-term strategy and the Remuneration Committee's overview of total remuneration and each individual remuneration element. The Committee has concluded and the Board has decided that the remuneration policy remains valid and right for Ericsson and should not be materially changed for 2011.

Evaluation through employee surveys show that the common understanding of Ericsson's remuneration policy could

Telcordia05153

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

be improved. To enhance the understanding of how Ericsson translates remuneration principles and policy into practice, a Remuneration website has been launched in January 2011. This is a training program containing e-learning and training targeted at line managers to support more informed decisions and better communication to the wider employee population.

Extensive analyses of local market data for each position in the Executive Leadership Team have been conducted and decisions on budget and increases for ELT have been taken by Remuneration Committee. The work is also reviewed by the independent advisor to the Committee.

The evaluation of Long-Term Variable remuneration plans concluded that the objectives of the Stock Purchase Plan to promote "One Ericsson" and align the interests of employees with those of shareholders have been successful. The participation rate has increased from 25 percent to 27 percent over the year. The evaluation conducted also confirms that the Key Contributor Retention Plan meets the purpose to retain our key employees, the voluntary attrition rate among Key Contributors being about two thirds compared to total number of employees.

A survey of Ericsson's managers in January 2011 verified that over half of managers think the Long-Term Variable and Short-Term Variable remuneration plans are "effective" or "very effective" in meeting the purpose of the plans.

This confirms earlier third-party research that has shown that the Long-Term Variable plans drive the right values and enhance retention. The plans remain competitive by Swedish standards. The participation rate among Key Contributors remains high compared with international benchmarks.

However, the evaluation has also shown that the Executive Performance Stock Plan has had limited success in terms of meeting the purpose of rewarding long-term financial performance. The performance target has proved to be more binary than anticipated, where the 2004 program vested in full and the programs for 2005, 2006 and 2007 did not vest. Extensive work has been conducted to define how the plan should be developed and this has identified the need to secure clear targets that are more aligned with strategy and value creation. Based on this, the Board has evaluated targets and target levels to identify those that best support the long-term strategy and value creation of the company and will propose these targets for the 2011 Executive Performance Stock Plan to the AGM.

SUMMARIES OF 2010 SHORT- AND LONG-TERM VARIABLE REMUNERATION

What we call it	What is it?	What is the objective?	Who participates?	How is it earned?
Short-term: Remuneration delivered over 12 months or less				
Fixed salary	Fixed remuneration paid at set times	Attract and retain employees, delivering part of annual remuneration in a predictable format	All employees	Market appropriate levels set according to position and evaluated according to individual performance
Short-Term Variable remuneration (STV)	A variable plan that is measured and paid over a single year	Align employees with clear and relevant targets, providing an earnings opportunity in return for performance and flexible cost	Managers, including Executive Leadership Team	Achievements against set targets. Reward can increase to up to twice the target level and decrease to zero, depending on performance
Local and Sales Incentive Plans	Tailored versions of the STV	As for STV, tailored for local or business requirements, such as sales	Most employees	Similar to STV. All plans have maximum award and vesting limits
Long-term: Remuneration delivered over 3 years or more				
Stock Purchase Plan (SPP)	All-employee stock-based plan	Reinforce a "One Ericsson" and align employees' interests with those of shareholders	All employees are eligible	Buy one share and it will be matched by one share after 3 years if still employed
Key Contributor Retention Plan (KC)	Share-based plan for selected individuals	Recognize, retain and motivate key contributors for performance, critical skills and potential	Up to 10 percent of employees	If selected, get one more matching share in addition to the SPP one
Executive Performance Stock Plan (EPSP)	Share-based plan for senior executives	Remuneration for long-term commitment and earnings performance	Senior executives, including Executive Leadership Team	Get up to 4, 6 or, for CEO, 9 further matching shares to the SPP one for long-term performance.

Telcordia05154

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
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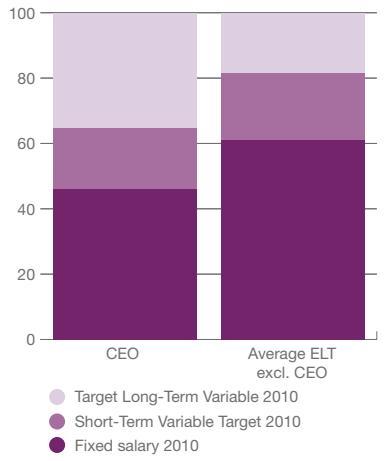
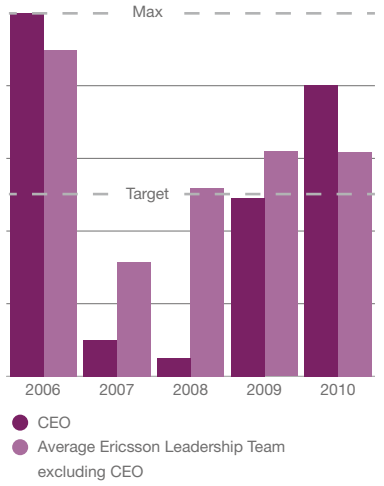
FIXED SALARY, SHORT-TERM AND LONG-TERM VARIABLE REMUNERATION AS PERCENT OF TOTAL TARGET REMUNERATION



SHORT-TERM VARIABLE REMUNERATION PAYOUTS AND TARGET LEVELS



TOTAL REMUNERATION

When we consider the remuneration of an individual, it is the total remuneration that matters. We first consider the total annual cash compensation, looking at target level of short-term variable remuneration plus fixed salary. We then add target long-term variable remuneration to get total target remuneration and, finally, pension and other benefits to arrive at the total package.

For the ELT, remuneration consists of fixed salary, short-term and long-term variable remuneration, pension and other benefits. If the size of any one of these elements is increased or decreased, at least one other element has to change where the competitive position should remain unchanged.

The remuneration costs for the CEO and the ELT are reported in Note C29.

Fixed salary

Fixed salaries are set to be competitive within an individual's home market. When setting fixed salaries the Remuneration Committee considers the impact on total remuneration, including pension and associated costs. The absolute levels are determined by the size and complexity of the position and the year-to-year performance of the individual. Together with other elements of remuneration, the ELT salaries are subject to an annual review by the Remuneration Committee, which considers external pay data to ensure that levels of pay remain competitive and appropriate to the remuneration policy.

Variable remuneration

At Ericsson we strongly believe that, where possible, we should encourage variable compensation as integral part of total target remuneration approach. First and foremost this aligns employees with clear and relevant targets but it also enables more flexible payroll costs and emphasizes the link between performance and pay. All variable remuneration plans have maximum award and vesting limits.

SHORT-TERM VARIABLE REMUNERATION

The annual variable remuneration is delivered through cash-based programs. Specific business targets are derived from the annual business plan approved by the Board of Directors and, in turn, defined by the Company's long-term strategy. Ericsson strives to grow faster than the market with best-in-class margins and strong cash conversion and therefore the starting point is to have these as three core targets:

- Sales Growth
- Operating Income
- Cash Flow

For the ELT, targets are thus predominantly financial targets at either Group level or at the individual unit level and may also include operational targets like customer satisfaction and employee motivation. Targets are cascaded to all managers and will vary depending on the specific position. All variable remuneration targets have to be objective and measurable and typically refer to a result that is achieved on a collective basis. Each target is, in accordance with our strict governance instructions, defined in a "target specification" and measured over the calendar year. The target setting process is fully integrated with the strategy work and target levels are tested against plans and forecasts up until they are finalized around the turn of the year. The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are cascaded to unit-related targets throughout the Company, always subject to a two levels of management approval process. The Remuneration Committee monitors the appropriateness and fairness of Group target levels throughout

Telcordia05155

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

SHORT-TERM VARIABLE REMUNERATION STRUCTURE

	Short-Term Variable remuneration as percentage of Fixed Salary			Percentage of Short-Term Variable remuneration opportunity		
	Target level	Maximum level	Actual paid for 2010	Group Financial Targets	Unit/Functional Financial Targets	Non-Financial Targets
CEO 2010	40%	80%	64%	90%	0%	10%
CEO 2011	40%	80%	–	90%	0%	10%
Average ELT 2010 [1)]	31%	62%	46%	73%	16%	11%
Average ELT 2011 [1)]	34%	68%	–	61%	23%	16%

[1)] Excludes CEO – differences in target and maximum levels from year to year are due to changes in the composition of the ELT.

the performance year and has the authority to revise them should they cease to be relevant, stretching and/or enhance shareholder value.

During 2010, approximately 75,000 employees participated in short-term variable plans. Of these 8,000 were in the global Short-Term Variable remuneration plan ("STV") for management, including the ELT, and 4,000 were in the global Sales Incentive Plan ("SIP"). Local plans vary in design according to local competitive practice but typically mirror the STV.

The chart on page 130 illustrates how payouts to the ELT have varied with performance over the past five years.

LONG-TERM VARIABLE REMUNERATION

Share-based long-term variable remuneration plans are submitted each year for approval by shareholders at the AGM. All long-term variable remuneration plans are designed to form part of a well-balanced total remuneration and span over a minimum of three years. As these are variable plans, outcomes are unknown and rewards depend on long-term personal investment, corporate performance and resulting share price performance. During 2010, share-based remuneration was made up of three different but linked plans: The all-employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

THE STOCK PURCHASE PLAN

The all-employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate, reinforcing a "One Ericsson" aligned with shareholder interests. Employees can save up to 7.5 percent (CEO 10 percent) of gross fixed salary (CEO, gross fixed salary and annual variable remuneration) for purchase of Class B shares at market price on NASDAQ OMX Stockholm or ADSs on NASDAQ (contribution shares) over a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs. The plan was introduced in 2002 and employees in 94 countries participate. In December 2010 the number of participants was in excess of 22,000 or approximately 27 percent of eligible employees.

Participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment and hence the matching spans over two financial years and two tax years.

THE KEY CONTRIBUTOR RETENTION PLAN

The Key Contributor Retention Plan is part of Ericsson's talent management strategy and is designed to give individuals recognition for performance, critical skills and potential as well as encourage retention of key employees. Under the program, operating units around the world are given quotas that total no more than 10 percent of employees world-wide. Each unit nominates individuals that have been identified according to performance, critical skills and potential. The nominations are calibrated in management teams locally and reviewed by both local and corporate Human Resources to ensure that there is a minimum of bias and a strong belief in the system. Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The plan was introduced in 2004.

THE EXECUTIVE PERFORMANCE STOCK PLAN

The Executive Performance Stock Plan was also first introduced in 2004. The plan is designed to focus management on driving long-term financial performance and provide market competitive remuneration. Senior executives, including the ELT, are selected to obtain up to four or six extra shares (performance matching shares). This is in addition to the one matching share for each contribution share purchased under the all employee Stock Purchase Plan and the performance matching is subject to the fulfillment of an Earnings per Share (EPS) performance target. Since 2010, the CEO may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share.

The Remuneration Committee has been satisfied that the use of an EPS performance target has been an appropriate measure to date. However, following its evaluation, the Remuneration Committee and the Board have decided to propose to the 2011 AGM a new set of performance measures for the 2011 Executive Performance Stock Plan.

Telcordia05156

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

The performance targets are not capable of being retested after the end of the three-year performance period. If the minimum required performance is not achieved, all matching shares subject to performance will lapse. The Board may also reduce the number of performance matching shares, if deemed appropriate, considering the Company's financial results and position, conditions on the stock market and other relevant circumstances at the time of matching. The Remuneration Committee analyzes the financial results against those of competitors in the industry.

Benefits and terms of employment

Pension benefits follow the competitive practice in the employee's home country and may contain various supplementary plans, in addition to any national system for social security. Where possible, pension plans are operated on a defined contribution basis. Under these plans, Ericsson pays contributions into a plan but does not guarantee the ultimate benefit, unless local regulations or legislation prescribe that defined benefit plans that do give such guarantees have to be offered.

For the CEO and other members of the ELT employed in Sweden a supplementary pension plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP). The pension age is according to local practice, for ELT members normally 60 years. The pensionable salary for ELT members on local contract in Sweden consists of the annual fixed salary including vacation pay and the target value of the Short-Term Variable remuneration. For members of the ELT who are not employed in Sweden, local market competitive pension arrangements apply.

Other benefits, such as company car and medical insurance, are also set to be competitive in the local market. ELT members may not receive loans from the Company.

ELT members locally employed in Sweden have a mutual notice period of up to six months. Upon termination of employment by the Company, severance pay can amount to up to 18 months fixed salary. For other ELT members different notice period and severance pay agreement apply, however no agreements exceeds the notice period of 6 months or the severance pay of 18 months.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of Directors not employed by Ericsson is handled separately by the Nomination Committee and approved by the Annual General Meeting of shareholders. The remuneration consists of fees for Board and committee work, part of which can be delivered under a synthetic share program. The synthetic shares, which are valued in line with Ericsson's Class B shares, vest in cash after the publication of the year-end financial statement during the fifth year after award.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

CORPORATE GOVERNANCE REPORT 2010

CONTENTS

REGULATION AND COMPLIANCE 134
SHAREHOLDERS 135
GENERAL MEETING OF SHAREHOLDERS 136
NOMINATION COMMITTEE 137
BOARD OF DIRECTORS 138
COMMITTEES OF THE BOARD OF DIRECTORS 140
REMUNERATION TO BOARD MEMBERS 143
MEMBERS OF THE BOARD OF DIRECTORS 144
COMPANY MANAGEMENT 148
MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM 151
AUDITORS 154
INTERNAL CONTROL OVER FINANCIAL REPORTING 2010 154
AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT 157

Corporate governance is not only about efficient and reliable controls and procedures. We believe that adherence to a strong ethos of ethical business practice by all people in our organization – starting at the top and permeating to all employees – is essential to maintaining a sound and reliable corporate governance structure.

As Chairman of the Board it lies at the core of my responsibilities to ensure that the Board work is conducted in an optimal manner and in line with the principles and processes in the work procedure of the Board of Directors. It is crucial that the Board is at all times well informed in order to efficiently and in a constructive manner promote open and meaningful debates on important issues. The Board work is constantly scrutinized and improved to ensure that the Board has the best possible basis for its resolutions.

The Board has two key roles: firstly to be a good supporter to the Company management, and, secondly, to exercise a critical review and raise difficult questions. These two roles must be well-balanced. It is crucial to ensure that the Board and the executive management at all times have an open and straight-forward dialogue.

Good corporate governance is the basis for building robust corporate culture. It will further promote sustainable business practice which in turn generates shareholder value.

Michael Treschow
Chairman of the Board of Directors

HIGHLIGHTS OF 2010

- Hans Vestberg (President & CEO) and Michelangelo Volpi were elected new Board members
- New organization – 23 Market Units became 10 Regions
- Four new members joined the Executive Leadership Team

Corporate governance describes the ways in which rights and responsibilities are distributed among the various corporate bodies according to the laws, rules and processes to which they are subject. It defines the decision-making systems and structure through which owners directly or indirectly control a company.

This Corporate Governance Report is rendered as a separate report added to the Annual Report in accordance with the Annual Accounts Act (1995:1554 Chapter 6, Section 6) and the Swedish Corporate Governance Code. The report has been reviewed by Ericsson's auditor in accordance with the Annual Accounts Act and a separate report from the auditor is appended hereto.

Telcordia05158

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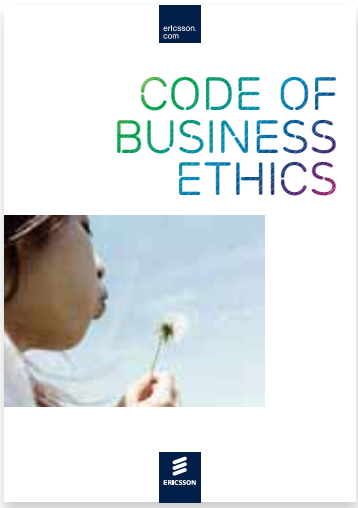
Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf



The Code of Business Ethics can be found at www.ericsson.com/article/code-of-business-ethics_429026570_c

Information on the Ericsson website does not form part of this Report.

REGULATION AND COMPLIANCE

External rules

As a Swedish public limited liability company with securities quoted on NASDAQ OMX Stockholm as well as on NASDAQ New York, Ericsson is subject to a variety of rules that affect its governance. Major external rules include:

- The Swedish Companies Act
- Rulebook for issuers of NASDAQ OMX Stockholm
- The Swedish Corporate Governance Code (the "Code") which is found on the website of the Swedish Corporate Governance Board who administrates the Code (www.corporategovernanceboard.se)
- NASDAQ New York Stock Market Rules – including applicable NASDAQ New York corporate governance requirements, subject to certain exemptions principally reflecting mandatory Swedish legal requirements
- Applicable requirements of the US Securities and Exchange Commission.

Internal rules

In addition, to ensure compliance with legal and regulatory requirements and the high ethical standards that we set for ourselves, Ericsson has internal rules that include:

- Code of Business Ethics
- Group Steering Documents including Group policies and directives, instructions and business processes for approval, control and risk management
- Code of Conduct to be applied in the product development, production, supply and support of Ericsson products and services worldwide.

The Board of Directors has also included internal rules in its work procedure.

Compliance with the Swedish Corporate Governance Code

The Code has been applied by Ericsson since July 2005. Ericsson is committed to complying with best-practice corporate governance on a global level wherever possible. This includes continued compliance with the Code. Ericsson has not deviated from any of the provisions of the Code.

Compliance with applicable stock exchange rules

There has been no infringement of applicable stock exchange rules and Ericsson has complied with good stock market practice.

Code of Business Ethics

Ericsson's Code of Business Ethics sets out how the Group achieves and maintains its high ethical standards. It summarizes the Group's fundamental policies and directives.

The ethical code has been translated into 25 languages. This ensures that it is accessible to all employees and underpins the importance of ethical conduct in all business activities. During recruitment, employees sign a form to acknowledge that they are aware of the principles of the Code of Business Ethics. This procedure is repeated at regular intervals throughout the term of employment.

Through this process, Ericsson strives to ensure that high ethical standards are continuously upheld. All employees have an individual responsibility to ensure that business practice adheres to the rules of the Code of Business Ethics.

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ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

SHAREHOLDERS

Ownership structure

As of December 31, 2010 Telefonaktiebolaget LM Ericsson (the "Parent Company"), had 630,592 shareholders (according to the share register kept by Euroclear Sweden AB). Institutions, both Swedish and international, own almost 78 percent of the shares. The largest shareholders are Industrivärden, holding 19.39 percent of the votes (together with Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening) and Investor, holding 19.33 percent of the votes.

A significant number of the shares held by foreign investors are nominee-registered, i.e. held off-record by banks, brokers and/or nominees. This means that the actual shareholder is not displayed in the share register or included in the shareholding statistics.

More information on Ericsson's shareholders can be found in the chapter "Share Information" in the Annual Report.

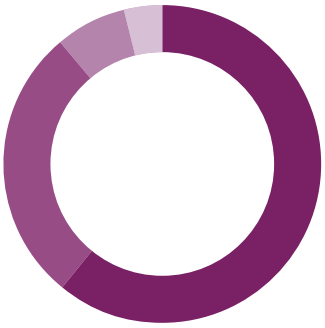
Shares and voting rights

The share capital of the Parent Company consists of two classes of listed shares: A and B. Each Class A share carries one vote and each Class B share carries one tenth of one vote. Class A and B shares entitle the holder to the same proportion of assets and earnings. They also carry equal rights in terms of dividends.

The Parent Company may also issue Class C shares in order to create treasury stock to hedge variable remuneration programs resolved by the General Meeting. The Class C shares are converted into Class B shares before they are transferred to participants of the variable remuneration programs.

The members of the Board of Directors and the Executive Leadership Team have the same voting rights on shares as other shareholders.

OWNERSHIP PERCENTAGE (VOTING RIGHTS)



- Swedish institutions. 60.90%, of which:
  - Investor: 19.33%
  - Industrivärden: 19.39%
- Foreign investors: 28.07%
- Retail Swedish investors: 7.40%
- Other: 3.63%

Source: Capital Precision

GOVERNANCE STRUCTURE

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

GENERAL MEETING OF SHAREHOLDERS

Decision making at General Meetings

The decision-making rights of Ericsson's shareholders are exercised at General Meetings. Most resolutions at General Meetings are passed by a simple majority. However, the Swedish Companies Act requires qualified majorities in certain cases, for example:

- Amending the articles of association
- The resolution to transfer own shares to employees participating in employee share plans

The Annual General Meeting of Shareholders

The Annual General Meeting (AGM) is held in Stockholm. The date and venue for the meeting is announced on the Ericsson website no later than in conjunction with the release of the third-quarter report.

Shareholders who cannot participate in person may be represented by proxy. Only named shareholders registered in the share register have voting rights. Nominee-registered shareholders who wish to vote may request to be entered into the share register by the record date for the AGM.

The AGM is held in Swedish and is simultaneously interpreted into English. All documentation provided by the Company is available in both Swedish and English.

The AGM gives shareholders the opportunity to raise questions relating to the operations of the Group. Ericsson always strives to ensure that the members of the Board of Directors and the Group management (the Executive Leadership Team) are present to answer such questions. Shareholders and other interested parties may also correspond in writing with the Company at any time.

The auditor is always present at the AGM.

Ericsson's Annual General Meeting 2010

1,836 shareholders attended the AGM held on April 13, 2010, including shareholders represented by proxy, representing approximately 62 percent of the votes.

The meeting was also attended by the Board of Directors, members of the Executive Leadership Team and the external auditor.

Decisions of the AGM 2010 included:

- Payment of a dividend of SEK 2.00 per share for 2009
- Re-election of Chairman of the Board of Directors, Michael Treschow
- Re-election of members of the Board of Directors, Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Marcus Wallenberg, Nancy McKinstry, Anders Nyrén and Carl-Henric Svanberg
- Election of Hans Vestberg and Michelangelo Volpi as new members of the Board of Directors
- Board of Directors' fees to remain unchanged:
  - Chairman: SEK 3,750,000
  - Other non-employed Board members: SEK 750,000 each
  - Chairman of the Audit Committee: SEK 350,000
  - Other non-employed members of the Audit Committee: SEK 250,000 each
  - Chairmen and other non-employed members of the Finance and Remuneration committees: SEK 125,000 each
- Approval for part of the Directors' fees to be paid in the form of synthetic shares
- Approval of the remuneration policy for senior management
- Implementation of a Long-Term Variable Remuneration Program.

The minutes of the AGM 2010 are available at: www.ericsson.com/res/investors/docs/2010/agm/101119_minutes_agm.pdf. (Information on the Ericsson website does not form part of this Report).

ANNUAL GENERAL MEETING 2011

Ericsson's Annual General Meeting 2011 will take place on April 13, at the Annex to the Ericsson Globe Arena in Stockholm.

Shareholders who wish to have a matter considered at the AGM should make a written request to the Board in due time before the AGM. Further information on Ericsson's website.

HOW TO CONTACT THE BOARD OF DIRECTORS

Telefonaktiebolaget LM Ericsson
The Board of Directors' Secretariat
SE-164 83 Stockholm, Sweden
boardsecretariat@ericsson.com

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

NOMINATION COMMITTEE

A Nomination Committee was elected by the AGM for the first time in 2001. Since then, each AGM has appointed a Nomination Committee, or resolved on the procedure for appointing the Nomination Committee.

The AGM 2010 resolved that the Nomination Committee shall consist of:

- Representatives of the four largest shareholders by voting power by the end of the month in which the AGM was held
- The Chairman of the Board of Directors.

However, as described in the procedure for appointing members, the Nomination Committee may include additional members following a request by a shareholder. The request must be justified by changes in the shareholder's share ownership and be received by the Nomination Committee no later than December 31.

Members of the Nomination Committee

In addition to the Chairman of the Board of Directors, the current Nomination Committee consists of the four representatives appointed by the four shareholders with the largest voting power as of April 30, 2010:

- Jacob Wallenberg (Investor AB, Chairman of the Nomination Committeee)
- Carl-Olof By (AB Industrivärden, Svenska Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening)
- Caroline af Ugglas (Livförsäkringsaktiebolaget Skandia)
- Marianne Nilsson (Swedbank Robur Fonder).

The tasks of the Nomination Committee

Over the years the tasks of the Nomination Committee have evolved to comply with the requirements of the Code. However, the main task of the Committee remains to propose candidates for election to the Board of Directors. In doing this, the Committee must not only orientate itself on the Company's strategy and future challenges to be able to assess the competence and experience that is required by the Board, but also consider all applicable rules on the independence of the Board of Directors.

It also prepares remuneration proposals for resolution by the AGM for:

- Non-employed Directors elected by the AGM
- The auditor
- Members of the Nomination Committee.

To date, the Committee has not proposed that it should be paid any fees. When proposing auditors, the Nomination Committee selects candidates in cooperation with the Audit Committee of the Board.

The Committee also proposes a candidate for election of the Chairman of General Meetings.

Work of the Nomination Committee for the AGM 2011

The Nomination Committee starts its work by going through a checklist of all its duties according to the Code and its procedure resolved by the AGM. It also sets a time plan for its work ahead. As understanding of Ericsson's business is paramount to the members of the Committee, both the Chairman of the Board and the President and CEO have presented their views to the Committee on the Company's position and strategy.

The Committee has also been thoroughly informed of the results of the evaluation of the Board work and procedures, including the performance of the Chairman of the Board. From this basis the Committee is able to make assessments on the competence and experience required by the Board members.

The Committee has also acquainted itself with the assessments made by the Company and the Audit Committee in terms of quality and efficiency of external auditor work, including recommendations regarding auditors and audit fees. Following the Chairman of the Boards' announcement of his intention to resign from the Board, one main focus for the Nomination Committee this year has been to nominate a successor. As of February 21, 2011 the Nomination Committee has held 8 meetings.

Shareholders may submit proposals to the Nomination Committee at any time, but should do so in due time before the AGM to ensure that they are considered by the Committee. Further information is available on Ericsson's website.

HOW TO CONTACT THE NOMINATION COMMITTEE

Telefonaktiebolaget LM Ericsson
The Nomination Committee
c/o General Counsel's Office
SE-164 83 Stockholm, Sweden
nomination.committee@ericsson.com

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the organization of Ericsson and the management of its operations. It develops guidelines and instructions for day-to-day operations, managed by the President and CEO. In turn, the President and CEO ensures the Board is updated regularly on events of importance to the Group. This includes business development, results, financial position and the liquidity of the Group.

According to the Articles of Association, the Board of Directors shall consist of no less than 5 and no more than 12 directors, with no more than 6 deputies. In addition, under Swedish law, trade unions have the right to appoint three directors and their deputies to the Board.

Directors will serve from the close of one AGM to the close of the next, but can serve any number of consecutive terms.

While the President and CEO may be elected as a director of the Board, the Swedish Companies Act prohibits the President of a public company from being elected Chairman of the Board.

Rules and regulations

Ericsson strictly follows rules and regulations regarding conflicts of interest. Directors are disqualified from participating in any decision regarding agreements between themselves and Ericsson. The same applies for agreements between Ericsson and any third party or legal entity in which the Board member has an interest.

In order to ensure compliance with NASDAQ Stock Market Rules, the Audit Committee has implemented a procedure on related-party transactions. Furthermore, the Audit Committee has established a pre-approval process for non-audit services carried out by the external auditor.

Composition of the Board of Directors

The Board of Directors consists of 12 Directors, including the Chairman of the Board, elected by the shareholders at the AGM 2010, for the period until the close of the AGM 2011. It also includes three employee representatives, each with a deputy, appointed by the trade unions for the same period of time. The President and CEO, Hans Vestberg, is the only Board member who was also a member of Ericsson's management during 2010.

Work procedure

Pursuant to the Swedish Companies Act, the Board of Directors has adopted a work procedure that outlines rules for the distribution of tasks between the Board and its Committees as well as between the Board, its Committees and the President and CEO. This complements the regulation in the Swedish Companies Act and the Articles of Association of the Company. The work procedure is reviewed, evaluated and adopted by the Board at least once a year as required.

Independence

The Board of Directors and its Committees are subject to a variety of independence requirements. Ericsson applies independence rules in applicable Swedish law, the Swedish Corporate Governance Code, the NASDAQ Stock Market Rules and in the Sarbanes-Oxley Act of 2002. However, Ericsson has sought and received exemptions from certain requirements in the Sarbanes-Oxley Act and in the NASDAQ Stock Market Rules that are contrary to Swedish law.

The composition of the Board of Directors meets all applicable independence criteria.

The Nomination Committee concluded before the AGM 2010 that, for the purposes of the Code, at least six of the persons nominated to the Board were independent of Ericsson, its senior management and its major shareholders. These were Roxanne S. Austin, Sir Peter L. Bonfield, Ulf J. Johansson, Nancy McKinstry, Michael Treschow and Michelangelo Volpi.

Telcordia05163

ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Structure of the work of the Board of Directors

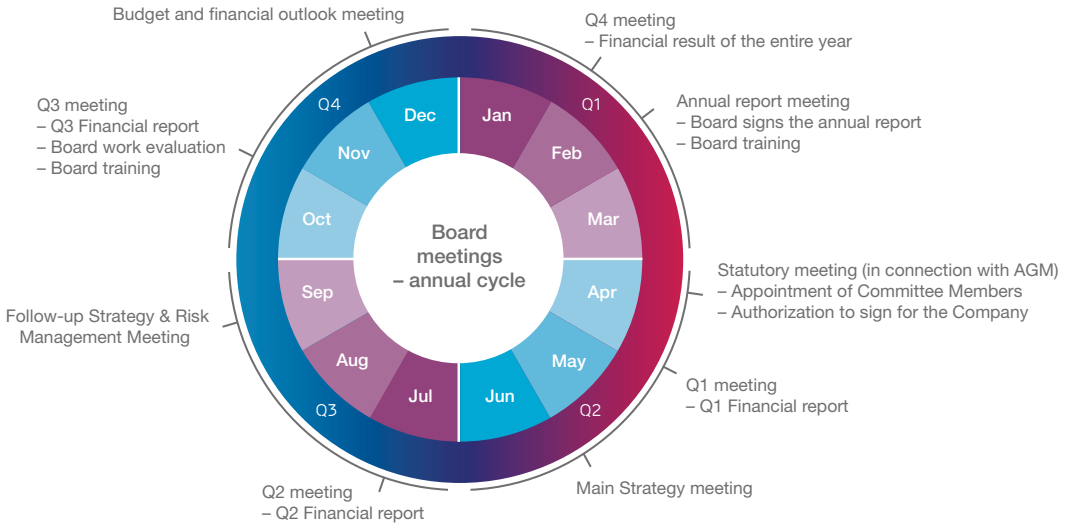
The work of the Board follows a yearly cycle in order to address each of the duties of the Board appropriately and to be able to keep strategy, risk assessment and value creation high on the agenda.

- **Statutory Meeting**
  The yearly cycle starts with the statutory Board meeting which is held in connection with the AGM. At this meeting, members of each of the three Committees are appointed and the Board resolves on matters such as signatory power.
- **First Interim Report Meeting**
  At the next ordinary meeting, the Board handles the first interim report for the year.
- **Main Strategy Meeting**
  Various strategic issues are addressed in most of the Board meetings. However, in accordance with the annual cycle for the strategy process, this Board meeting is in essence dedicated to short and long-term strategies of the Group. Following the Board's input and approval of the overall strategy, the strategy is cascaded throughout the entire organization, starting at the Global Leadership Summit with the top 250 managers in Ericsson.
- **Second Interim Report Meeting**
  In July, the Board convenes to handle the interim report for the second quarter of the year.
- **Follow-up on Strategy & Risk Management Meeting**
  Following the summer, this meeting addresses particular strategy matters in further detail and finally confirms the Group strategy. The meeting also addresses the overall risk management of the Group.
- **Third Interim Report Meeting and Board Evaluation**
  A Board meeting is held at the end of October to handle the third-quarter interim report.
  The results of the Board evaluation are presented and discussed by the Board during this meeting.
- **Budget and Financial Outlook Meeting**
  The last meeting of the calendar year addresses budget and financial outlook and a further analysis of internal and external risks.
- **Full-Year Financial Results Meeting**
  At the first meeting of the calendar year the Board focuses on the financial result of the entire year and handles the fourth-quarter report.
- **Annual Report Meeting**
  At the second Board meeting in February, which closes the yearly cycle of work, the Board concludes the Annual Report.

As the Board is responsible for financial oversight, financials are presented and evaluated at each Board meeting. Each Board meeting generally also includes reports on committee work by the Chairman of each committee. In addition, minutes from the committee meetings are distributed to all Directors prior to the Board meeting.

At each Board meeting the President and CEO reports on business and market developments as well as the financial performance of the Company. The Board is regularly informed of developments in legal and regulatory matters of importance.

THE BOARD'S ANNUAL WORK CYCLE



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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Auditor involvement

The Board meets with Ericsson's external auditor at least once a year to receive and consider the auditor's observations. The auditor prepares reports for the management on the accounting and financial reporting practices of the Group.

The Audit Committee also meets with the auditor to receive and consider observations on the interim reports. The auditor has been instructed to report on whether the accounts, the management of funds and the general financial position of the Group are well controlled in all material respects.

The Board also reviews and assesses the process for financial reporting, as described later in "Internal control over financial reporting 2010". Combined with the internal controls, the Board's and the auditor's review of interim and annual reports are deemed to give reasonable assurance on the quality of the financial reporting.

Training of the Board of Directors

All new Directors receive comprehensive training tailored to their individual requirements. Introductory training typically includes meetings with the heads of the major businesses and functions and training arranged by NASDAQ OMX Stockholm on listing issues and insider rules. In addition, full-day training sessions are held twice a year for all Directors. The sessions enhance their knowledge of specific operations and issues as appropriate to ensure that the Board has knowledge and understanding at the forefront of technical development. As a rule, the Board receives Sustainability and Corporate Responsibility training at least once a year.

Key focus areas in Board training 2010 were:

- Radio Technology, including R&D strategy and intellectual property rights
- Major trends impacting the competitive landscape.

Work of the Board of Directors in 2010

Ten Board meetings were held in 2010. For attendance at Board meetings see the table on page 143. Among the matters addressed by the Board this year (apart from regular matters in the annual Board work cycle) were :

- A more consolidated and efficient go-to-market model with 10 Regions instead of 23 Market Units
- A redefined management team, the Executive Leadership Team, including two regional heads
- Continued effects of the general financial uncertainty in the market
- The causes and consequences of the general shortage of components that telecom equipment providers, including Ericsson, have experienced during the year
- The rollout of the multi-standard radio base station RBS 6000 – Ericsson's first multi-standard base station.
- A number of acquisitions and divestments, including the acquisition of Nortel's stake in the joint venture LG-Nortel.

Board work evaluation

A key objective of the Board evaluation is to ensure that the Board is functioning well. This includes gaining an understanding of the issues which the Board thinks warrant greater scope and determining areas within the Board where additional competence is needed. The evaluation also serves as guidance for the work of the Nomination Committee.

Each year, the Chairman of the Board initiates and leads the evaluation of Board and Committee work and procedures. The evaluation tools include detailed questionnaires, interviews and discussions.

In 2010, the Chairman held individual meetings with all the Directors, following their response to two separate written questionnaires, one covering the Board work in general and the other the Chairman's performance. The Chairman was not involved in the development, compilation or evaluation of the questionnaire which related to his performance, nor was he present when his performance was evaluated. The evaluations were thoroughly discussed and an action plan was developed in order to further improve the work of the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established three Committees: the Audit Committee, the Finance Committee and the Remuneration Committee. Members of each Committee are appointed for one year amongst the Board members in accordance with the principles set forth in the Swedish Companies Act and the Code.

The work of the Committees is mainly to prepare matters for final resolution by the Board. However, the Board has authorized each Committee to determine certain issues in limited areas. It may also on occasion provide extended authorization to determine specific matters.

If deemed appropriate, the Board of Directors and each Committee have the right to engage external expertise, either in general or in respect to specific matters.

Prior to every Board meeting, each Committee submits, in addition to minutes, a written summary to the Board on the issues handled or resolved since the previous ordinary Board meeting. In addition to the minutes and the written summary, the Chairman of the Committee also reports on the Committee work at each Board meeting.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Audit Committee

On behalf of the Board, the Audit Committee monitors the following:

- The scope and correctness of the financial statements
- Compliance with legal and regulatory requirements
- Internal control over financial reporting
- Risk management.

The Audit Committee also reviews the annual and interim financial reports and oversees the external audit process, including audit fees. This involves:

- Reviewing, with management and the external auditor, the financial statements. This includes conformity with generally accepted accounting principles
- Reviewing, with management, the reasonableness of significant estimates and judgments made in preparing the financial statements, as well as the quality of the disclosures in the financial statements
- Reviewing matters arising from reviews and audits performed.

The Audit Committee itself does not perform audit work. Ericsson has an internal audit function which reports to the Audit Committee and performs independent audits.

When applicable, the Committee is also involved in the preparatory work of proposing candidates for the election of the auditor. It also monitors Group transactions and the ongoing performance and independence of the auditor. This avoids conflicts of interest.

In order to ensure the auditor's independence, the Audit Committee has established pre-approval policies and procedures for non-audit related services to be performed by the external auditor. Pre-approval authority may not be delegated to management.

Also in place are the following:

- A process for reviewing transactions with related parties
- A whistleblower procedure for the reporting of violations relating to accounting, internal control and auditing matters.

ORGANIZATION OF THE BOARD WORK

Alleged violations are investigated by Ericsson's internal audit function in conjunction with the relevant Group Function. Information regarding any incidents are reported to the Audit Committee. The report includes measures taken, details of the responsible Group Function and the status of any investigation.

MEMBERS OF THE AUDIT COMMITTEE

The Audit Committee consists of four Board members appointed by the Board. In 2010, the Audit Committee comprised Ulf J. Johansson (Chairman of the Committee), Roxanne S. Austin, Sir Peter L. Bonfield and Jan Hedlund.

All members are independent from the Company and senior management, except Jan Hedlund, who is appointed Board member by the unions pursuant to Swedish mandatory law. Each member is financially literate and familiar with the accounting practices of an international company such as Ericsson. At least one member must be an audit committee financial expert, in accordance with the Sarbanes-Oxley Act, Section 407. The Board of Directors has determined that Ulf J. Johansson, Roxanne S. Austin and Sir Peter L. Bonfield all satisfy this requirement.

Former authorized public accountant, Peter Markborn, is appointed external expert advisor to assist and advise the Audit Committee.

WORK OF THE AUDIT COMMITTEE

The Audit Committee held eight meetings in 2010. Directors' attendance is reflected in the table on page 143. During the year, the Audit Committee reviewed the scope and results of external financial audits and the independence of the external auditor. It also monitored the external audit fees and approved non-audit services performed by the external auditor.

Certain additional non-audit services performed by the external auditor were approved by the Audit Committee Chairman under the Committee's pre-approval policies and procedures. The Committee approved the annual audit plan for the internal audit function and reviewed its reports. Prior to publishing, the Committee also reviewed and discussed each interim report with the external auditor.

The Committee monitored the continued compliance with the Sarbanes-Oxley Act and the internal control and risk management process. It has also reviewed certain related-party transactions in accordance with its established process.

Telcordia05166

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Finance Committee

The Finance Committee is primarily responsible for:

- Handling matters related to acquisitions and divestments
- Handling capital contributions to companies inside and outside the Ericsson Group
- Raising of loans, issuances of guarantees and similar undertakings, and the approval of financial support to customers and suppliers
- Continuously monitoring the Group's financial risk exposure.

The Finance Committee is authorized to determine matters such as:

- Direct or indirect financing
- Provision of credits
- Granting of securities and guarantees
- Certain investments, divestments and financial commitments.

MEMBERS OF THE FINANCE COMMITTEE

The Finance Committee consists of four Board members as appointed by the Board. In 2010, the Finance Committee comprised: Marcus Wallenberg (Chairman of the Committee), Anna Guldstrand, Anders Nyrén and Michael Treschow.

WORK OF THE FINANCE COMMITTEE IN 2010

The Finance Committee held nine meetings in 2010. Directors' attendance is reflected in the table on page 143. During the year the Finance Committee has approved numerous customer finance and credit facility arrangements with a continued focus on capital structure, cash flow and cash generating ability. It has also continuously monitored Ericsson's financial position and credit exposure.

Remuneration Committee

The Remuneration Committee's main responsibility is to prepare for resolution by the Board of Directors matters regarding salary and other remuneration. This includes pension benefits of the President and CEO, the Executive Vice Presidents and other officers who report directly to the President and CEO. Other responsibilities include:

- Developing, monitoring and evaluating strategies and general guidelines for employee remuneration, including short-term variable remuneration and pension benefits
- Reviewing the results of short-term variable remuneration plans before pay out
- Preparation of the long-term variable remuneration program for referral to the Board and resolution by the General Meeting
- Preparation of targets for short-term variable remuneration for the following year, for resolution by the Board.

To achieve this, the Committee holds annual remuneration reviews with Company representatives. These reviews determine the strategic direction, and align program designs and pay policies with the business objectives.

MEMBERS OF THE COMMITTEES

Members of the Committees of the Board of Directors 2010

Audit Committee	Finance Committee	Remuneration Committee
> Ulf J Johansson (Chairman)	> Marcus Wallenberg (Chairman)	> Michael Treschow (Chairman)
> Roxanne S. Austin	> Anna Guldstrand	> Börje Ekholm
> Sir Peter L. Bonfield	> Anders Nyrén	> Nancy McKinstry
> Jan Hedlund	> Michael Treschow	> Karin Åberg

Consideration is given to trends in remuneration, legislative changes, disclosure rules and the general global environment surrounding executive pay. The Committee reviews salary survey data before approving any salary adjustment for CEO direct reports. In addition the Committee prepares salary adjustments for the President and CEO for resolution by the Board.

MEMBERS OF THE REMUNERATION COMMITTEE

The Remuneration Committee consists of four Board members as appointed by the Board. In 2010, the Remuneration Committee comprised: Michael Treschow (Chairman of the Committee), Börje Ekholm, Nancy McKinstry, and Karin Åberg.

Gerrit Aronson is appointed by the Remuneration Committee as an independent expert advisor to assist the Committee, particularly regarding international trends and developments.

WORK OF THE REMUNERATION COMMITTEE IN 2010

The Remuneration Committee held eight meetings in 2010. Directors' attendance is reflected in the table on page 143.

The Committee reviewed and prepared for resolution by the Board a proposal for the Long-Term Variable Remuneration Program 2010. This was approved by the AGM 2010. The Committee further resolved on salaries and short term variable pay for 2010 for CEO direct reports and prepared for resolution by the Board remuneration to the President and CEO, Hans Vestberg. The Committee also prepared a remuneration policy which was subsequently referred by the Board to the AGM for approval.

Towards the end of the year, the Committee concluded its analysis of the current long-term variable remuneration structure and remuneration policy. The resulting proposals will be referred to the AGM 2011 for resolution.

For further information on remuneration, fixed and variable pay, please see Note C29 "Information Regarding Members of the Board of Directors, the Group management and Employees" in the Annual Report and the "Remuneration Report" included the Annual Report.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

REMUNERATION TO BOARD MEMBERS

Remuneration to Board members not employed by the Company is proposed by the Nomination Committee for resolution by the Annual General Meeting.

The Annual General Meeting 2010 approved the Nomination Committee's proposal for fees to the non-employed Board members for Board and Committee work. For information on Board of Directors' fees 2010, please refer to Notes to the Consolidated Financial Statements – Note C29 "Information Regarding Members of the Board of Directors, the Group Management and Employees" in the Annual Report. The Annual General Meeting 2010 also approved the Nomination Committee's proposal that Board members may be paid part of their Board fee in the form of synthetic shares.

A synthetic share gives the right to receive a future cash payment of an amount which corresponds to the market value of a class B share in Ericsson at the time of payment. The purpose of paying part of the Board of Director's fee in the form of synthetic shares is to further align the Directors' interest with shareholder interest. For more information on the terms and conditions of the synthetic shares, please refer to the notice convening the Annual General Meeting 2010 at www.ericsson.com/thecompany/investors/general-meetings. (Information on the Ericsson website does not form part of this document.)

DIRECTORS' ATTENDANCE AND FEES 2010

	Fees resolved by the AGM 2010		Number of Board/Committee meetings attended			
Board member	Board fees [1]	Committee fees	Board	Audit Committee	Finance Committee	Remuneration Committee
Michael Treschow	3,750,000	250,000	10		9	8
Sverker Martin-Löf	750,000		10			
Marcus Wallenberg	750,000	125,000	9		9	
Roxanne S. Austin	750,000	250,000	7	6		
Sir Peter L. Bonfield	750,000	250,000	10	8		
Börje Ekholm	750,000	125,000	9			7
Ulf J. Johansson	750,000	350,000	10	8		
Nancy McKinstry	750,000	125,000	10			7
Anders Nyrén	750,000	125,000	10		9	
Carl-Henric Svanberg	750,000		8			
Hans Vestberg	–		8			
Michelangelo Volpi [2]	750,000		6			
Anna Guldstrand	*15,000* [5]		10		9	
Jan Hedlund	*15,000* [5]		10	8		
Karin Åberg	*15,000* [5]		10			8
Monica Bergström [3]	*4,500* [5]		3			
Pehr Claesson	*15,000* [5]		10			
Kristina Davidsson	*15,000* [5]		10			
Karin Lennartsson [4]	*10,500* [5]		7			
Total number of meetings			**10**	**8**	**9**	**8**

[1] Non-employed Directors can choose to receive part of their Board fee (exclusive of Committee fees) in the form of synthetic shares.

[2] Elected as Board member as of April 13, 2010.

[3] Resigned as Deputy employee representative as of April 13, 2010.

[4] Deputy employee representative as of April 13, 2010.

[5] Employee representative Board members and their deputies are not entitled to a Board fee but a compensation in the amount of SEK 1,500 per attended Board meeting.

Telcordia05168

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Michael Treschow

Marcus Wallenberg

Sverker Martin-Löf

Roxanne S. Austin

MEMBERS OF THE BOARD OF DIRECTORS

Board members elected by the Annual General Meeting 2010

Michael Treschow (first elected 2002). *Chairman of the Board of Directors. Chairman of the Remuneration Committee. Member of the Finance Committee.*
Born 1943. Master of Science, Lund Institute of Technology, Sweden.
Board Chairman: Unilever NV, and Unilever PLC.
Board Member: ABB Ltd and the Knut and Alice Wallenberg Foundation.
Holdings in Ericsson [1]: 164,008 Class B shares.
Principal work experience and other information: Board Chairman of the Confederation of Swedish Enterprise 2004–2007. President and CEO of AB Electrolux 1997–2002 and Chairman of its Board of Directors 2004–2007. Earlier experience includes positions in Atlas Copco, where he served as President and CEO 1991–1997. Member of the Royal Academy of Engineering Sciences.

Marcus Wallenberg (first elected 1996). *Deputy Chairman of the Board of Directors. Chairman of the Finance Committee.*
Born 1956. Bachelor of Science of Foreign Service, Georgetown University, USA.
Board Chairman: Skandinaviska Enskilda Banken, Saab AB and AB Electrolux.
Board Member: AstraZeneca PLC, Stora Enso Oy, the Knut and Alice Wallenberg Foundation and Temasek Holdings Limited.
Holdings in Ericsson [1]: 1,200 Class A shares and 140,800 Class B shares.
Principal work experience and other information: Positions in Investor AB, where he served as President and CEO 1999–2005. Prior to this he was Executive Vice President at Investor. Previous employers include Stora Feldmühle AG, Citicorp, Citibank and Deutsche Bank.

Sverker Martin-Löf (first elected 1993). *Deputy Chairman of the Board of Directors.*
Born 1943. Doctor of Technology and Master of Engineering, Royal Institute of Technology, Stockholm.
Board Chairman: Skanska AB, Svenska Cellulosa Aktiebolaget SCA, SSAB and AB Industrivärden.
Board Member: Svenska Handelsbanken.
Holdings in Ericsson [1]: 10,400 Class B shares.
Principal work experience and other information: President and CEO of Svenska Cellulosa Aktiebolaget SCA 1990–2002, where he was employed 1977–1983 and 1986–2002. Previous positions at Sunds Defibrator and Mo och Domsjö AB.

Roxanne S. Austin (first elected 2008). *Member of the Audit Committee.*
Born 1961. B.B.A. in Accounting, University of Texas, San Antonio, USA.
Board Member: Abbott Laboratories, Teledyne Technologies Inc. and Target Corporation.
Holdings in Ericsson [1]: 3,000 Class B shares.
Principal work experience and other information: President of Austin Investment Advisors since 2004. President and CEO of Move Networks Inc. 2009–2010. President and CEO of DIRECTV 2001–2003. Corporate Senior Vice President and Chief Financial Officer of Hughes Electronics Corporation 1997–2000, which she joined in 1993. Previously a partner at Deloitte & Touche. Member of the board of trustees of the California Science Center. Member of the California State Society of certified Public Accountants and the American Institute of Certified Public Accountants.

Telcordia05169

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Sir Peter L. Bonfield (first elected 2002). *Member of the Audit Committee.*
Born 1944. Honors degree in Engineering, Loughborough University, Leicestershire, UK.
Board Chairman: NXP Semiconductors.
Deputy Chairman: British Quality Foundation.
Board Member: Mentor Graphics Inc., Sony Corporation, TSMC and Actis Capital LLP.
Holdings in Ericsson [1]: 4,400 Class B shares.
Principal work experience and other information: CEO and Chairman of the Executive Committee of British Telecommunications plc. 1996–2002. Chairman and CEO of ICL plc 1990–1996. Positions with STC plc and Texas Instruments Inc. Member of the Advisory Boards of New Venture Partners LLP, the Longreach Group and Apax Partners LLP. Board Mentor of CMi. Senior Advisor, Rothschild, London. Fellow of the Royal Academy of Engineering.

Sir Peter L. Bonfield

Börje Ekholm (first elected 2006) *Member of the Remuneration Committee.*
Born 1963. Master of Science in Electrical Engineering, Royal Institute of Technology, Stockholm. Master of Business Administration, INSEAD, France.
Board Chairman: Royal Institute of Technology, Stockholm.
Board Member: Investor AB, AB Chalmersinvest, EQT Partners AB, Husqvarna AB, Lindorff Group AB, the Royal Institute of Technology, Stockholm and Scania.
Holdings in Ericsson [1]: 30,760 Class B shares.
Principal work experience and other information: President and CEO of Investor AB since 2005. Formerly Head of Investor Growth Capital Inc. and New Investments. Previous positions at Novare Kapital AB and McKinsey & Co Inc.

Börje Ekholm

Ulf J. Johansson (first elected 2005) *Chairman of the Audit Committee.*
Born 1945. Doctor of Technology and Master of Science in Electrical Engineering, Royal Institute of Technology, Stockholm.
Board Chairman: Acando AB, Eurostep Group AB, Novo A/S, Novo Nordisk Foundation, and Trimble Navigation Ltd.
Board Member: Jump Tap Inc.
Holdings in Ericsson [1]: 6,435 Class B shares.
Principal work experience and other information: Founder of Europolitan Vodafone AB, where he was the Chairman of the Board 1990–2005. Previous positions at Spectra-Physics AB as President and CEO and at Ericsson Radio Systems AB. Member of the Royal Academy of Engineering Sciences.

Ulf J. Johansson

Nancy McKinstry (first elected 2004) *Member of the Remuneration Committee.*
Born 1959. Master of Business Administration in Finance and Marketing, Columbia University, USA. Bachelor of Arts in Economics, University of Rhode Island, USA.
Board Chairman: CEO and Chairman of the Executive Board of Wolters Kluwer n.v.
Board Member: TiasNimbas Business School.
Holdings in Ericsson [1]: 4,000 Class B shares.
Principal work experience and other information: CEO and Chairman of the Executive Board of Wolters Kluwer n.v. President and CEO of CCH Legal Information Services 1996–1999. Previous positions at Booz, Allen & Hamilton, and New England Telephone Company. Member of the Advisory Board of the University of Rhode Island, the Advisory Council of the Amsterdam Institute of Finance, the Dutch Advisory Council of INSEAD, the Board of Overseers of Columbia Business School and the Advisory Board of the Harrington School of Communication and Media.

Nancy McKinstry

Telcordia05170

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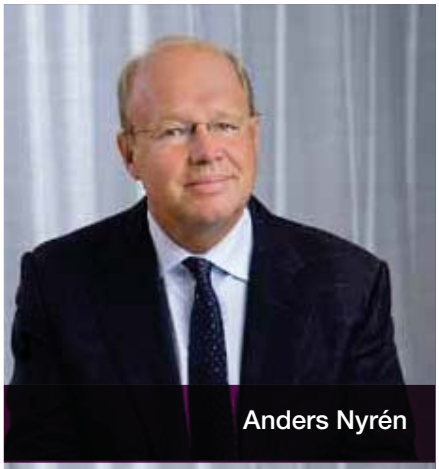
Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf


Anders Nyrén

Carl-Henric Svanberg

Hans Vestberg

Michelangelo Volpi

Anders Nyrén (first elected 2006) *Member of the Finance Committee.*
Born 1954. Graduate of Stockholm School of Economics, Master of Business Administration from Anderson School of Management, UCLA, USA.
Board Chairman: Sandvik AB. Vice Chairman Svenska Handelsbanken.
Board Member: Svenska Cellulosa Aktiebolaget SCA, AB Industrivärden, SSAB, AB Volvo, Ernströmgruppen and Stockholm School of Economics.
Holdings in Ericsson [1)]**:** 6,686 Class B shares.
Principal work experience and other information: President and CEO of Industrivärden since 2001. CFO and EVP of Skanska AB 1997–2001. Director Capital Markets of Nordbanken 1996–1997. CFO and EVP of Securum AB 1992–1996. Managing Director of OM International AB 1987–1992. Earlier positions at STC Scandinavian Trading Co AB and AB Wilhelm Becker.

Carl-Henric Svanberg (first elected 2003)
Born 1952. Master of Science, Linköping Institute of Technology. Bachelor of Science in Business Administration, University of Uppsala.
Board Chairman: BP p.l.c.
Board Member: Melker Schörling AB and University of Uppsala.
Holdings in Ericsson [1)]**:** 3,234,441 Class B shares.
Principal work experience and other information: President and CEO of Telefonaktiebolaget LM Ericsson 2003-2009. President and CEO of Assa Abloy AB 1994–2003. Various positions within Securitas AB 1986–1994 and Asea Brown Boveri (ABB) 1977–1985. Member of the Steering Committee of the Global Alliance for Information and Communication Technologies and Development (GAID), the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School. Holds Honorary Doctorates at Luleå University of Technology and Linköping University and is the recipient of the King of Sweden's medal for his contribution to Swedish industry.

Hans Vestberg (first elected 2010)
Born 1965. Bachelor of Business Administration and Economics, University of Uppsala.
Board Chairman: ST-Ericsson and Svenska Handbollförbundet.
Board Member: Sony Ericsson Mobile Communications AB and Thernlunds AB.
Holdings in Ericsson [1)]**:** 54,368 Class B shares.
Principal work experience and other information: President and CEO as of January 1, 2010. First Executive Vice President until December 31, 2009. Chief Financial Officer and Head of Group Function Finance until October 31, 2009. Previously Executive Vice President and Head of Business Unit Global Services. Has held various positions in the Company since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile.

Michelangelo Volpi (first elected 2010)
Born 1966. Bachelor of Science in Mechanical Engineering and Masters in Manufacturing Systems Engineering from Stanford University, USA. MBA from the Stanford Graduate School of Business, USA.
Board Member: None.
Holdings in Ericsson [1)]**:** None.
Principal work experience and other information: Partner at Index Ventures since July 2009. Previously CEO of Joost Inc.. Employed by Cisco from 1994-2007 in positions including Senior Vice President & General Manager of the Routing and Service Provider Technology Group and Chief Strategy Officer. Has also worked for Hewlett Packard in the optoelectronics division.

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

MEMBERS OF THE BOARD OF DIRECTORS

Board members and deputies appointed by the unions

Jan Hedlund (first appointed 1994)
Employee representative, *Member of the Audit Committee*
Born 1946. Appointed by the IF Metall union.
Holdings in Ericsson [1]: 964 Class B shares.
Employed since 1982. Previously working with model production mechanics within Business Unit Networks and currently working full time as union representative.

Anna Guldstrand (first appointed 2004)
Employee representative, Member of the Finance Committee
Born 1964. Appointed by the union The Swedish Association of Graduate Engineers.
Holdings in Ericsson [1]: 1,667 Class B shares.
Employed since 1996. Working as knowledge manager within Business Unit Global Services.

Karin Åberg (first appointed 2007)
Employee representative, *Member of the Remuneration Committee*
Born 1959. Appointed by the union Unionen.
Holdings in Ericsson [1]: 1,900 Class B shares.
Employed since 1995. Working as Service Engineer within Business Unit Global Services.

Kristina Davidsson (first appointed 2006)
Deputy employee representative
Born 1955. Appointed by the IF Metall union.
Holdings in Ericsson [1]: 1,146 Class B shares.
Employed since 1995. Previously working as repairman within Business Unit Networks and currently working full time as union representative.

Pehr Claesson (first appointed 2008)
Deputy employee representative
Born 1966. Appointed by the union The Swedish Association of Graduate Engineers.
Holdings in Ericsson [1]: 619 Class B shares
Employed since 1997. Working with marketing and communication for Consulting and Systems Integration within Business Unit Global Services.

Karin Lennartsson (first appointed 2010)
Deputy employee representative
Born 1957. Appointed by the Unionen union.
Holdings in Ericsson [1]: 328 Class B shares.
Employed since 1976. Working as Process Expert within Group Function Finance – Process and Quality.

Hans Vestberg was the only Director who held an operational management position at Ericsson in 2010. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person.

[1] The number of Class B shares (and Class A shares, if applicable) includes holdings by related natural or legal persons and American Depositary Receipts, where applicable.

Jan Hedlund

Anna Guldstrand

Karin Åberg

Kristina Davidsson

Pehr Claesson

Karin Lennartsson

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VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

COMPANY MANAGEMENT

The President/CEO and Group management

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. The President and CEO is responsible for the management of day-to-day operations and is supported by the Group management, called the Executive Leadership Team (ELT). In addition to the President and CEO, the ELT consists of heads of Group functions, heads of business units, two regional heads and the Chief Brand Officer. The role of the ELT is to:

- Establish a long-term vision, a strong corporate culture and group strategies and policies, all based on objectives stated by the Board
- Determine targets for operational units, allocate resources and monitor unit performance
- Secure operational excellence and realize global synergies through efficient organization of the Group.

Remuneration of the Executive Leadership Team

A Remuneration policy including guidelines on remuneration and other employment terms for the ELT were approved by the AGM 2010. For further information on fixed and variable remuneration, see the Remuneration Report and Notes to the Consolidated Financial Statements – Note C29, “Information Regarding Members of the Board of Directors, the Group management and Employees” in the Annual Report.

The Ericsson Group Management System

The CEO and heads of Group functions have implemented a management system to ensure that the business is managed:

- So that the objectives of Ericsson’s major stakeholders (customers, shareholders, employees) are fulfilled
- Within established risk limits and with reliable internal control
- So the Company is compliant with applicable laws, listing requirements and governance codes and fulfills its corporate social responsibilities.

Ericsson is ISO 9001 (quality) and ISO 14001 (environment) globally certified and ISO 27001 (information security) certified in selected units. Certification to OHSAS 18001 (health & safety) is ongoing. The management system is an important foundation and is continuously evaluated and improved in line with ISO requirements.

The Ericsson Group Management System comprises three elements:

- Management and control: corporate culture, objective setting, strategy formulation and steering documents such as Group policies and directives
- Operational processes and IT tools: to support operational excellence and leverage Ericsson’s scale advantages
- Organization and resources.

Risk management is an integrated part of the Ericsson Group Management System.

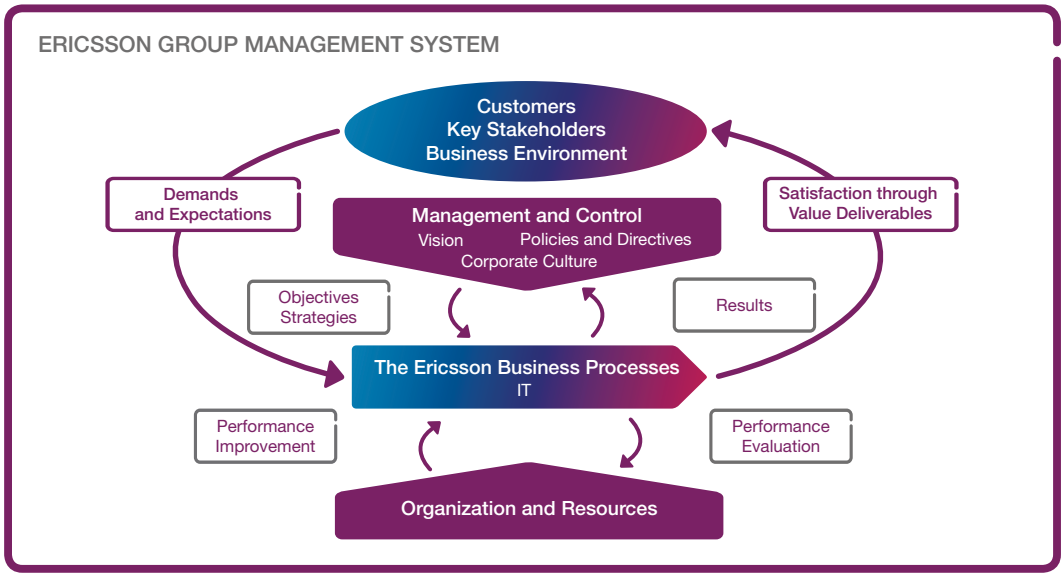
MANAGEMENT AND CONTROL

Strategy, targets and monitoring

Ericsson uses balanced scorecards as tools for translating strategic objectives into a set of performance indicators for its operational units. These focus primarily on:

- Market and customer performance
- Competitive position
- Internal efficiency
- Financial performance
- Employee satisfaction and empowerment.

Based on the annual strategy work, these scorecards are updated with targets for each unit for the next year and communicated throughout the organization. The balanced scorecard is also used as a management tool to align operating unit and individual goals to Company goals, follow up progress and monitor identified risks.



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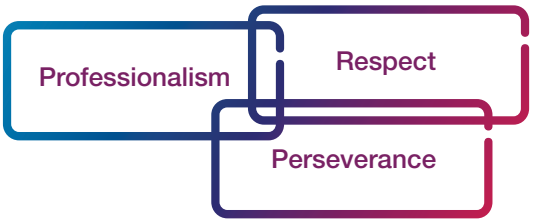
ERICSSON'S CORE VALUES



Corporate culture

Corporate culture has long been acknowledged as an important factor for driving behavior, not only for compliance but also in communication, decision making, efficiency and reaching objectives. Respect, professionalism and perseverance are the values that underpin Ericsson's culture, guiding daily work, relationships and business. Consequently, executive management makes the communication and development of Ericsson's culture a key task in the management of the Group.

Group policies and directives

Group-wide policies and directives govern how the organization works. These include a Code of Business Ethics, policies on roles and responsibilities, segregation of duties, capital expenditures, management of intellectual property rights, financial reporting, environmental matters, and risk management.

Operational processes and IT tools

As a market leader, Ericsson tries to utilize the competitive advantages that are gained through scale and has implemented common processes and IT tools across all its operational units. Through management and continuous improvement of these processes and IT tools, Ericsson reduces costs with standardized internal controls and performance indicators.

Organization and resources

Ericsson is operated in two dimensions:

- Legal entities: more than 200 companies in more than 100 countries
- Operational units: Four business units and ten regions.

In addition, Group functions coordinate Ericsson's strategies, operations and resource allocation and define the necessary directives, processes and organization for the effective governance of the Group.

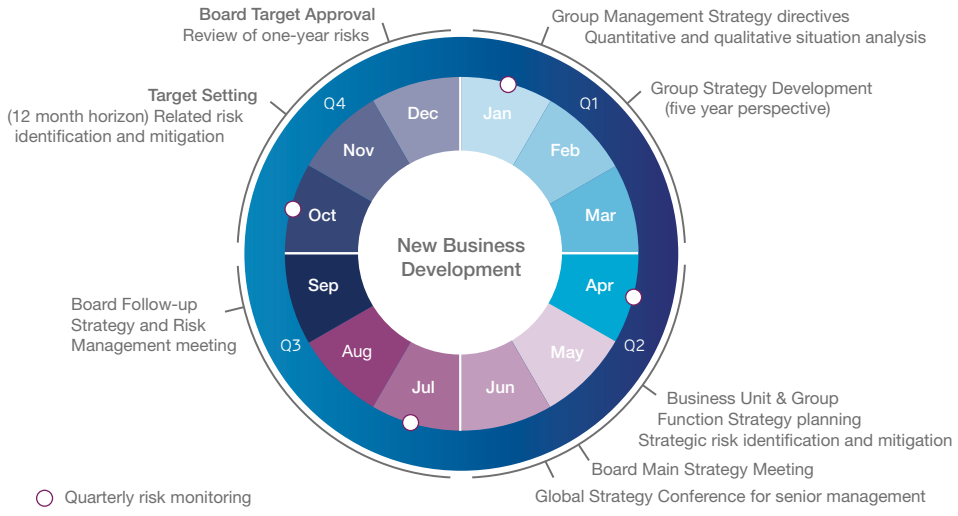
Risk management

Ericsson's risk management is integrated with the business and its operational processes and is a part of the Ericsson Group Management System to ensure accountability, effectiveness, efficiency, business continuity and compliance with corporate governance, legal and other requirements. The Board of Directors is also actively engaged in the Company's risk management. Risks related to set long-term objectives are discussed and strategies are formally approved by the Board as part of the annual strategy process. Risks related to annual targets for the Company are also reviewed by the Board and then monitored continuously during the year. Certain transactional risks require specific Board approval, e.g. acquisitions, management remuneration, borrowing or customer finance in excess of pre-defined limits.

STRATEGIC AND TACTICAL RISKS

Strategic risks constitute the highest risk to the Company if not managed properly as they could have a long-term impact. Ericsson therefore reviews its long-term objectives, main strategies and business scope on an annual basis and continuously works on the tactics to reach these objectives and mitigate any risks identified.

STRATEGIC, TARGET SETTING AND RISK MANAGEMENT CYCLE



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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
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In the annual strategy and target setting process, objectives are set for the next five years, risks and opportunities are assessed and strategies are developed to achieve the objectives. The strategy process in the Company is well established and involves regions, business units and Group functions. The strategy is finally summarized and discussed in a yearly senior management meeting with approximately 250 managers from all parts of the business. By involving all parts of the business in the process, potential risks are identified early and mitigating actions can be incorporated in the strategy and in the annual target process following the finalization of the strategy.

Technology development, industry and market fundamentals as well as the development of the economy are key components in the evaluation of risks related to Ericsson's long-term objectives.

The outcome from the strategy process forms the basis for the annual target process which involves regions, business units and Group functions. Risks and opportunities linked to the targets are identified as part of this process together with actions to mitigate the identified risks. Follow-up of targets, risks and mitigating actions are reported and discussed continuously in business unit and region steering groups as well as being reviewed by the Board of Directors.

The Company has been using the Balanced Scorecard concept to structure its targets, risks and opportunities for many years. For 2010 risks and opportunities were identified and analyzed in the five balanced scorecard perspectives. For more information on risks related to Ericsson's business, see Risk Factors.

OPERATIONAL AND FINANCIAL RISKS

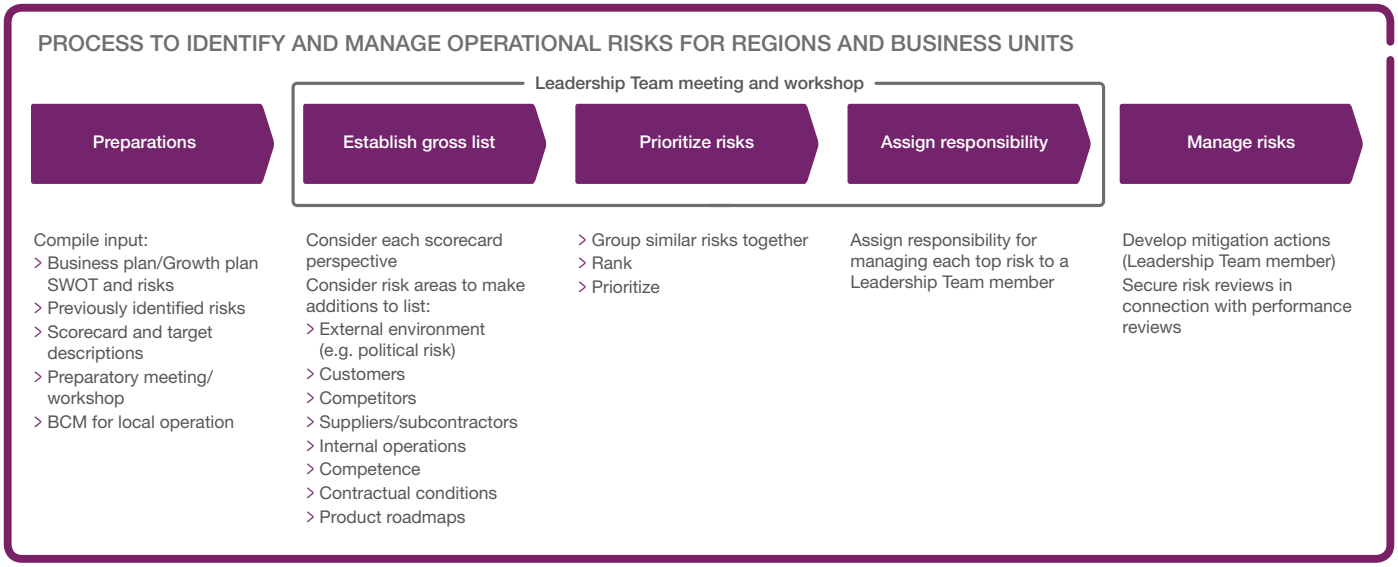
Operational risks are owned and managed by operational units. Risk management is embedded in various process controls, such as decision tollgates and approvals. Certain cross-process risks, such as information security/IT, corporate responsibility & business continuity and insurable risks are centrally coordinated. Financial risk management is governed by a Group policy and carried out by the Treasury and Customer Finance functions, both supervised by the Finance Committee. The policy governs risk exposures related to foreign exchange, liquidity/financing, interest rates, credit risk and market price risk in equity instruments. For further information on financial risk management, see Notes to the Consolidated Financial Statements – Note C14, "Trade Receivables and Customer Finance", Note C19, "Interest-Bearing Liabilities" and Note C20, "Financial Risk Management and Financial Instruments".

COMPLIANCE RISKS

Ericsson has implemented Group policies and directives to ensure compliance with applicable laws and regulations, including a Code of Business Ethics and a Code of Conduct. Risk management is integrated in the Company's business processes. Policies and controls are implemented to ensure compliance with financial reporting standards and stock market regulations, e.g. the US Sarbanes-Oxley Act.

MONITORING AND AUDITS

Company management monitors the compliance with policies, directives and processes through internal self-assessment within all units. This is complemented by internal and external audits. External financial audits are performed by PwC, and ISO/management system audits by Det Norske Veritas, DNV. Internal audits are performed by the company's internal audit function which reports to the Audit Committee. Audits of suppliers are also conducted in order to secure compliance with agreed key performance indicators and Ericsson's Code of Conduct which is mandatory for suppliers to the Ericsson Group.



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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
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MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM

- A Angel Ruiz
- B Carl Olof Blomqvist
- C Douglas L. Gilstrap
- D Bina Chaurasia
- E Magnus Mandersson
- F Hans Vestberg
- G Jan Wäreby
- H Mats H. Olsson
- I Jan Frykhammar
- J Rima Qureshi
- K Cesare Avenia
- L Henry Sténson
- M Johan Wibergh
- N Håkan Eriksson

Telcordia05176

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

A Angel Ruiz

Head of Region North America (since 2010).
Born 1956.
Bachelor's degree in Electrical Engineering from University of Central Florida and a Master's degree in Management Science and Information Systems from Johns Hopkins University, USA.
Holdings in Ericsson [1)]**:** 21,688 Class B shares.
Background: Previously Head of Market Unit North America. He joined Ericsson in 1990 and has held a variety of sales and managerial positions within the company, including heading up the global account teams for Cingular/SBC/BellSouth (now AT&T). Appointed President of Ericsson North America in 2001.

B Carl Olof Blomqvist

Senior Vice President, General Counsel and Head of Group Function Legal Affairs (since 1999).
Born 1951.
Master of Law, LLM, University of Uppsala.
Holdings in Ericsson [1)]**:** 1,216 Class A shares and 38,914 Class B shares.
Background: Previously partner of Mannheimer Swartling law firm.

C Douglas L. Gilstrap

Senior Vice President and Head of Group Function Strategy (since 2009).
Born 1963.
Bachelor in accounting from the University of Richmond, Master of Business Administration, Emory University, Atlanta.
Holdings in Ericsson [1)]**:** 2,643 Class B shares.
Background: CFO and Co-Founder of Asia Pacific Exploration Consolidated (APEC), Has also held various global managerial positions in different companies within the telecommunications and IT sector for more than 15 years.

D Bina Chaurasia

Senior Vice President and Head of Group Function Human Resources and Organization
(since November 2010).
Born 1962.
Holds a Master of Science in Management and Human Resources from the Ohio State University and a Masters of Arts in Philosophy from the University of Wisconsin.
Holdings in Ericsson [1)]**:** 11,627 Class B shares.
Background: Joined Ericsson from Hewlett Packard, where she was the Vice President of Global Talent Management. Has also held senior HR leadership roles at Gap, Sun Microsystems and PepsiCo/Yum.

E Magnus Mandersson

Senior Vice President and Head of Business Unit Global Services (since 2010).
Born 1959.
Bachelor of Business Administration, University of Lund.
Holdings in Ericsson [1)]**:** 8,605 Class B shares.
Background: Previously Head of Business Unit CDMA, Head of Market Unit Northern Europe and Global Customer Account Deutsche Telekom AG.

F Hans Vestberg

President and CEO (since January 1, 2010).
Born 1965.
Bachelor of Business Administration, University of Uppsala.
Board member: Sony Ericsson Mobile Communications AB and Thernlunds AB.
Chairman: ST-Ericsson and Svenska Handbollförbundet.
Holdings in Ericsson [1)]**:** 54,368 Class B shares.
Background: Chief Financial Officer and Head of Group Function Finance until October 31, 2009. Previously Executive Vice President and Head of Business Unit Global Services. Has held various positions in the Company since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile.

G Jan Wäreby

Senior Vice President and Head of Business Unit Multimedia (since 2007).
Born 1956.
Master of Science, Chalmers University, Göteborg.
Board member: Sony Ericsson Mobile Communications AB, ST-Ericsson.
Holdings in Ericsson [1)]**:** 47,551 Class B shares.
Background: Executive Vice President and Head of Sales and Marketing for Sony Ericsson Mobile Communications from 2002-2006.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

H Mats H. Olsson

Head of Region China & North East Asia (since 2010).
Born 1954.
Master of Business Administration from the Stockholm School of Economics.
Holdings in Ericsson [1]**:** 43,088 Class B shares.
Background: Previously Head of Market Unit Greater China and has held various positions in Asia for Ericsson. Appointed President of Ericsson Greater China in 2004, with overall responsibility for Mainland China, Hong Kong, Macao and Taiwan.

I Jan Frykhammar

Executive Vice President and Chief Financial Officer and Head of Group Function Finance (since 2009).
Born 1965.
Bachelor of Business Administration and Economics, University of Uppsala.
Board member: Sony Ericsson Mobile Communications AB, ST-Ericsson.
Holdings in Ericsson [1]**:** 3,650 Class B shares.
Background: Previously Senior Vice President and Head of Business Unit Global Services. Has held various positions within Ericsson such as Sales and Business Control in Business Unit Global Services, CFO in North America and Vice President, Finance and Commercial within the Global Customer Account for Vodafone.

J Rima Qureshi

Senior Vice President and Head of Business Unit CDMA Mobile Systems (since 2010).
Born 1965.
Holds a Bachelor's degree of Information Systems and a Master's degree of administration, McGill University, Montreal, Canada.
Holdings in Ericsson [1]**:** 2,662 Class B shares
Background: Also serves as head of Ericsson Response. Previously head of the AT&T Improvement Program within Market Unit North America.

K Cesare Avenia

Chief Brand Officer (since 2010).
Born 1950.
Bachelor's degree of Electronics engineering, University of Naples, Italy.
Board member: Member of the Steering Committee for Innovation and Technology Services within the Association of Telecom service providers within Confindustria, the National Association of Industralists in Italy.
Holdings in Ericsson [1]**:** 11,618 Class B shares.
Background: Previously Head of Market Unit Italy.

L Henry Sténson

Senior Vice President and Head of Group Function Communications (since 2002).
Born 1955.
Studied law, sociology and political science, Linköping University and at the Swedish War Academy, Karlberg, Stockholm.
Board member: Stronghold Invest AB.
Holdings in Ericsson [1]**:** 27,855 Class B shares.
Background: Previously Head of SAS Group Communication.

M Johan Wibergh

Executive Vice President (since January 1, 2010) **and Head of Business Unit Networks** (since 2008).
Born 1963.
Master of Computer Science, Linköping Institute of Technology.
Holdings in Ericsson [1]**:** 19,967 Class B shares.
Background: President of Ericsson Brazil. Has also been President of Market Unit Nordic and Baltics, Vice President and Head of Sales at Business Unit Global Services.

N Håkan Eriksson

Senior Vice President, Chief Technology Officer, Head of Group Function Technology & Portfolio Management (since 2003) and Head of Ericsson in Silicon Valley (since January 1, 2010).
Born 1961.
Master of Science and Honorary Ph D, Linköping Institute of Technology.
Board member: Vestas.
Holdings in Ericsson [1]**:** 32,130 Class B shares.
Background: Previously Senior Vice President and Head of Research and Development. Has held various positions within Ericsson since 1986.

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ION

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

AUDITORS

According to the Articles of Association, the Parent Company shall have no less than one and no more than three registered public accounting firms as external independent auditors. The auditors have been elected by the shareholders at the Annual General Meeting for periods of four years. However, according to a recent change in the Swedish Companies Act, the mandate period of the Auditors shall be one year, unless the Articles of Association provides for a longer mandate period up to four years. The auditors report to the shareholders at General Meetings.

The auditors:

- Update the Board of Directors regarding the planning, scope and content of the annual audit
- Examine the interim and year-end financial statements to assess accuracy and completeness of the accounts and adherence to accounting standards and policies
- Advise the Board of Directors of non-audit services performed, the consideration paid and other issues that determine the auditors' independence.

For further information on the contacts between the Board and the auditors, please see "Work of the Board of Directors" earlier in the report.

All Ericsson's quarterly reports are reviewed by the auditors.

Current auditor

PricewaterhouseCoopers AB was elected at the Annual General Meeting 2007 for a period of four years until the close of the Annual General Meeting 2011.

PricewaterhouseCoopers AB has appointed Peter Clemedtson, Authorized Public Accountant, to serve as auditor in charge. Peter Clemedtson is also auditor in charge of Skandinaviska Enskilda Banken.

Fees to the auditor

Ericsson paid the fees (including expenses) for audit-related and other services listed in the table in Notes to the Consolidated Financial Statements – Note C31, "Fees to Auditors" in the Annual Report.

INTERNAL CONTROL OVER FINANCIAL REPORTING 2010

This section has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code and is limited to internal control over financial reporting.

Since Ericsson is listed in the United States, the requirements outlined in the Sarbanes-Oxley Act (SOX) apply. These regulate the establishment and maintenance of internal controls over financial reporting as well as management's assessment of the effectiveness of the controls.

In order to comply with SOX, the Company has implemented detailed documented controls and testing and reporting procedures based on the COSO framework for internal control. The COSO framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's internal control report according to SOX will be included in Ericsson's Annual Report on Form 20-F and filed with the SEC in the United States.

During 2010, the Company has included operations of acquired entities as well as continued to improve the design and execution of its financial reporting controls.

Disclosure policies

Ericsson's financial disclosure policies aim to ensure transparent, relevant and consistent communication with the equity and debt investors on a fair and equal basis. This will support a fair market value for Ericsson shares. Ericsson wants current and potential investors to have a good understanding of how the Company works, including operational performance, prospects and potential risks.

To achieve these objectives, financial reporting and disclosure must be:

- Transparent – enhancing understanding of the economic drivers and operational performance of the business, building trust and credibility
- Consistent – comparable in scope and level of detail to facilitate comparison between reporting periods
- Simple – to support understanding of business operations and performance and to avoid misinterpretations
- Relevant – with focus on what is relevant to Ericsson's stakeholders or required by regulation or listing agreements, to avoid information overload
- Timely – with regular scheduled disclosures as well as ad-hoc information, such as press releases on important events, performed on a timely basis
- Fair and equal – where all material information is published via press releases to ensure the whole investor community receives the information at the same time
- Complete, free from material errors and a reflection of best practice – disclosure is compliant with applicable financial reporting standards and listing requirements and in line with industry norms.

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Ericsson's website (www.ericsson.com/investors) comprises comprehensive information on the Group, including:

- An archive of annual and interim reports
- On-demand access to recent news
- Copies of presentations given by senior management at industry conferences.

(Information on the Ericsson website does not form part of this Report).

Disclosure controls and procedures

Ericsson has controls and procedures in place to ensure timely information disclosure under the US Securities Exchange Act of 1934 and under agreements with NASDAQ and NASDAQ OMX Stockholm. These procedures also ensure that such information is provided to management, including the CEO and CFO, so timely decisions can be made regarding required disclosure.

The Disclosure Committee comprises 15 members with various expertise. It assists managers in fulfilling their responsibility regarding disclosures made to the shareholders and the investment community. One of the main tasks of the committee is to monitor the integrity and effectiveness of the disclosure controls and procedures.

Ericsson has investments in certain entities that the Company does not control or manage. With respect to such entities, disclosure controls and procedures are substantially more limited than those maintained with respect to subsidiaries.

During the year, Ericsson's President and CEO and the CFO evaluated the disclosure controls and procedures and concluded that they were effective at a reasonable assurance level as at December 31, 2010.

During the period covered by the Annual Report 2010, there were no changes to the disclosure controls and procedures that have materially affected, or are likely to materially affect, the internal control over financial reporting.

Internal control over financial reporting

Ericsson has integrated risk management and internal control into its business processes. As defined in the COSO framework, internal control includes components such as a control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

The Company's internal control structure is based on the division of labor between the Board of Directors and its Committees and the President and CEO. The Company has implemented a management system that is based on:

- Steering documents, such as policies, directives and a Code of Business Ethics
- A strong corporate culture
- The Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority
- Several well-defined group-wide processes for planning, operations and support.

The most essential parts of the control environment relative to financial reporting are included in steering documents and processes for accounting and financial reporting. These steering documents are updated regularly to include, among other things:

- Changes to laws
- Financial reporting standards and listing requirements, such as IFRS and SOX.

The processes include specific controls to be performed to ensure high quality reports. The management of each reporting legal entity, region and business unit is supported by a financial controller function with execution of controls related to transactions and reporting. A financial controller function is also established on Group level, reporting to the CFO.

Risk assessment

Risks of material misstatements in financial reporting may exist in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure. Other risks related to financial reporting include fraud, loss or embezzlement of assets and undue favorable treatment of counterparties at the expense of the Company.

Policies and directives regarding accounting and financial reporting cover areas of particular significance to support correct, complete and timely accounting, reporting and disclosure.

Identified types of risks are mitigated through well-defined business processes with integrated risk management activities, segregation of duties and appropriate delegation of authority. This requires specific approval of material transactions and ensures adequate asset management.

Control activities

The Company's business processes include financial controls regarding the approval and accounting of business transactions. The financial closing and reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

Regular analyses of the financial results for each subsidiary, region and business unit cover the significant elements of assets, liabilities, revenues, costs and cash flow. Together with further analysis of the consolidated financial statements performed at Group level, this ensures that the financial reports do not contain material errors.

For external financial reporting purposes, additional controls performed by the Disclosure Committee ensure that all disclosure requirements are fulfilled.

The Company has implemented controls to ensure that the

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

financial reports are prepared in accordance with its internal accounting and reporting policies and IFRS as well as with relevant listing regulations. It maintains detailed documentation on internal controls related to accounting and financial reporting. It also keeps records on the monitoring of the execution and results of such controls. This ensures that the CEO and CFO can assess the effectiveness of the controls in a way that is compliant with SOX.

Entity-wide controls, focusing on the control environment and compliance with the financial reporting policies and directives, are implemented in all subsidiaries. Detailed process controls and documentation of controls performed are also implemented in almost all subsidiaries, covering all items with significant materiality and risk.

To ensure efficient and standardized accounting and reporting processes, the Company operates several shared services centers. Based on a common IT platform, a common chart of account and common master data, the centers perform accounting and financial reporting services for most subsidiaries.

Information and communication

The Company's information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned. Regular updates and briefing documents regarding changes in accounting policies, reporting and disclosure requirements are also supplied.

Subsidiaries and operating units prepare regular financial and management reports to internal steering groups and Company management. These include analysis and comments on financial performance and risks. The Board of Directors receives financial reports monthly. The Audit Committee of the Board has established a whistleblower procedure for reporting violations in accounting, internal controls and auditing matters.

Monitoring

The Company's process for financial reporting is reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The shared service center management continuously monitors accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and controllers in all subsidiaries as well as in business units and regions.

The Company's financial performance is also reviewed at each Board meeting. The committees of the Board fulfill important monitoring functions regarding remuneration, borrowing, investments, customer finance, cash management, financial reporting and internal control. The Audit Committee and the Board of Directors review all interim and annual financial reports before they are released to the market. The Company's internal audit function, which reports to the Audit Committee, performs independent audits. The Audit Committee also receives regular reports from the external auditor. The Audit Committee follows up on any actions taken to improve or modify controls.

THE BOARD OF DIRECTORS

Stockholm, February 21, 2011
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016–0680

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the annual meeting of the shareholders in Telefonaktiebolaget LM Ericsson (publ), corporate identity number 556016-0680

It is the Board of Directors who is responsible for the corporate governance report for the year 2010 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm 21 February, 2011

Peter Clemedtson
Authorized Public Accountant
PricewaterhouseCoopers AB

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

GLOSSARY

2G
First digital generation of mobile systems, includes GSM, TDMA, PDC and cdmaOne.

3G
3rd generation mobile system, includes WCDMA/HSPA, EDGE, CDMA2000 and TD-SCDMA.

4G
See LTE.

All-IP
A single, common IP infrastructure that can handle all network services, including fixed and mobile communications, for voice and data services and also video services such as TV.

ATM
(Asynchronous Transfer Mode) A communication standard for transmission and management of high-speed packet-switched networks.

Backhaul
Transmission between radio base stations and the core network.

Broadband
Data speeds that are high enough to allow transmission of multimedia services with good quality.

Capex
Capital expenditure.

CDMA
(Code division multiple access) The cdmaOne (2G) and CDMA2000 (3G) mobile communication standards are both based on CDMA.

EDGE
A 3G mobile standard, developed as an enhancement of GSM. Enables the transmission of data at speeds up to 250 kbps.

Emerging market
Defined as a country that has a GNP per capita index below the World Bank average and a mobile subscription penetration below 60 percent.

Evo RAN
A Radio Access Network (RAN) solution to run GSM, WCDMA and LTE as a single network.

Exabyte
= billion gigabytes.

FTTH
(Fiber-to-the-home) refers to fiber optic broadband connections to individual homes.

GDP
Gross domestic product the total annual cost of all finished goods and services produced within a country.

GPON
(Gigabit Passive Optical Network) Used for fiber-optic communication to the home (FTTH).

GPRS
(General Packet Radio Service) A packet-switched technology (2.5G) that enables GSM networks to handle mobile data communications at rates up to 115 kbps.

HSPA
(High Speed Packet Access) Enhancement of 3G/WCDMA that enables mobile broadband.

ICT
Information and Communication Technology.

IMS
(IP Multimedia Subsystem) A standard for offering voice and multimedia services over mobile and fixed networks using internet technology (IP).

IP
(Internet Protocol) Defines how information travels between network elements across the internet.

IPTV
(IP Television) A technology that delivers digital television via fixed broadband access.

JV
(Joint venture) A business enterprise in which two or more companies enter a partnership.

LTE
(Long-Term Evolution) The next evolutionary step of mobile technology beyond HSPA, allowing data rates above 100 Mbps.

Managed services
Management of operator networks and/or hosting of their services.

Opex
Operating expenses.

Penetration
The number of subscriptions divided by the population in a geographical area.

Softswitch
A software-based system for handling call management functionality. Integrates IP-telephony and the legacy circuit-switched part of the network.

TDM
Time division multiplexing, legacy technology for circuit switching.

WCDMA
(Wideband Code Division Multiple Access) A 3G mobile communication standard. WCDMA builds on the same core network infrastructure as GSM.

xDSL
Digital Subscriber Line technologies for broadband multimedia communications in fixed line networks. Examples: IP-DSL, ADSL and VDSL.

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

FINANCIAL TERMINOLOGY

Capital employed
Total assets less non-interest-bearing provisions and liabilities.

Capital turnover
Net sales divided by average Capital employed.

Cash conversion
Cash flow from operating activities divided by net income reconciled to cash – expressed in percent.

Cash dividends per share
Dividends paid divided by average number of shares, basic.

Compound annual growth rate (CAGR)
The year-over-year growth rate over a specified period of time.

Days sales outstanding (DSO)
Trade receivables balance at quarter end divided by Net Sales in the quarter and multiplied by 90 days. If the amount of trade receivables is larger than last quarter's sales, the excess amount is divided by Net Sales in the previous quarter and multiplied by 90 days, and total days outstanding (DSO) are the 90 days of the most current quarter plus the additional days from the previous quarter.

Earnings per share
Basic earnings per share; profit or loss attributable to stockholders of the Parent Company divided by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share; the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

EBITA margin
Earnings Before Interest, Taxes, Amortization and write-downs of acquired intangibles, as a percentage of Net Sales.

Equity ratio
Equity, expressed as a percentage of total assets.

Gross Cash
Cash and cash equivalents plus short-term investments.

Inventory turnover days (ITO-days)
365 divided by inventory turnover, calculated as total adjusted cost of sales divided by the average inventories for the year (net of advances from customers).

Net cash
Cash and cash equivalents plus short-term investments less interest-bearing liabilities and post-employment benefits.

Payable days
The average balance of Trade payables at the beginning and at the end of the year divided by Cost of sales for the year, and multiplied by 365 days.

Payment readiness
Cash and cash equivalents and short-term investments less short-term borrowings plus long-term unused credit commitments. Payment readiness is also shown as a percentage of Net Sales.

Return on capital employed
The total of Operating income plus Financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31).

Return on equity
Net income attributable to stockholders of the Parent Company as a percentage of average Stockholders' equity (based on the amounts at January 1 and December 31).

Stockholders' equity per share
Stockholders' equity divided by the number of shares outstanding at end of period, basic.

Total Shareholder Return (TSR)
The increase or decrease in share price during the period plus dividends paid, expressed as a percentage of the share price at the start of the period.

Trade receivables turnover
Net sales divided by average Trade receivables.

Value at Risk (VaR)
A statistical method that expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time.

Working capital
Current assets less current non-interest-bearing provisions and liabilities.

EXCHANGE RATES

EXCHANGE RATES USED IN THE CONSOLIDATION	January–December	
	2010	2009
SEK/EUR		
Average rate	9.56	10.63
Closing rate	9.02	10.30
SEK/USD		
Average rate	7.20	7.63
Closing rate	6.80	7.18

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

SHAREHOLDER INFORMATION

FOR PRINTED PUBLICATIONS, CONTACT:

A printed copy of the Annual Report is provided on request.

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  Email: ericsson@shareholders-online.com
  www.citi.com/dr
  Ordering a hard copy of
  the Annual Report:
  Phone toll free: +1 866 216 046
  http://proxy.georgeson.com/
  annualreport/ericsson.htm

WHERE YOU CAN FIND OUT MORE:

It is our ambition to provide our shareholder with up to date information about Ericsson and its development. Information is available on Ericsson's website:
www.ericsson.com

On the website, the Annual Report is available as either an online version or as a pdf document. Previous Annual and Quarterly reports and other relevant shareholder information can be found on:
www.ericsson.com/investors

By publishing the Annual Report on the web, we will not only reduce the cost for print and distribution, but also the impact on the environment.

The Annual Report on Form 20-F (filed with the Securities and Exchange Commission, SEC) is also available
www.ericsson.com/investors

Telefonaktiebolaget LM Ericsson's shareholders are invited to participate in the Annual General Meeting to be held on Wednesday, April 13, 2011, at 3 p.m. at the Annex to the Ericsson Globe, Globentorget, Stockholm.

Registration and notice of attendance

Shareholders who wish to attend the Annual General Meeting must

- be recorded in the share register kept by Euroclear Sweden AB (the Swedish Securities Registry) on Thursday, April 7, 2011, and
- give notice of attendance to the Company at the latest on Thursday, April 7, 2011. Notice of attendance can be given on Ericsson's website: www.ericsson.com/investors, by telephone: +46 8 402 90 54 on weekdays between 10 a.m. and 4 p.m. or by fax: +46 8 402 9256.

Notice of attendance may also be given in writing to:
Telefonaktiebolaget LM Ericsson
General Meeting of Shareholders
Box 7835, SE-103 98 Stockholm, Sweden

When giving notice of attendance, please state name, date of birth, address, telephone number and number of assistants.

The meeting will be conducted in Swedish and simultaneously interpreted into English.

Shares registered in the name of a nominee

In addition to giving notice of attendance, shareholders who have their shares registered in the name of a nominee must request the nominee to temporarily enter the shareholder into the share register in order to be entitled to attend the meeting. In order for such registration to be effective on Thursday, April 7, 2011, shareholders should contact their nominee well before that day.

Proxy

Shareholders represented by proxy shall submit to the Company a power of attorney for the representative. A power of attorney issued by a legal entity must be accompanied by a copy of the entity's certificate of registration (should no such certificate exist, a corresponding document of authority must be submitted). Such documents must be no more than one year old. In order to facilitate the registration at the Annual General Meeting, the power of attorney in original, certificates of registration and other documents of authority should be sent to the Company in advance. All documents should be sent to the Company at the address above for receipt by Tuesday, April 12, 2011. Forms of power of attorney in Swedish and English are available on Ericsson's website: www.ericsson.com/investors.

Dividend

The Board of Directors has decided to propose the Annual General Meeting to resolve on a dividend of SEK 2.25 per share for the year 2010 and that Monday, April 18, 2011 will be the record day for dividend.

Financial information from Ericsson

Interim reports 2011:

- April 27, 2011 (Q1)
- July 21, 2011 (Q2)
- October 20, 2011 (Q3)
- January 25, 2012 (Q4)

Annual Report 2011: March, 2012
2010 Form 20-F for the US market: March, 2011

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2010 Annual Report.pdf

Ericsson headquarters at Torshamnsgatan 23 in Kista, Sweden.

CONTACT INFORMATION

Headquarters
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Kista
Sweden

Registered office
Telefonaktiebolaget LM Ericsson
SE–164 83 Stockholm
Sweden

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For questions on the Company, please contact Investor Relations:

- Investor Relations for Europe, Middle East, Africa and Asia Pacific:
  Telefonaktiebolaget LM Ericsson
  SE-164 83 Stockholm, Sweden
  Telephone: +46 10 719 00 00
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- Investor Relations for the Americas:
  Ericsson, The Grace Building
  1114 Ave of the Americas, Suite #3410
  New York, NY 10036, USA
  Telephone: +1 212 685 40 30
  Email: investor.relations@ericsson.com

UNCERTAINTIES IN THE FUTURE

Some of the information provided in this material is or may contain forward-looking information such as statements about expectations, assumptions about future market conditions, projections or other characterizations of future events. The words “believe”, “expect”, “anticipate”, “intend”, “may”, “plan”, the negative of such terms, and similar expressions are intended to identify these statements. Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct and actual results may differ materially. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or stock exchange regulation. We advise you that Ericsson is subject to risks both specific to our industry and specific to our company that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, changing conditions in the telecommunications industry, political economic and regulatory developments in our markets, our management’s ability to develop and execute a successful strategy, various financial risks such as interest rate changes and exchange rate changes, erosion of our market position, structure and financial strength of our customer base, our credit ratings, product development risks, supply constraints, and our ability to recruit and retain quality staff.

ERICSSON ANNUAL REPORT 2010:

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Hans Berggren

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VQS_Section 3.2_Ericsson 2011 Annual Report.pdf

ERICSSON

SHAPING THE NETWORKED SOCIETY

Annual Report 2011

WITH EVERYTHING CONNECTED, OUR WORLD CHANGES.

Starting with voice, telecommunication began by connecting places. It let homes and businesses communicate better, making lives easier. Later, mobile telephony untied all those possibilities from a fixed place.

Now, the same has happened to broadband. It too has gone mobile, meaning greater efficiency, more freedom, and more fun too.

In the future, we see a world where everything that can benefit from being connected is connected. That means all people in all places – but it means connecting things as well. Today, this includes power meters and emergency services vehicles. Eventually, it could be anything and everything.

This will transform individual lives. It will revolutionize individual businesses. But more than that, it will have a profound impact on our entire society, changing the whole world for good.

There's a long way to go. But that just means more potential – for us and for our customers. Everyone is part of the networked society. Our role is to make it possible.

CONTENTS

Annual Report 2011

2 Letter from the CEO
4 Our Operations
4 – The Market
5 – Our Business
6 – How We Stay Ahead
8 – Operator Portfolio
12 2011 Highlights
13 Five-Year Summary
14 Share Information
18 Letter from the Chairman

19 Board of Directors' Report*
46 Consolidated Financial Statements*
50 Notes to the Consolidated Financial Statements*
98 Parent Company Financial Statements*
103 Notes to the Parent Company Financial Statements*
117 Risk Factors*
124 Auditors' Report

125 Forward-Looking Statements
127 Corporate Governance Report 2011
152 Remuneration Report
158 Glossary, Financial Terminology and Exchange Rates
160 Shareholder Information

* Chapters covered by the Auditors' Report, constituting the legal annual report.

Annual Publications

The Annual Report describes Ericsson's financial and operational performance during 2011. This publication includes a Corporate Governance Report. Ericsson issues a separate Sustainability and Corporate Responsibility Report.

Find our Annual Report online: www.ericsson.com/annualreport2011

2011 AT A GLANCE

SALES INCREASED BY 12% TO SEK 226.9 (203.3) BILLION

NET INCOME OF SEK 12.6 (11.2) BILLION

STRONG FINANCIAL POSITION WITH A NET CASH OF SEK 39.5 (51.3) BILLION

EARNINGS PER SHARE (DILUTED) OF SEK 3.77 (3.46)

MOBILE BROADBAND BUILDOUT AND EXPANSION IN ALL REGIONS

70 NEW OR RENEWED MANAGED SERVICES CONTRACTS

INCREASED INTEREST IN OPERATIONS AND BUSINESS SUPPORT SYSTEMS

ANNOUNCED DIVESTMENT OF SONY ERICSSON JOINT VENTURE

ACQUISITION OF TELCORDIA TO STRENGTHEN ERICSSON IN OSS/BSS

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LETTER FROM HANS VESTBERG

Dear shareholders,

The world is entering a new communications era. Technology is enabling us to interact, innovate and share knowledge in entirely new ways – creating a dynamic shift in mindset. At Ericsson, we are just beginning to explore the possibilities of what we call the networked society.

At its foundation, three forces must come together: mobility, broadband and the cloud. When these combine, you can get access to anything, anytime, anywhere. But the networked society is about much more than what the individual can achieve. Eventually, everything that benefits from being connected will be connected – and this will fundamentally change our world. It is amazing what is happening around us, global mobile broadband subscriptions grew by 60% to reach a total of almost 1 billion at year-end. We forecast almost 5 billion mobile broadband subscriptions by 2016.

At the same time, the data consumed by smartphone users is surging. Across all devices, mobile data traffic is expected to grow 10 times between 2011 and 2016. Increasing subscription numbers and traffic levels drive increased complexity in networks. In turn this puts further demand on our ability to deliver cutting-edge solutions and to understand our customers' needs.

Prime driver and thought leader

I believe that Ericsson has the necessary assets and strengths to be the prime driver and thought leader in the networked society. Our key assets are technology and services leadership, as well as global presence and scale.

We focus on early involvement in creating new technologies, strong contributions to standardization work and development of intellectual property rights. We pioneered the development of digital AXE switching, GSM, WCDMA/HSPA and LTE, resulting in 30,000 granted patents. In 2011, we increased our investment in R&D to further strengthen our technology leadership and we currently have more than 22,000 employees in R&D.

Today, customers in more than 180 countries use our solutions and services. In 2010, we started delivery of our multi-standard radio base station RBS 6000. We have carried out the quickest product ramp-up in our history and by the end of 2011 the RBS 6000 accounted for almost all our radio base station deliveries. This gives us significant scale advantages.

Our services offering covers all areas within the operational scope of a telecom operator. We have 56,000 services professionals around the globe and we manage networks that serve more than 900 million subscribers. We estimate our market share in telecom services at over 10%, making us the leader in this market.

Sustainability and Corporate Responsibility

We continue to be strongly committed to Sustainability and Corporate Responsibility. We remain focused on our ambitious targets, including our carbon footprint intensity reduction goals. Over the last decade we have increased 3G/4G radio base station energy efficiency by over 85%. The result is that despite the growing bandwidth demands of the networked society, we are able to keep the energy consumption per subscriber at a low and constant level.

We see an increasing interest from customers to drive energy efficiency in their networks, and to use broadband to shape the low carbon economy of the future.

Such diverse events during 2011 as the Arab Spring and the publication of the UN guidelines on Business and Human Rights, show the increasing importance and relevance of human rights in our business. Our policies remain strong and we are committed to high levels of governance standards wherever we do business in the world. We will continue to give people in all parts of the world access to communications, improving quality of life. Our separate Sustainability and Corporate Responsibility Report will provide additional information on these topics.

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Leading ICT player

We are a leading Information and Communications Technology (ICT) player. Many people are surprised when they discover that we are the world's fifth largest software company. The vast majority of our R&D engineers are engaged in software development.

Our long-term ambitions are to grow faster than the market, deliver the industry's best-in-class margins, grow earnings in joint ventures and generate strong cash conversion. The Annual General Meeting approved the transformation of these ambitions into clear targets in the Executive Performance Stock Plan.

We have identified three growth levers. The first is portfolio momentum in mobile broadband, managed services and operations and business support systems (OSS/BSS). The second is to gain market share. The third is mergers, acquisitions and partnering.

In 2011, we grew revenues by 12% to SEK 227 billion and sales for comparable units, adjusted for currency effects, increased by 19%. Early internal market data indicates that we increased market share in mobile network equipment by 6 percentage points to 38%. This makes us the world leader, twice as big as the second largest player. We gained market share through our strategy to capture footprint when networks are modernized in Europe, by preserving our relationships with the most successful operators and by gaining market share with new customers. During the year, we announced the acquisition of Telcordia, a leading player in OSS and BSS. We also announced the divestment to Sony Corporation of our share in the 50/50 joint venture Sony Ericsson. The transaction is a logical strategic step that makes it possible for us to focus on enabling connectivity for all devices, handsets and beyond.

Gross margin declined due to a changed business mix with more coverage projects, modernization projects in Europe, and a higher share of services sales. Net income increased to SEK 12.6 billion. Our JVs had a tough 2011 and both reported losses. Ericsson has a strong financial position with a net cash position of SEK 39.5 billion.

Solid industry fundamentals

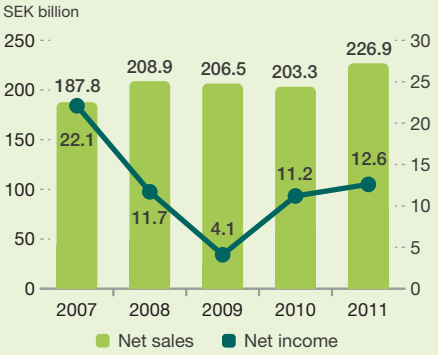
We carefully monitor the potential impact from increased economic uncertainties around the world. Short-term, we expect operators to continue to be cautious with spending, reflecting factors such as macroeconomic and political uncertainty.

With the move towards the networked society, we remain confident that the fundamentals for longer-term positive development in the industry remain solid. With strong customer relationships and one of the world's largest and best pools of industry talent, we believe Ericsson is well positioned to continue to drive and to benefit from this development.

Hans Vestberg
President and CEO

FINANCIAL RESULTS IN SHORT

NET SALES AND NET INCOME



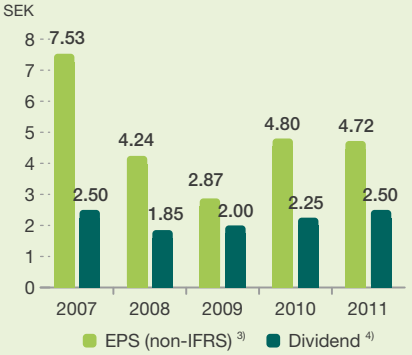
NET SALES
SEK 226.9 (203.3) billion, +12%

OPERATING MARGIN [1]
9.6% (12.0%)

NET INCOME
SEK 12.6 (11.2) billion, +12%

NET CASH [2]
SEK 39.5 (51.3) billion

EARNINGS PER SHARE (non-IFRS) [3] AND DIVIDEND [4]



EPS (non-IFRS) [3]
SEK 4.72 (4.80), –2%

DIVIDEND [4]
SEK 2.50 (2.25), +11%

[1] Excl. share in earnings of JVs. For 2011 incl. restructuring charges and for 2010 excl. restructuring charges.

[2] Cash and cash equivalents plus short-term investments less interest-bearing liabilities and post-employment benefits.

[3] EPS, diluted, excl. amortizations and write-downs of acquired intangible assets, SEK.

[4] Dividend for 2011 as proposed by the Board of Directors.

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THE MARKET

Telecom trends

Everything is going mobile. This evolution is driven by video, cloud-based services, the internet and machine-to-machine (M2M) connectivity. It changes how consumers behave and how they leverage mobility to communicate and to improve their daily lives, through existing and new services. Users now demand connectivity anywhere and anytime.

Enterprises are also beginning to exploit the new opportunities provided by mobility, both to improve efficiency, such as by streamlining processes, and to find new business models.

Important driving forces are new, more affordable smartphones, and the many new connected devices on the market. The total number of mobile subscriptions globally (excluding M2M) reached approximately 6 billion at year end 2011, of which close to 1 billion were for mobile broadband. Approximately 30% of all handsets sold during 2011 were smartphones compared to around 20% for 2010. Out of the installed base of subscriptions worldwide only around 10% use smartphones.

Globally, the average mobile PC user currently generates about 2 Gbytes of data per month, while a high-traffic smartphone user generates approximately 500 Mbytes per month. Usage has been increasing over time. With all these devices and 24/7 connectivity, we expect global mobile data traffic to grow tenfold by the end of 2016.

Operators are capitalizing on this changing market, enabling users and machines to leverage connectivity in new ways. During 2011 various operators started to introduce tiered pricing, to provide price plans, such as volume, time or speed-based plans, which are better aligned to users' needs. As a result of that, operators are able to create various business models to capitalize on different consumer and enterprise segments.

In order to enable these new services, improve user experience and provide tiered pricing, operators are investing in and transforming their operations and business support systems (OSS and BSS). These systems monitor and optimize network performance for customer relations handling and subscriber support. OSS/BSS investments also enable operators to optimize operations and reduce costs.

To accommodate for the increase in data traffic, operators are putting in new equipment and upgrading their networks for greater efficiency and better revenue capture. Network capacity can be increased through additional features, such as software upgrades, as well as through additional equipment, such as radio base stations and transmission.

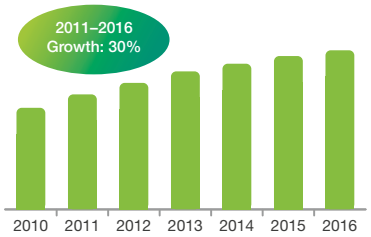
In today's competitive markets, speed and capacity alone are not enough to ensure best user experience and provide differentiation. Quality of service is becoming an important way for operators to differentiate.

Our customers

Our business is defined by long-term relationships mainly with large telecom operators around the world. We serve approximately 400 customers, most of whom are network operators. Our ten largest customers, of which half are multinational, account for 44% of net sales. Our customers operate in a wide range of local economies and are at various technology stages. They have different business focuses depending on the maturity of the mobile broadband market.

We set up a new go-to-market model in 2010, with ten regions which approach customers with solutions and services. With this, we are moving towards a solutions-led sales approach, selling the full breadth of the portfolio.

TOTAL NUMBER OF MOBILE SUBSCRIPTIONS

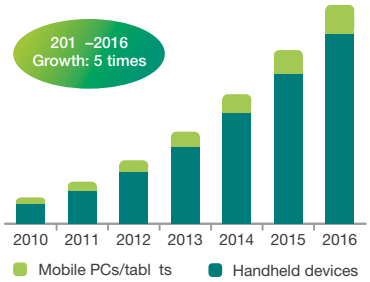


2011 appr imately 6 bi l o mobile s bsc pt ns
2016: r a hing m re than 8 lion

Source: Ericsson estimate, April 2011

APPROXIMATELY 6 BILLION MOBILE SUBSCRIPTIONS UP >10% 2011

NUMBER OF MOBILE BROADBAND SUBSCRIPTIONS

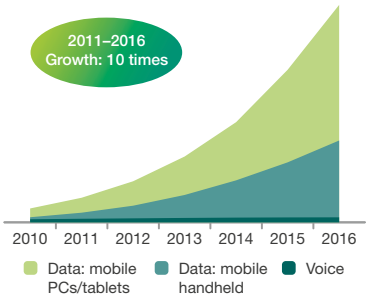


2011: approximately 970 million mobile broadband subscriptions
2016 reaching almost 5 bil on

Source: Ericsson estimate, April 2011

APPROXIMATELY 970 MILLION MOBILE BROADBAND SUBSCRIPTIONS, UP 60% IN 2011

MOBILE TRAFFIC – DATA AND VOICE



2011: smartphone traffic tripled

Source: Ericsson estimate, April 2011

MOBILE DATA TRAFFIC EXPECTED TO HAVE MORE THAN DOUBLED IN 2011

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OUR BUSINESS

Our mission is to innovate to empower people, business and society. We are a world-leading provider of network infrastructure, telecom services and multimedia solutions, which in combination meet a broad range of operator needs. To best reflect our business, we report five business segments, two of which are the joint ventures Sony Ericsson and ST-Ericsson.

	NETWORKS	GLOBAL SERVICES	MULTIMEDIA
ERICSSON	Segment Networks develops and delivers mobile and fixed infrastructure equipment and software. We are a market leader in 2G/GSM and 3G/WCDMA mobile technologies. We now provide all-IP 4G/LTE networks as the evolution of mobile broadband. Our portfolio also includes CDMA solutions, as well as xDSL, fiber and microwave transmission.	With more than 56,000 services professionals globally, we deliver managed services, consulting and systems integration, customer support and network rollout. We manage complex projects with advanced IS/IT competence and multi-vendor experience, using a mix of local knowledge and global expertise.	Segment Multimedia develops and delivers software-based solutions for operations and business support systems (OSS and BSS), real-time, multi-screen and on-demand TV and consumer and business applications. Revenue management, i.e. software based solutions for charging and billing, is part of BSS.
NET SALES (SHARE OF TOTAL)	SEK 132.4 billion (58% of total sales)	SEK 83.9 billion (37% of total sales)	SEK 10.6 billion (5% of total sales)
MARKET SHARE ESTIMATES	38% in mobile network equipment. Twice the size of the second largest competitor	More than 10%. Larger than any of our competitors	Three markets with different dynamics and players
MARKET POSITION	Number 1 in mobile networks	Number 1 in telecom services	Number 1 in real-time charging & billing

Joint ventures

Our joint ventures focus on enabling superior user devices. Sony Ericsson's and ST-Ericsson's results are reported according to the equity method.

In October 2011, we announced that Sony would acquire Ericsson's 50% share in Sony Ericsson. The transaction took place on February 15, 2012.

	SONY ERICSSON	ST-ERICSSON
	A 50/50 joint venture with Sony Corporation, Sony Ericsson offers mobile phones, accessories, content and applications.	A 50/50 joint venture with STMicroelectronics, ST-Ericsson offers wireless platforms and semiconductors for leading handset manufacturers.
NET SALES	EUR 5,212 million	USD 1,650 million
MARKET POSITION	10% market share in the Android smartphone market	Number 3 in thin modems

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HOW WE STAY AHEAD

Principles

We interact with our customers based on the following principles:

- **A customer-first perspective:** we work hard to understand operators' needs, objectives and constraints. This allows us to function as a partner, sharing our global expertise through the solutions we deliver.
- **Innovation:** our solutions are forward-looking and future proof. A scalable portfolio means that we can always offer the right solutions for the customer, based on market and position, helping our customers to create new revenue streams.
- **Delivering cost-efficiency:** we ensure that the solutions we offer reduce our customers' operating expenses.

Assets

Throughout our business, we leverage Ericsson's key competitive advantages:

- **Technology leadership:** we always strive to lead, innovate and set the agenda for the industry. We drive the creation of interoperable ecosystems. We have 30,000 granted patents and with over 90 license agreements we are a net receiver of royalties. We provide superior-performance networks through a unique combination of hardware and software design.
- **Services leadership:** we have 56,000 services professionals worldwide operating from our ten regional service centers and four global service centers, using the same processes, methods and tools. Combining global scale advantages with local presence is what makes us unique.
- **Global presence and scale:** we have established relationships with every major operator in the world and we are present in more than 180 countries.

BUILDING COVERAGE – TRANSFORMING NETWORKS

Extensive mobile network coverage forms the building blocks of operator business. We start by helping customers to build out coverage. When that is in place, we offer additional services and solutions that enable expansions and enhancements of the network.

This means that once operators have built a base of subscribers, they can differentiate their services, based both on quality and innovation, to retain competitive positions as markets develop.

REPLICATING SUCCESS IN SERVICES

We scale our business by replicating successes globally. This entails working closely with customers to develop new solutions. Once a successful case is proven we can roll out the same practice all over the world.

Local competence, with intimate knowledge of the business environment, works hand-in-hand with global expertise, sharing common processes, methods and tools. This ensures quality and efficiency.

Growth levers

We have identified three key levers for growth where we believe we have strong assets to meet market demand:

- **Portfolio momentum:** focusing on the areas where we have the most growth potential. These are mobile broadband, managed services and OSS and BSS. We expect the majority of growth to come from portfolio momentum.
- **Market share gain:** building presence in markets that are investing more and where we see technology shifts.
- **Mergers, acquisitions and partnering:** filling portfolio gaps and entering new growth areas, such as connected devices.

PORTFOLIO MOMENTUM

- **Mobile broadband**
  - Strengthened market position in mobile networks
- **Managed services**
  - 70 new contracts in 2011
- **OSS and BSS**
  - Another 200 million subscribers served by our charging and billing systems

+

MARKET SHARE GAIN

- **Increase market share in technology shift**
  - LTE and network modernization
  - New radio base station RBS 6000 in almost all deliveries

+

MERGERS & ACQUISITIONS AND PARTNERING

- **Fill portfolio gaps**
  - Telcordia for OSS/BSS (announced 2011)
- **New growth areas**
  - M2M (Telenor Connexion platform)
  - Public safety (Motorola partnership)
  - Mobile cloud accelerator (Akamai partnership)

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MOBILE DATA TRAFFIC WILL GROW TENFOLD BY END OF 2016.

USER-DRIVEN BUSINESS

In some industries, companies have to persuade their users to adopt their innovations. For operators, it's the other way around.

We understand the complexities involved in mobile networks. With that expertise, our customers can continue to satisfy the demands of their users.

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OPERATOR PORTFOLIO

Our offering is divided into seven solution areas, each of which involves one or more of our businesses. Many of our contracts involve several solution areas. For example, services often form an important part of network projects.

MOBILE BROADBAND

Increasing user demands

Mobile broadband now accounts for approximately 15% of all mobile subscriptions. Mobile data traffic is expected to have more than doubled in 2011, mainly due to new smartphone launches and the uptake of apps. PC and tablet users generate even more data traffic, and total mobile data traffic is estimated to grow tenfold by end of 2016, mainly driven by video.

Operators need to put certain pre-requisites in place to ensure they can capitalize on mobile broadband. These include enhancing network quality, by increasing speed and capacity, and providing service differentiation.

3G/WCDMA and 4G/LTE

We expect 3G/WCDMA to be the predominant mobile broadband technology for many years to come. During the year, we demonstrated a new HSPA world speed record in a commercial network, at 168Mbps downlink. Operators will be able to take a stepped approach towards this from 42Mbps, currently the fastest service offered over commercial networks.

The next technology is LTE, which is in its initial phase. LTE covers only a few percent of the world's population today. In five years' time, it is expected that LTE will have roughly 35% population coverage.

The RBS 6000 family

The multi-standard radio base station RBS 6000 supports GSM/EDGE, WCDMA/HSPA, LTE and CDMA in a single unit. It offers cost-effective deployment and a future-proof evolution in capacity and functionality.

The RBS 6000 family now accounts for close to 100% of our radio base station deliveries. A typical deployment project, comprising mainly hardware, is followed by an upgrade and expansion phase, which involves mostly software and services. During 2011 we launched the Antenna Integrated Radio (AIR), as part of the RBS 6000 family. This product significantly reduces integration and installation time as well as energy consumption.

MULTI-STANDARD **RBS 6000**
GSM, WCDMA, LTE, CDMA

>1,000% more capacity
>20% better radio performance
80% lower energy consumption per subscriber
100% better MTBF*
75% less space needed

Compared to previous generations.
* Mean Time Between Failures

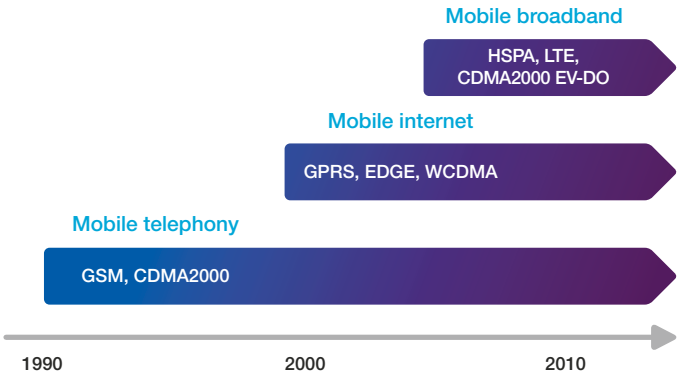
Smart Services Routers

Network performance is the key operator differentiator when it comes to user experience. In 2011, we launched the SSR 8000 family, a series of Smart Services Routers. They support delivery of services across fixed and mobile networks and enable faster introduction of new user services. For operators, the SSR 8000 family provides a simple, smart and scalable solution. For users, it means access to advanced services, with telecom-grade quality from any device anywhere.

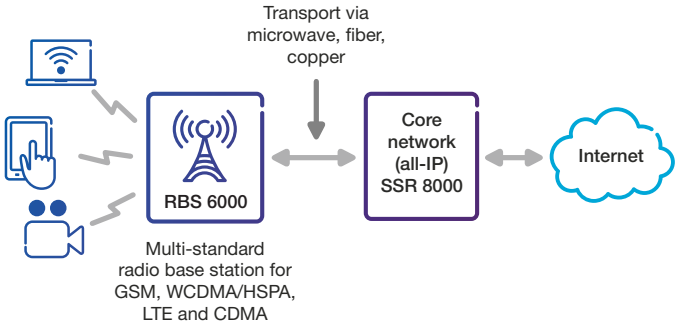
Heterogeneous networks (HetNets)

By 2016, densely populated urban areas representing less than 1% of the Earth's total land area are expected to generate around 60% of total mobile traffic. In order to increase network capacity in these areas, we will build HetNets. Powerful macro radio base stations are complemented by smaller radio base stations (pico and micro) which provide extra capacity for areas where demand is particularly high.

THE EVOLUTION TO MOBILE BROADBAND



END-TO-END LEADERSHIP IN MOBILE BROADBAND



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MANAGED SERVICES

Telecom operators look to reduce costs and manage complexity. Therefore, they review their business models and look for partners that can take on a broader responsibility. In managed services agreements, Ericsson handles complex issues such as convergence, quality and capacity management, while freeing up operators' resources to focus more on strategy, marketing and customer care. We can also help operators to scale quickly and cost-effectively.

We manage networks with a total of more than 900 million subscribers, of which 500 million are in network operation contracts. Winning this business has involved insourcing employees from operators around the world. This provides us with a unique insight into the operator mindset.

The networks we manage are typically complex multi-vendor, multi-technology environments, and over 50% of the equipment involved is non-Ericsson. Managed services contracts normally span five to seven years and often involve operational and process consulting.

We provide efficiency by drawing on our global scale. Our four global service centers all house global network operation centers (GNOCs) for remote delivery of network management. These are based in Romania, India, Mexico and China. As an example, more than 20 European operator networks are run from the GNOC in Romania.

Shared networks and shared capacity

To drive structural efficiencies in the networks, there is an increasing demand for business models that support shared networks and capacity between two or more operators. Managed services play a decisive role in this evolution.

Adjacent sectors

We also address sectors with similar requirements to telecom operators where we can reuse our assets and expertise. We constantly look to expand operational synergies by increasing the scope of our managed services business in each country where we operate.

OPERATIONS AND BUSINESS SUPPORT SYSTEMS

Service differentiation

In order to monetize the increasing amount of data traffic in their networks, operators are beginning to adopt new business models with tiered pricing plans. This involves finding more ways to meet user needs than one-size-fits-all monthly subscriptions. Operators introduce 'buckets' of data – a fixed quantity that a user can utilize over a certain amount of time – or different speeds and quality guarantees. These new business models often require operators to evolve their OSS and BSS solutions.

Operators also seek to manage increasing network complexity, while retaining efficiency and simplicity in operational processes, by consolidating their systems. These OSS and BSS transformation projects are large undertakings which involve consulting and systems integration alongside the provision of our software solutions.

Control and monitoring

Ericsson's operations support systems (OSS) include solutions for monitoring network performance and the delivery of services for best user experience. OSS tools are also used in the planning, building and optimization of networks.

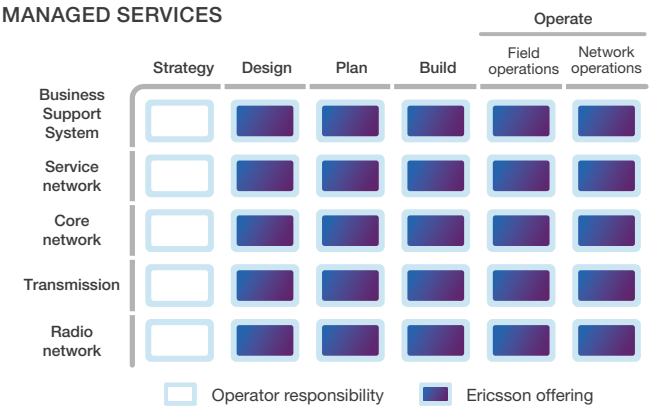
During 2011, Ericsson announced the acquisition of Telcordia, a provider of software and services for OSS and BSS. This allows us to enhance our capabilities to handle multi-vendor systems.

Provisioning and charging

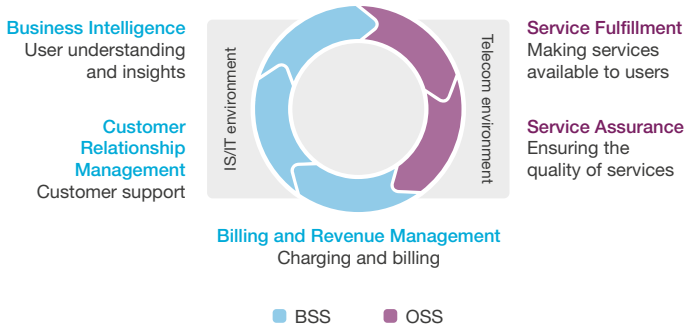
Our business support systems (BSS) include solutions for revenue management and customer care. With our convergent real-time charging solution the user gets one invoice for all services. Over 1.4 billion subscribers are charged and billed through Ericsson's systems.

With our solutions, operators can more efficiently capture and secure revenue streams. Users benefit too, gaining the ability to start using a new service or device immediately after signing up, as well as greater control over their spending.

MANAGED SERVICES



OPERATIONS AND BUSINESS SUPPORT SYSTEMS



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COMMUNICATION SERVICES

Communication services are the services people use to interact with each other, such as voice and video calls as well as text and multimedia messaging. These operator-based services are provided globally and are based on industry standards, ensuring interoperability.

Users expect their communication services to provide a seamless, instantaneous experience across all devices and all subscriptions. This shift requires operators to provide new functionality and richer offerings.

Enhancing user experience

Voice still accounts for, on average, 65% of operator revenue. Operators now exploit opportunities to enhance user experience while reducing costs for voice communication. Our IP Multimedia Subsystem (IMS) makes this possible. Services controlled by IMS are voice (including HD voice), video calls, the Rich Communication Suite (RCS) and messaging.

HD voice

HD voice significantly improves quality of voice communication with more natural sound and improved intelligibility. It is expected to play a key role in ensuring that voice continues to provide revenue streams for operators of both fixed and mobile networks.

Voice over LTE

Currently in its trial stage, Voice over LTE (VoLTE) will enable operators to offer voice services over their all-IP LTE networks. It also brings with it new services such as HD video and richer multimedia services.

FIXED BROADBAND AND CONVERGENCE

Strong growth in data traffic drives a need for higher capacity solutions, based on IP and Ethernet technologies.

Operators compete by evolving their networks to provide fast internet speeds, reliable high-definition IPTV and video on demand. We enable this by providing end-to-end broadband access solutions via high-speed fiber (such as GPON) and copper (xDSL).

Convergence and transformation

To reduce cost and enable service bundling, fixed traffic can be provided over a multiservice network converging telephony, internet and TV. Our converged networks are IP-based, providing lower-cost and higher-performance services.

TELEVISION AND MEDIA MANAGEMENT

TV is going digital and interactive

In the converging media landscape, broadcast and broadband are coming together. The number of IPTV subscriptions worldwide is now more than 50 million. China, France and the US have particularly high IPTV subscription numbers today. We believe that the uneven spread of IPTV subscriptions in different regions is going to continue.

The worldwide digital TV market is growing rapidly.

With a broad suite of open standards-based products, we offer high-quality solutions for digital TV, HDTV, video on demand, IPTV, mobile TV, connected home and content management.

High-performance solutions

High-performance video means large amounts of traffic in the networks. This can be handled with our media distribution solution for video delivery over IP, combining a content distribution network with our TV portfolio.

Our IPTV network infrastructure offers a verified end-to-end solution from video headend to broadband access, optimized for multi-stream HD-IPTV and on-demand video services. The solution also offers support for video to mobile handsets over HSPA and LTE networks.

Ericsson's multiscreen TV solution combines the full features of IPTV, mobile TV and web TV with a common user interface. It fully integrates fixed line and wireless media for the first time.

Business consulting, systems integration and implementation ensure a smooth launch of new TV infrastructure and services.

CONSUMER AND BUSINESS APPLICATIONS

In today's environment, basic services come under pressure from competition. To secure differentiation and profitability, we help operators to enhance revenues and subscriber retention. Our solutions include messaging, service exposure, connectivity to social media, location-based services, media, brokering, internet commerce and enterprise applications.

Interaction and collaboration

Our Business Communication Suite (BCS) is a software-as-a-service, targeting the enterprise market. It enables the sharing of voice, data and messaging in a collaborative environment.

Ericsson Money Services offers end-to-end mobile financial services. It enables people to store, transfer and withdraw money, as well as making payments, via their mobile handsets.

Our multimedia brokering solution facilitates payment and distribution of content. We act as the interface between enterprises and multiple mobile operators with consumer data and services such as SMS.

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EFFICIENCY ALWAYS WINS

Operators are constantly thinking about the competition. Will the big beat the small? The fast beat the slow? Who will prevail?

One thing is for sure: efficiency always wins. That's where we come in.

20%

MANAGED SERVICES CAN REDUCE NETWORK OPERATING EXPENSES BY 20%.

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2011 HIGHLIGHTS

JANUARY-MARCH

- World speed record on a commercial HSPA network is set, at 168Mbps downlink and 24Mbps in the uplink.
- Ericsson is selected by Telefónica O2 UK to perform network modernization in the North of the UK.
- du in the UAE signs a five-year managed services contract with Ericsson to deliver application development and maintenance for its IT application landscape.
- Ericsson, Verizon Wireless and Samsung demonstrate Voice over LTE (VoLTE), a global, interoperable voice solution for LTE mobile broadband networks.
- The new Antenna Integrated Radio (AIR) product is launched. It cuts operational costs substantially and ensures a smooth introduction of new technologies and frequency bands.
- Ericsson announces a new generation IP networking portfolio. The first product is the Smart Services Router (SSR 8000) family for fixed and mobile broadband.
- Akamai and Ericsson announce a strategic alliance, focused on bringing to market mobile cloud acceleration solutions.

APRIL-JUNE

- Ericsson announces the acquisition of Telenor Connexion's M2M technology platform, a solution which will drive the market for M2M (machine-to-machine).
- Ericsson signs a multi-year agreement with Rogers, Canada to deliver an end-to-end LTE network.
- Clearwire in the US selects Ericsson for managed services: network engineering, operations and maintenance for core, transmission and access networks.
- Ericsson's first contract in the gaming industry is awarded by Mindark. The IMS solution enables live, high-quality voice communication between players while gaming.
- Ericsson announces the acquisition of Telcordia, a global provider of OSS/BSS software and services.
- LG U+, the first LTE service provider in Korea, places a contract with Ericsson to build an ultra-high speed LTE network.

JULY-SEPTEMBER

- Bharti Airtel signs a five-year managed services agreement with Ericsson to manage and optimize its mobile networks in Africa, as well as a separate two-year network coverage and upgrade contract.
- A consortium of technology companies, of which Ericsson is a part, wins the bid for all of Nortel's approximately 6,000 remaining patents and patent applications.
- SoftBank Mobile in Japan chooses Ericsson as sole supplier for next-generation packet core network (EPC) based on IP.
- Slovak Telekom, part of the Deutsche Telekom Group signs a five-year fixed line managed-services contract with Ericsson for field maintenance and network operations.
- MobiFone in Vietnam signs a contract with Ericsson for mobile video optimization, enabling high-quality video.
- Ericsson announces a contract with Taiwan's Chunghwa Telecom to deploy and integrate a new IPTV platform that will deliver multi-screen interactive multimedia services.
- Ericsson announces further investment in competence in the global service center in India, providing operators with support and operations of IT services.
- EastLink, Canada selects Ericsson to build a mobile broadband network for HSPA+.

OCTOBER-DECEMBER

- Augere awards India's first 4G/TD-LTE contract to Ericsson. The agreement includes an end-to-end TD-LTE solution, managed services and network operations.
- Ericsson and Open Mobile sign Latin America's first 4G/LTE contract in Puerto Rico. The deal also includes managed services.
- Ericsson and Sony announce that Sony will acquire Ericsson's 50% stake in Sony Ericsson.
- Bharti Airtel renews and expands its managed services agreement with Ericsson for its operations in India. Under the five-year agreement, Ericsson will operate, maintain and provide services for 2G and 3G in Bharti Airtel's multi-vendor network in India.

Telcordia05201

FIVE-YEAR SUMMARY

For definitions of the financial terms used, see Glossary, Financial Terminology and Exchange Rates.

FIVE-YEAR SUMMARY

SEK million	2011	Change	2010	2009	2008	2007
Income statement items						
Net sales	**226,921**	12%	203,348	206,477	208,930	187,780
Operating income	**17,900**	9%	16,455	5,918	16,252	30,646
Financial net	**221**	–	–672	325	974	83
Net income	**12,569**	12%	11,235	4,127	11,667	22,135
Year-end position						
Total assets	**280,349**	–1%	281,815	269,809	285,684	245,117
Working capital	**109,552**	4%	105,488	99,079	99,951	86,327
Capital employed	**186,307**	2%	182,640	181,680	182,439	168,456
Gross cash	**80,542**	–8%	87,150	76,724	75,005	57,716
Net cash	**39,505**	–23%	51,295	36,071	34,651	24,312
Property, plant and equipment	**10,788**	14%	9,434	9,606	9,995	9,304
Stockholders' equity	**143,105**	–1%	145,106	139,870	140,823	134,112
Non-controlling interest	**2,165**	29%	1,679	1,157	1,261	940
Interest-bearing liabilities and post-employment benefits	**41,037**	14%	35,855	40,653	40,354	33,404
Other information						
Earnings per share, basic, SEK	**3.80**	9%	3.49	1.15	3.54	6.87
Earnings per share, diluted, SEK	**3.77**	9%	3.46	1.14	3.52	6.84
Earnings per share (non-IFRS), SEK	**4.72**	–2%	4.80	2.87	4.24	7.53
Cash flow from operating activities per share, SEK	**3.11**	–63%	8.31	7.67	7.54	6.04
Cash dividends per share, SEK	**2.50** [1]	11%	2.25	2.00	1.85	2.50
Stockholders' equity per share, SEK	**44.57**	–2%	45.34	43.79	44.21	42.17
Number of shares outstanding (in millions)						
end of period, basic	***3,211***	–	3,200	*3,194*	*3,185*	*3,180*
average, basic	***3,206***	–	3,197	*3,190*	*3,183*	*3,178*
average, diluted	***3,233***	–	3,226	*3,212*	*3,202*	*3,193*
Additions to property, plant and equipment	**4,994**	35%	3,686	4,006	4,133	4,319
Depreciation and write-downs/impairments of property, plant and equipment	**3,546**	8%	3,296	3,502	3,105	2,914
Acquisitions/capitalization of intangible assets	**2,748**	–	7,246	11,413	1,287	29,838
Amortization and write-downs/impairments of intangible assets	**5,490**	–18%	6,657	8,621	5,568	5,459
Research and development expenses	**32,638**	3%	31,558	33,055	33,584	28,842
as percentage of net sales	***14.4%***	–	15.5%	*16.0%*	*16.1%*	*15.4%*
Ratios						
Operating margin excluding joint ventures	**9.6%**	–	8.7%	6.5%	8.0%	12.5%
Operating margin	**7.9%**	–	8.1%	2.9%	7.8%	16.3%
EBITA margin	**9.9%**	–	11.0%	6.7%	9.4%	18.0%
Cash conversion	**40%**	–	112%	117%	92%	66%
Return on equity	**8.5%**	–	7.8%	2.6%	8.2%	17.2%
Return on capital employed	**11.3%**	–	9.6%	4.3%	11.3%	20.9%
Equity ratio	**51.8%**	–	52.1%	52.3%	49.7%	55.1%
Capital turnover	**1.2**	–	1.1	1.1	1.2	1.2
Inventory turnover days	**78**	–	74	68	68	70
Trade receivables turnover	**3.6**	–	3.2	2.9	3.1	3.4
Payment readiness, SEK million	**86,570**	–11%	96,951	88,960	84,917	64,678
as percentage of net sales	***38.1%***	–	47.7%	*43.1%*	*40.6%*	*34.4%*
Statistical data, year-end						
Number of employees	**104,525**	16%	90,261	82,493	78,740	74,011
of which in Sweden	***17,500***	*–2%*	17,848	*18,217*	*20,155*	*19,781*
Export sales from Sweden, SEK million	**116,507**	16%	100,070	94,829	109,254	102,486

[1] For 2011, as proposed by the Board of Directors.

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SHARE INFORMATION

STOCK EXCHANGE TRADING

The Ericsson Class A and Class B shares are listed on NASDAQ OMX Stockholm. In the United States, the Class B shares are listed on NASDAQ New York in the form of American Depositary Shares (ADS) evidenced by American Depositary Receipts (ADR) under the symbol ERIC. Each ADS represents one Class B share.

In 2011, approximately 6 (6) billion Ericsson shares were traded, of which about 3.4 billion were traded on NASDAQ OMX Stockholm and about 1.6 billion were traded on NASDAQ New York. Trading volume in Ericsson shares decreased by approximately 2% on NASDAQ OMX Stockholm and decreased by approximately 2% on NASDAQ New York compared to 2010.

(Note: The approximate total volumes include trading on alternative trading venues such as BATS Europe, Burgundy, Chi-X Europe.)

THE ERICSSON SHARE

Share listings	
NASDAQ OMX Stockholm	
NASDAQ New York	
Share data	
Total number of shares in issue	3,273,351,735
of which Class A shares	261,755,983
of which Class B shares	3,011,595,752
Ericsson treasury shares, Class B	62,846,503
Quotient value	SEK 5.00
Market capitalization, December 31, 2011	approx. SEK 230 b.
GICs (Global Industry Classification)	45201020
Ticker codes	
NASDAQ OMX Stockholm	ERIC A ERIC B
NASDAQ New York	ERIC
Bloomberg NASDAQ OMX Stockholm	ERICA SS ERICB SS
Bloomberg NASDAQ	ERIC US
Reuters NASDAQ OMX Stockholm	ERICa.ST ERICb.ST
Reuters NASDAQ	ERIC.O
ISIN	
ERIC A	SE0000108649
ERIC B	SE0000108656
ERIC	US2948216088
CUSIP	294821608

CHANGES IN NUMBER OF SHARES AND CAPITAL STOCK 2007–2011

		Number of shares	Share capital
2007	December 31	16,132,258,678	16,132,258,678
2008	June 2, reverse split 1:5	3,226,451,735	16,132,258,678
2008	July 23, new issue (Class C shares, later converted to Class B)	19,900,000	99,500,000
2008	December 31	3,246,351,735	16,231,758,678
2009	June 8, new issue (Class C shares, later converted to Class B)	27,000,000	135,000,000
2009	December 31	3,273,351,735	16,366,758,678
2010	December 31	3,273,351,735	16,366,758,678
2011	December 31	3,273,351,735	16,366,758,678

SHARE PERFORMANCE INDICATORS

	2011	2010	2009	2008	2007 [1]
Earnings per share, diluted (SEK) [2]	**3.77**	3.46	1.14	3.52	6.84
Earnings per share, diluted non-IFRS (SEK) [3]	**4.72**	4.80	2.87	4.24	7.53
Operating income per share (SEK) [4] [5]	**5.58**	7.42	5.80	7.50	9.64
Cash flow from operating activities per share (SEK) [4]	**3.11**	8.31	7.67	7.54	6.04
Stockholders' equity per share, basic, end of period (SEK) [6]	**44.57**	45.34	43.79	44.21	42.17
P/E ratio	**19**	22	57	17	11
Total shareholder return (%)	**–7**	22	15	–20	–43
Dividend per share (SEK) [7]	**2.50**	2.25	2.00	1.85	2.50

[1] 2007 restated for reverse split 1:5 in 2008.
[2] Calculated on average number of shares outstanding, diluted.
[3] EPS, diluted, excluding amortizations and write-downs of acquired intangible assets, SEK.
[4] Calculated on average number of shares outstanding, basic.
[5] For 2010, 2009 and 2008 excluding restructuring charges.
[6] Calculated on number of shares, end of period.
[7] For 2011 as proposed by the Board of Directors.
For definitions of the financial terms used, see Glossary, Financial Terminology and Exchange Rates.

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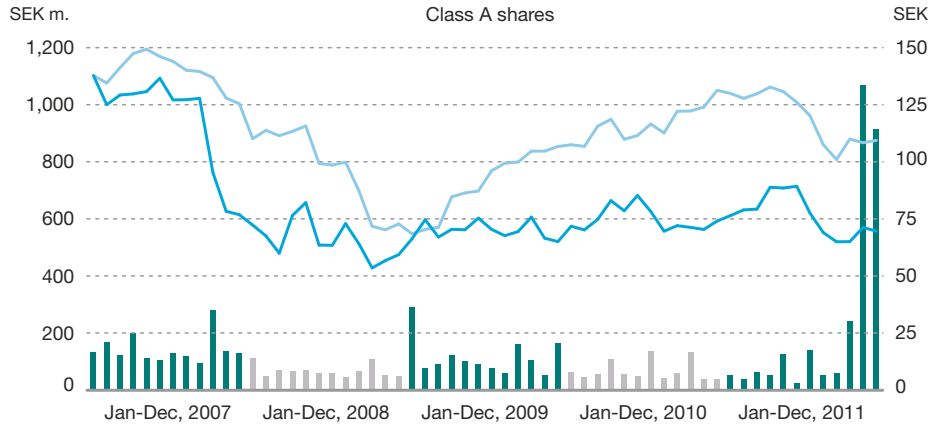
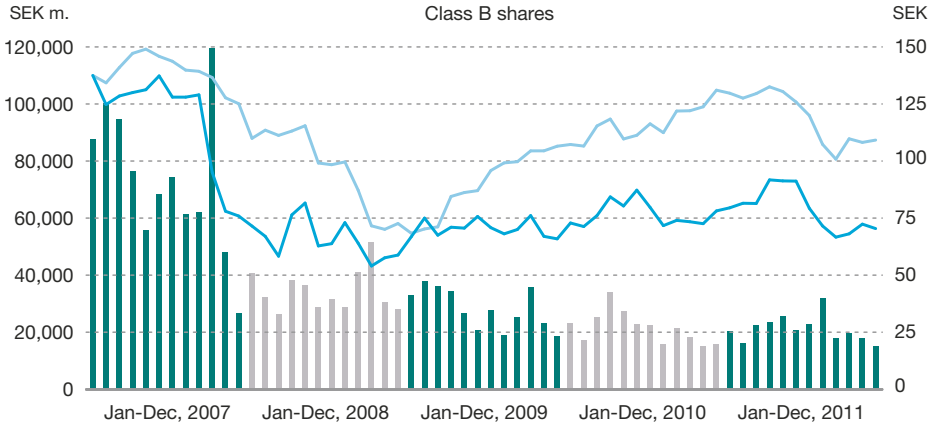
SHARE TREND

In 2011, Ericsson's total market capitalization decreased by about 10% to SEK 230 billion, compared to an increase by 18% reaching SEK 255 billion in 2010. The OMX Stockholm Index on NASDAQ OMX Stockholm decreased by 17% and the NASDAQ composite index decreased by 2%. The S&P 500 Index remained at the same level as in 2010.

SHARE TURNOVER AND PRICE TREND, NASDAQ OMX STOCKHOLM

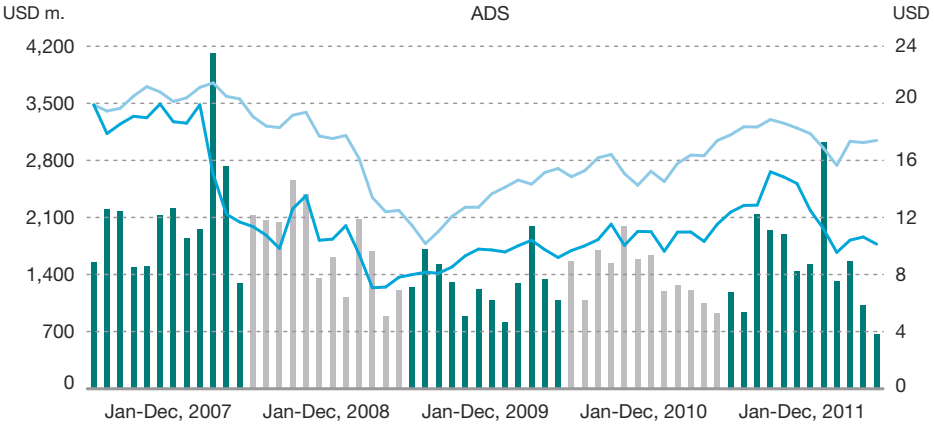




Turnover, SEK million — Price, SEK — OMX Stockholm (indexed to share price)

Volumes reflect trading on NASDAQ OMX Stockholm only

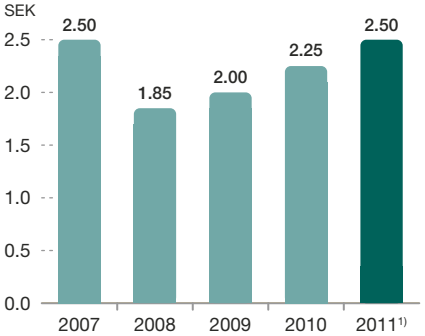
SHARE TURNOVER AND PRICE TREND, US MARKET



Turnover, USD million — Price, USD — S&P 500 (indexed to ADS price)

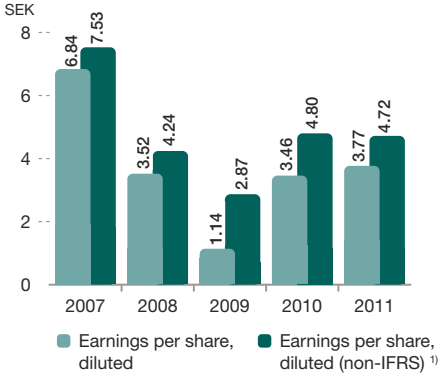
Volumes reflect trading on NASDAQ New York only.

DIVIDEND PER SHARE



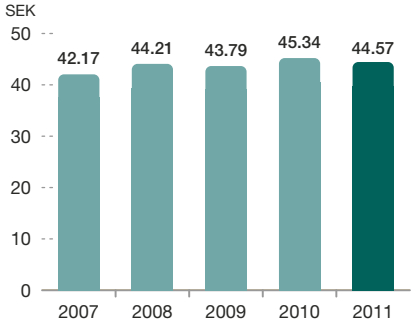
1) For 2011 as proposed by the Board of Directors.

EARNINGS PER SHARE, DILUTED



1) EPS, diluted, excl. amortizations and write-downs of acquired intangible assets, SEK.

STOCKHOLDERS' EQUITY PER SHARE, BASIC



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OFFER AND LISTING DETAILS

Principal trading market – NASDAQ OMX Stockholm – share prices

The table below states the high and low share prices for our Class A and Class B shares as reported by NASDAQ OMX Stockholm for the last five years. Trading on the exchange generally continues until 5:30 p.m. (CET) each business day. In addition to trading on the exchange there is also trading off the exchange and on alternative venues during trading hours and also after 5:30 p.m. (CET).

NASDAQ OMX Stockholm publishes a daily Official Price List of Shares which includes the volume of recorded transactions in each listed stock, together with the prices of the highest and lowest recorded trades of the day. The Official Price List of Shares reflects price and volume information for trades completed by the members. The equity securities listed on the NASDAQ OMX Stockholm Official Price List of Shares currently comprise the shares of 259 companies.

Host market NASDAQ New York – ADS prices

The table below states the high and low share prices quoted for our ADSs on NASDAQ New York for the last five years. The NASDAQ New York quotations represent prices between dealers, not including retail mark-ups, markdowns or commissions, and do not necessarily represent actual transactions.

SHARE PRICES ON NASDAQ OMX STOCKHOLM

(SEK)	2011	2010	2009	2008	2007 [1]
Class A at last day of trading	**69.55**	74.00	65.00	59.30	76.80
Class A high (May 16, 2011)	**93.60**	88.40	78.80	83.60	148.50
Class A low (October 4, 2011)	**59.05**	65.20	55.40	40.60	73.00
Class B at last day of trading	**70.40**	78.15	65.90	58.80	75.90
Class B high (May 12, 2011)	**96.65**	90.45	79.60	83.70	149.50
Class B low (October 4, 2011)	**61.70**	65.90	55.50	40.60	72.65

[1] 2007 restated for reverse split 1:5 in 2008.

SHARE PRICES ON NASDAQ NEW YORK

(USD)	2011	2010	2009	2008	2007 [1]
ADS at last day of trading	**10.13**	11.53	9.19	7.81	11.68
ADS high (May 10, 2011)	**15.44**	12.39	10.92	14.00	21.71
ADS low (October 4, 2011)	**8.83**	9.40	6.60	5.49	11.12

[1] 2007 restated for reverse split 1:5 in 2008.

SHARE PRICES ON NASDAQ OMX STOCKHOLM AND NASDAQ NEW YORK

	NASDAQ OMX Stockholm				NASDAQ New York	
	SEK per Class A share		SEK per Class B share		USD per ADS [1]	
Period	High	Low	High	Low	High	Low
Annual high and low						
2007 [2]	148.50	73.00	149.50	72.65	21.71	11.12
2008	83.60	40.60	83.70	40.60	14.00	5.49
2009	78.80	55.40	79.60	55.50	10.92	6.60
2010	88.40	65.20	90.45	65.90	12.39	9.40
2011	93.60	59.05	96.65	61.70	15.44	8.83
Quarterly high and low						
2010 First Quarter	78.70	65.20	80.00	65.90	11.33	9.40
2010 Second Quarter	88.40	73.00	90.45	74.15	12.39	9.51
2010 Third Quarter	86.55	69.00	89.35	70.85	12.20	9.62
2010 Fourth Quarter	77.05	66.95	79.95	68.85	11.71	9.96
2011 First Quarter	80.05	70.50	83.00	73.25	13.06	10.99
2011 Second Quarter	93.60	73.00	96.65	75.30	15.44	12.06
2011 Third Quarter	91.80	60.50	93.80	63.15	14.82	9.33
2011 Fourth Quarter	71.50	59.05	72.55	61.70	11.25	8.83
Monthly high and low						
August 2011	78.50	60.80	81.40	63.15	12.75	10.08
September 2011	70.10	60.50	73.30	63.65	11.51	9.33
October 2011	69.95	59.05	72.20	61.70	11.25	8.83
November 2011	71.25	62.00	72.55	64.35	10.88	9.16
December 2011	71.50	65.60	71.85	64.75	10.54	9.27
January 2012	72.00	59.25	71.90	58.15	10.53	8.58

[1] One ADS = 1 Class B share.
[2] 2007 restated for reverse split 1:5 in 2008.

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SHAREHOLDERS

As of December 31, 2011, the Parent Company had 592,542 shareholders registered at Euroclear Sweden AB (the Central Securities Depository – CSD), of which 1,320 holders had a US address. According to information provided by Citibank, there were 211,822,341 ADSs outstanding as of December 31, 2011, and 4,702 registered holders of such ADSs. A significant number of Ericsson ADSs are held by banks, broker and/or nominees for the accounts of their customer. As of January 12, 2012, the total number of bank, broker and/or nominee accounts holding Ericsson ADSs was 168,430.

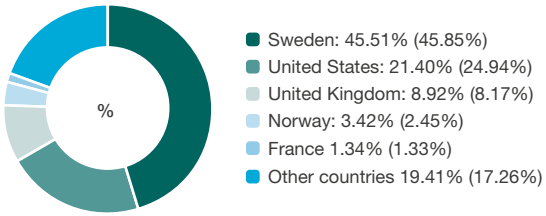
According to information known at year-end 2011, approximately 80% of our Class A and Class B shares were owned by institutions, Swedish and international.

Our major shareholders do not have different voting rights than other shareholders holding the same classes of shares.

As far as we know, the Company is not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person(s) separately or jointly.

GEOGRAPHIC OWNERSHIP BREAKDOWN

Percent of capital



Geographical breakdown of share capital including retail shareholders and treasury shares.
Source: Capital Precision

THE EXECUTIVE LEADERSHIP TEAM AND BOARD MEMBERS, OWNERSHIP

	Number of Class A shares	Number of Class B shares	Voting rights, percent
The Executive Leadership Team and Board members as a group (32 persons)	750	3,712,484	0.07

For individual holdings, see Corporate Governance Report.

The table shows the total number of shares in the Parent Company owned by the Executive Leadership Team and Board members (including Deputy employee representatives) as a group as of December 31, 2011.

The following table shows share information, as of December 31, 2011, with respect to our 15 largest shareholders, ranked by voting rights, as well as percentage of voting rights as of December 31, 2011, 2010 and 2009.

LARGEST SHAREHOLDERS, DECEMBER 31, 2011 AND PERCENTAGE OF VOTING RIGHTS, DECEMBER 31, 2011, 2010 AND 2009

Identity of person or group [1]	Number of Class A shares	Of total Class A shares, percent	Number of Class B shares	Of total Class B shares, percent	2011 Voting rights, percent	2010 Voting rights, percent	2009 Voting rights, percent
Investor AB	115,018,707	43.94	58,709,995	1.95	21.48	19.33	19.33
AB Industrivärden	80,708,520	30.83	0	0.00	14.34	13.80	13.62
Handelsbankens Pensionsstiftelse	23,648,790	9.03	0	0.00	4.20	3.52	3.52
Swedbank Robur Fonder AB	1,501,376	0.57	141,913,401	4.71	2.79	2.73	3.07
AFA Försäkring AB	11,423,000	4.36	15,779,975	0.52	2.31	0.45	0.47
Blackrock Fund Advisors	26,316	0.01	82,156,094	2.73	1.46	1.44	1.81
Pensionskassan SHB Försäkringsförening	7,798,000	2.98	0	0.00	1.39	2.07	2.25
Skandia Liv	6,327,567	2.42	13,372,958	0.44	1.36	2.98	3.02
AMF Pensionsförsäkring AB	0	0.00	75,600,000	2.51	1.34	1.34	1.30
Norges Bank Investment Management	0	0.00	69,572,027	2.31	1.24	0.89	0.89
OppenheimerFunds, Inc.	0	0.00	67,628,249	2.25	1.20	1.29	1.29
Aberdeen Asset Managers Ltd.	0	0.00	58,953,636	1.96	1.05	1.01	0.71
Dodge & Cox, Inc.	0	0.00	54,067,771	1.80	0.96	1.43	1.05
Handelsbanken Fonder AB	0	0.00	54,063,621	1.80	0.96	1.05	0.94
SEB Investment Management AB	119,860	0.05	48,162,614	1.60	0.88	0.99	0.89
Others	15,183,847	5.80	2,271,615,411	75.43	43.05	45.68	45.84
Total	**261,755,983**	**100.00**	**3,011,595,752**	**100.00**	**100.00**	**100.00**	**100.00**

[1] Source: Capital Precision.

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LETTER FROM LEIF JOHANSSON

Dear shareholders,

Thank you for electing me Chairman of the Board of Ericsson. I have spent my first year here improving my understanding of Ericsson's competitive advantages.

With my engineering background and passion for the field, I thought I had a reasonably good understanding of how a mobile network operates. Over the past year, I have been fascinated to realize that the architecture of a mobile system is much deeper and more complex than I imagined. This is especially true in areas where mobile systems connect with the internet. Ericsson has managed to strengthen its leading position in this industry which proves the Company's unique technology leadership.

Ericsson is not only a high-tech, skilled software and engineering company. The Company also has genuine skills in broader communication systems, processes and of course services operations. The Board is pleased that Ericsson emerged from 2011 as a stronger competitor and with its clear vision on how to be part of and where to take the industry, Ericsson is positioned to continue to be its global thought leader.

Close to the customer

Over the past year, the Board of Directors has spent time reviewing Ericsson's strategy as well as the development of the industry. Key topics have included how telecom operators' business models are transforming, with new traffic patterns, driven by devices such as smartphones and tablets. Another important topic has been how our organizational structure can secure that Ericsson always stays close to the customer. A key competitive advantage for Ericsson is its ability to really understand and support telecom operators in developing their business models and optimizing their assets.

The economic environment, and its potential impact on Ericsson and its customers, has of course also been a part of our meetings. It is important for the Board of Directors to follow the contingency plans that the management team has prepared to be able to adapt quickly to tougher times when needed. We are confident that such plans are in place and operating where appropriate.

Divestment of Sony Ericsson

In 2011, we took the decision to divest our 50% share in Sony Ericsson to Sony Corporation. The transaction is a logical strategic step that makes it possible for Ericsson to focus on enabling connectivity for all devices.

The Board of Directors continued to monitor the Company's remuneration principles during the year. We believe that Ericsson has a well-balanced and competitive compensation structure which rewards performance. At the Annual General Meeting 2011 the incentive targets for the Executive Performance Stock Plan were changed. They now relate to top-line growth as well as operating income and cash flow performance. This Performance Plan runs for three years, so it is too early to evaluate it. However, our impression is that the Plan targets are clear, relevant and have the desired effect of focusing everyone on the same key goals for Ericsson.

Strong financial position

An essential part of the Board's responsibilities is to manage the Company's financial position. The Company has a strong balance sheet today and we believe it is appropriate to be fairly conservative under the present economic conditions. We want to use cash on hand to further develop the Company, making investments in own product and business development. In addition, we will, as before, consider selective acquisitions. The Company's dividend policy takes into account last year's earnings and balance sheet structure, as well as coming years' business plans and economic development.

I have greatly enjoyed my first year at Ericsson. I have been kindly welcomed and I have liked interacting with everyone at Ericsson. It is never by chance that companies become successful. I am impressed with the professionalism and perseverance I have found among Ericsson people and want to thank all of them for their dedication and hard work.

Leif Johansson
Chairman of the Board

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BOARD OF DIRECTORS' REPORT

CONTENTS

TARGETS AND PERFORMANCE	19
VISION AND MISSION	21
CORE VALUES	21
TRENDS AND DRIVERS	21
STRATEGY	22
BUSINESS FOCUS 2011	23
COMPETITIVE ASSETS	24
BUSINESS MIX DYNAMICS	25
FINANCIAL RESULTS OF OPERATIONS	26
FINANCIAL POSITION	28
CASH FLOW	30
BUSINESS RESULTS – REGIONS	32
BUSINESS RESULTS – SEGMENTS	34
SUSTAINABILITY AND CORPORATE RESPONSIBILITY	38
CORPORATE GOVERNANCE	40
RISK MANAGEMENT	40
LEGAL AND TAX PROCEEDINGS	41
SOURCING AND SUPPLY	41
MATERIAL CONTRACTS	41
PARENT COMPANY	42
POST-CLOSING EVENTS	43
BOARD ASSURANCE	43

The non-IFRS financial measures presented herein are not recognized measures of financial performance under IFRS, but rather are measures reported to facilitate analysis by indicating Ericsson's underlying performance excluding impact from restructuring. Non-IFRS measures have limitations as analytical tools and should not be viewed in isolation or as substitutes to the IFRS measures. A reconciliation of non-IFRS measures with the IFRS results can be found on page 26.

TARGETS AND PERFORMANCE

Ericsson's overall goal is to create shareholder value.

Management uses four metrics to evaluate the Company's long-term ambitions: sales growth faster than the market, a best-in-class operating margin, growth in joint ventures' earnings and a strong cash conversion. The Board of Directors has translated these metrics into three performance criteria in the Executive Performance Stock Plan, included in the Company's Long-Term Variable (LTV) remuneration program. These performance criteria have also been approved by the Annual General Meeting.

Long-term ambitions

GROW FASTER THAN THE MARKET

Early internal market data indicates that Ericsson increased its market share in mobile network equipment by 6 percentage points to 38% in 2011, reaching twice the market size of the second largest supplier in this market. This includes the technologies GSM/EDGE, WCDMA/HSPA, CDMA and LTE.

LTE technology is in an early build-out phase. Ericsson estimates its market share in LTE at more than 60%. This makes Ericsson the largest supplier of LTE.

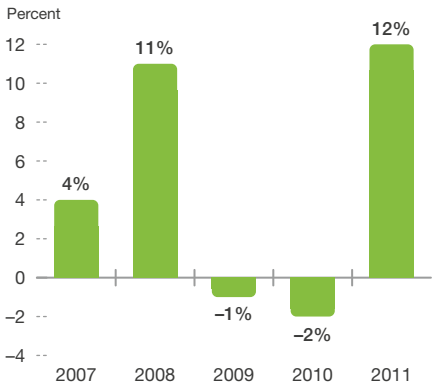
With its CDMA offering, Ericsson has a strong position in North America, where the Company increased its market share in 2011.

In telecom services, internal market data indicates that the Company at least kept its market share of more than 10% and is larger than any of its competitors in this fragmented market.

BEST-IN-CLASS OPERATING MARGIN

The Company's operating margin before share in JV earnings was 9.6% (12.0%). The 2010 number excludes restructuring charges. In 2010, operating margin was 8.7% before share in JV

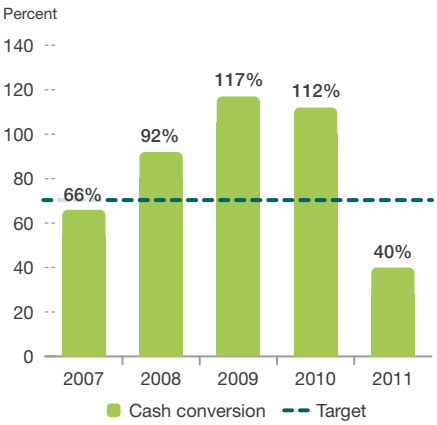
REVENUE GROWTH



PROFITABILITY

2008–2010, excluding restructuring charges
2007 and 2011 including restructuring charges

CAPITAL EFFICIENCY



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earnings and including restructuring charges. Based on reported results for 2011, the operating margin remains the highest among the Company's traditional publicly listed telecom competitors.

GROWTH IN JV EARNINGS

Joint ventures' earnings decreased to SEK –3.8 (–0.7) billion. The figure for 2011 includes restructuring charges of SEK 0.6 billion, while 2010 excludes restructuring charges of SEK 0.5 billion. Ericsson's share in earnings from Sony Ericsson was SEK –1.2 (0.9) billion, including restructuring charges in 2011 and excluding restructuring charges in 2010. The share in earnings in ST-Ericsson was SEK –2.7 (–1.5) billion, including restructuring charges in 2011 and excluding restructuring charges in 2010.

Sony Ericsson's loss related to intense competition, price erosion, restructuring charges and supply chain issues following the earthquake and tsunami in Japan. In October 2011, Ericsson announced the divestment of its 50% share in Sony Ericsson to Sony Corporation.

ST-Ericsson is in a transitional phase, moving from legacy products to new products.

STRONG CASH CONVERSION

The cash conversion rate was 40% (112%), negatively impacted by higher working capital.

Cash conversion is defined as cash flow from operating activities divided by net income reconciled to cash.

Executive Performance Stock Plan

The Company has a Long-Term Variable (LTV) remuneration program. The program builds on a common platform, but consists of three separate plans, targeting all employees, key contributors and senior managers respectively. The LTV program is designed to encourage long-term value creation in alignment with shareholders' interests.

The aim of the plan for senior managers is to attract, retain and motivate executives in a competitive market through performance-based share related incentives and to encourage the build-up of significant equity stakes. The performance criteria for senior management, i.e. the Executive Performance Stock Plan, are revised yearly and approved by the Annual General Meeting. Performance criteria for the 2012 Executive Performance Stock Plan will be communicated in the notice to the Annual General Meeting.

In the 2011 Executive Performance Stock Plan the performance criteria are:

1. Up to one third of the award will vest if the compound annual growth rate of consolidated net sales is 4–10% from 2010 to 2013.
2. Up to one third of the award will vest if the compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is 5–15% from 2010 to 2013. Base year 2010 is calculated excluding restructuring of SEK 6.8 billion.
3. Up to one third of the award will vest if cash conversion is at or above 70% during each of the years 2011–2013, vesting one ninth of the total award for each year if the target is achieved. The target was not reached in 2011.

The Board of Directors will consider the impact of larger acquisitions, divestments, the creation of joint ventures and any other significant capital event on the three targets on a case-by-case basis. This consideration will be made in the evaluation of the program after it closes.

Working capital targets

Ericsson's working capital targets are described on pages 28–29. The targets remain for 2012.

SHAREHOLDER VALUE CREATION

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Other performance indicators

Ericsson believes that satisfied customers and motivated employees are key to success.

CUSTOMER SATISFACTION

Every year, an independent customer satisfaction survey is performed. In 2011 approximately 10,000 representatives of Ericsson customers, in different positions around the world, were polled to assess their satisfaction with Ericsson, compared to its main competitors. Over the past five years, Ericsson has maintained a level of excellence. The goal is to increase this level further.

EMPLOYEE ENGAGEMENT

In order to measure employee engagement, an annual survey is conducted by an independent company. In 2011, 90% (87%) of all employees across the world responded to the survey.

In the Employee Engagement Index, Ericsson scored 77, which is 10% higher than the worldwide average. This is a globally-recognized benchmark which is used by more than 190 companies with over 7 million respondents. It incorporates measurements of motivation, satisfaction and commitment.

VISION AND MISSION

Ericsson's vision and mission are the motivation behind everything the Company does.

Vision

The Company's vision is to be the prime driver in an all-communicating world. Ericsson envisions a continued evolution, from having connected 6 billion people to connecting 50 billion 'things'. The Company envisions that anything that can benefit from being connected will be connected, mainly via mobile broadband.

Mission

The Company's mission is "Innovating to empower people, business and society".

CORE VALUES

Respect, professionalism and perseverance are the values that are the foundation of the Ericsson culture. They guide all employees in their daily work, how they relate to people and how they do business.

TRENDS AND DRIVERS

The general industry trend in 2011 was the focus on high performance broadband networks. This includes the mobile broadband business case for customers, meeting increased user demands and the strong uptake of mobile devices such as tablets and smartphones.

Prices of smartphones continued to decline and in high growth markets, smartphones at a retail price of less than USD 100 were introduced. Operators started to look into tiered pricing and new business models for mobile broadband, as well as the introduction of cloud-based services. In Europe, operators started to modernize their mobile networks, while it became an increasing interest among operators globally to transform their Operations Support Systems (OSS) and Business Support Systems (BSS).

When forecasting the market and developing internal plans, Ericsson looks at a number of parameters. These include:

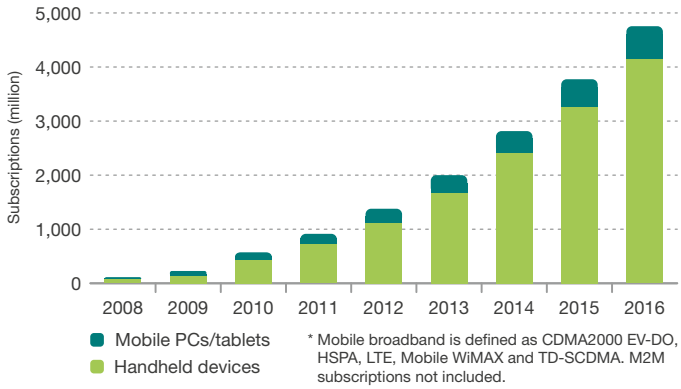
- High-traffic smartphone subscriptions, as percentage of total subscriptions
- Average data traffic, measured in Mbytes per subscription per month
- Mobile broadband subscriptions as percentage of total mobile subscriptions.

Out of the installed base of subscriptions worldwide only around 10% use smartphones. With cheaper smartphones being introduced, this number is expected to grow.

Ericsson estimates that overall mobile data traffic more than doubled in 2011. Mobile data traffic is expected to grow tenfold by end of 2016, mainly driven by video.

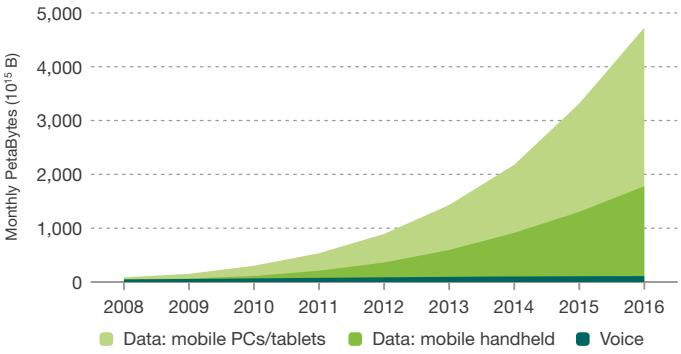
Traffic per subscriber partly relates to the screen size of the device. On average, a mobile PC user generates about 2

MOBILE BROADBAND SUBSCRIPTIONS
TO REACH ALMOST 5 BILLION BY END OF 2016



Source: Ericsson estimate, April 2011

VOICE AND DATA TRAFFIC
TO INCREASE 10 TIMES BY END OF 2016



Source: Ericsson estimate, April 2011

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Gbytes of data per month, while a high-traffic smartphone user generates approximately 500 Mbytes per month.

The coverage of the world's mobile networks is constantly increasing as more radio base stations are being deployed. GSM/EDGE is the technology that by far has the widest reach, and today covers more than 85% of the world's population. WCDMA/HSPA covered about 35% of the population in 2010 and now covers more than 45% of the world's population.

Further build out of WCDMA/HSPA coverage will be driven by the availability of affordable smartphones, the surge in mobile broadband services and faster speeds, as well as regulators' requirements to connect unconnected people. By end of 2016, the Company estimates that 80% of the world's population will have WCDMA/HSPA coverage.

The combined 2G and 3G population coverage for CDMA is estimated to be above 50%. CDMA coverage is expected to grow slightly, and most large CDMA operators have announced a migration plan to LTE.

Several major operators have started LTE deployments but in terms of population coverage LTE has a long way to go. In five years' time, it is expected that LTE will have a population coverage of about 35%. In terms of global operator investments, WCDMA/HSPA is expected to remain the leading mobile access technology for many years.

From a geographical perspective, GSM only lacks coverage in certain rural areas, while there are still large densely populated areas lacking WCDMA/HSPA coverage.

GSM/EDGE, WCDMA/HSPA and LTE are all expected to increase both in terms of population and land coverage. LTE is expected to have an even faster adoption rate than previous technologies.

STRATEGY

By capitalizing on, investing in, developing and combining the Company's key competitive assets of technology leadership, services leadership and global presence and scale, Ericsson aims to continue to be the prime driver in the evolving telecom industry and a leading player in the ICT industry.

The installed base of radio access is the foundation for Ericsson's business. From the installed base, the Company believes it can expand the product base to other domains such as IP, core, OSS and BSS. Over the past ten years, the Company has built a significant services business, representing 37% of total revenues in 2011.

The services strategy starts with the product base and product-near services. By being successful in areas such as managed services (i.e. operators outsourcing network operations to the Company), consulting and systems integration, the Company gets yet another entry point to the market, which is an opportunity to generate more business.

Cost awareness is an everyday component in the Company. Keeping up with competition from low cost countries has required Ericsson to focus on operational efficiency in every part of the business.

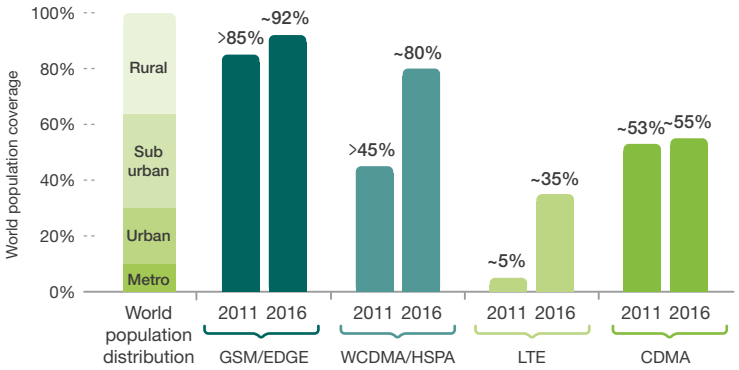
Global presence and scale

With business in more than 180 countries, the Company has a strong global presence. Ericsson does business with all major operators. Ericsson's customers have, to a large extent, multi-country presence. All this, in combination with its leading market position, gives Ericsson important scale advantages.

The Company has secured a mobile network market share of 43% in the world's 100 largest cities. This is important for future business, since close to 60% of the world's traffic in mobile networks is estimated to be generated in metro and urban areas by 2016.

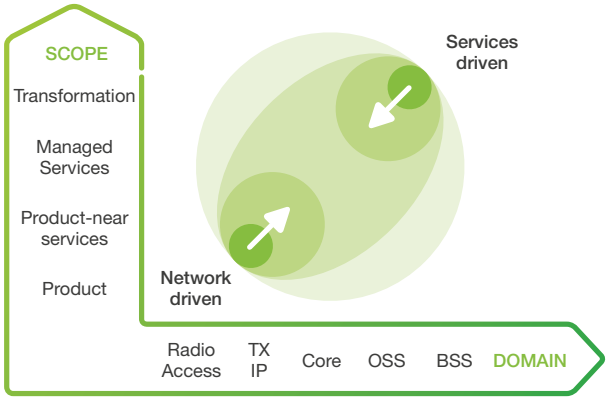
Ericsson has established common ways of working across the Company. These include global IT tools, one sales channel across all segments and global knowledge sharing, which creates efficiencies and enable quick responses to customer requests.

COVERAGE GROWTH IN WCDMA/HSPA AND LTE



Source: Ericsson estimate, December 2011

GROWING BY LEVERAGING INSTALLED BASE



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Technology leadership

Key for success in the telecom industry is the delivery of future-proof, high-quality networks and solutions. The consumer experience is crucial for any operator. In addition, telecom operators want suppliers who can guarantee the entire eco-system, from applications, solutions and networks to handsets and mobile broadband modules.

To keep its technology leadership, Ericsson invested SEK 32.6 billion, including restructuring charges, in R&D in 2011. This compares with SEK 29.9 billion in 2010, excluding restructuring charges. The Company took a strategic decision to increase R&D spending in 2011 in order to develop its new family of Smart Services Router (SSR 8000) products, TD-LTE and a CDMA unit for the radio base station RBS 6000.

Ericsson focuses on optimizing networks and making them function well under high traffic loads. Every product and device from any supplier must be optimized for best network performance.

Most of the Company's R&D investment is in software development. With smarter software, algorithms, processes and designs, Ericsson secures that its networks and solutions have the industry's best performance.

By investing in R&D, the Company maintains its position as the key contributor in the development of open telecom standards. Ericsson believes it is the strongest holder of essential patents in the wireless industry. Since these standards are developed in industry-wide collaboration to ensure multi-vendor interoperability, patent holders waive their monopolies and commit to licensing their part of the technology to others wanting to use it. The Company complies with fair, reasonable and non-discriminatory licensing (FRAND). This fair return licensing provides incentive to make further investments in R&D, while also allowing for new entrants to commercialize the technology at a reasonable cost. International standards and FRAND licensing are fundamental for the telecom ecosystem and are a prerequisite for the global success of mobile communications.

In R&D as well as in other areas, Ericsson has high cost awareness. Over several years, the Company has developed common software and hardware stacks as well as common components and platforms, all of which reduce cost.

Services leadership

Local services competence and highly skilled project leaders are both prerequisites for success in telecom services. Ericsson has invested USD 1 billion in processes, methods and tools in order to secure common global frameworks and ways of working. Standardization of services, tools harmonization, centralization of deliveries and high competence in the delivery organization are all essential in order to drive quality and profitability.

Employees

Ericsson strives to have the best talent base in the industry. To achieve this, the Company has four objectives:

- **To attract the best talent**
  Ericsson is strengthening its employer brand, to ensure fast, effective recruitment processes.
- **To have the right talent in the right place**
  The Company is developing a holistic career and competence model to help employees understand available career paths. Ericsson encourages more rotation to allow employees to take on new challenges.
- **To ensure high performance at all times**
  Ericsson has clear goals and objectives and conveys an understanding of how each individual can contribute to reach these goals. Managers and employees alike should give and receive feedback.
- **To maintain a strong leadership bench**
  Ericsson has clear processes in place to identify talent. Today's managers have a responsibility to cultivate tomorrow's leaders, and are encouraged to do so.

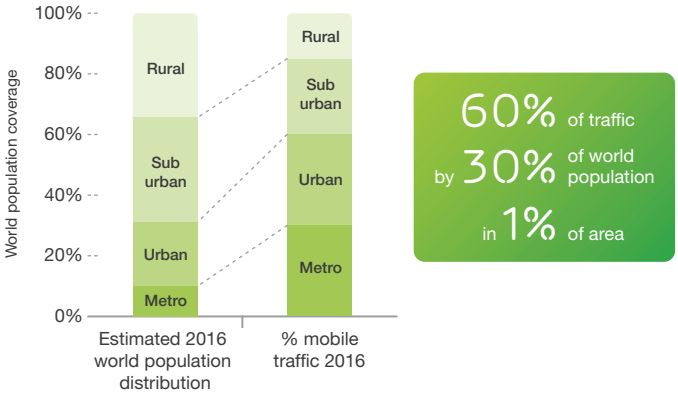
BUSINESS FOCUS 2011

Portfolio momentum

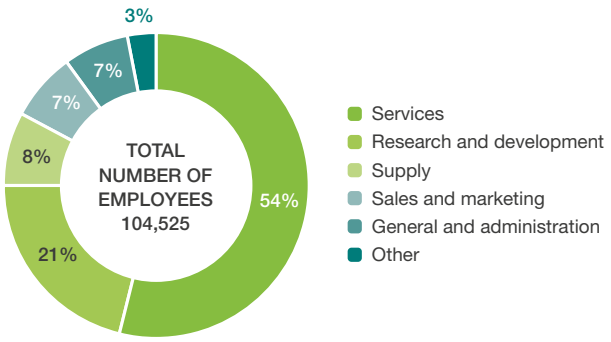
MEETING DEMAND FOR MOBILE BROADBAND

In 2011, there was a high demand for mobile broadband-related equipment including packet core, IP routers and microwave-based backhaul. Ericsson continued its ramp-up of the multi-standard radio base station RBS 6000. At year-end, the

CITIES EXPECTED TO GENERATE MOST FUTURE MOBILE TRAFFIC GROWTH



EMPLOYEES BY PROFESSION



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RBS 6000 represented close to 100% of all deliveries of GSM/WCDMA/LTE radio base stations. This is the quickest product introduction ever in the Company's history. The introduction has been smooth.

In March 2011, Japan was hit by the tragic earthquake and tsunami. To mitigate effects on the business, Ericsson took action immediately such as securing component supply from new sources and re-designing products. By the third quarter, all remaining supply chain effects had been eliminated and lead time was back to normal.

MOMENTUM FOR MANAGED SERVICES

Recognizing that quality of service is becoming increasingly important, operators saw the need to differentiate themselves from competition by deploying superior, scalable networks emphasizing better user experience and quality. This also drove demand for services which target the operational efficiency of operators, such as managed services.

MOMENTUM IN OSS AND BSS

Operators focused on transforming their BSS solutions, including customer segmentation models, and ways to handle data growth and tiered pricing. Many operators started looking into the transformation of their OSS solutions, although few have reached the deployment phase.

Market share gain

Early internal market data indicates that Ericsson gained market share in mobile network equipment by 6 percentage points to 38%, thanks to a combination of winning new customers and growing existing customers.

In Europe, network modernization is under way. Ericsson took a strategic decision to increase its market share in Europe when operators started to look into modernizing their networks, despite initial pressure on Group margins. The mobile networks in Europe are the world's oldest and the reduced power consumption in modern equipment alone makes it a good business case for operators to replace old equipment with new. When operators in Europe deployed 3G some ten years ago, Ericsson could not afford the customer financing requirements and lost market share in 3G versus 2G. In the European network modernization, Ericsson's strategy in 2011 has been to win back 3G market share.

Acquisitions, partnerships and divestments

- Telcordia, announced acquisition for USD 1.15 billion in an all cash consideration, filling portfolio gaps in OSS and BSS
- Akamai, partnership in mobile cloud accelerator
- Sony Ericsson, divestment of the 50% share to Sony
- Telenor Connexion, acquisition of machine-to-machine platform
- Nortel, acquisition of GDNT in China, of patents in partnership with other companies and acquisition of their Multi-Service Switch (MSS) business.

Monetizing on the patent portfolio

In the networked society, Ericsson envisions that anything that benefits from being connected will be connected. In this scenario, Ericsson foresees new entrants to the connectivity markets, both from device and equipment manufacturers and from other industries. Since Ericsson is the strongest holder of essential patents in the wireless industry, any company that uses connectivity today requires a license to Ericsson's patents.

Ericsson has over 90 license agreements and is a net receiver of royalties. The Company's portfolio is well-licensed and gives customers good protection.

COMPETITIVE ASSETS

Global presence and scale as assets

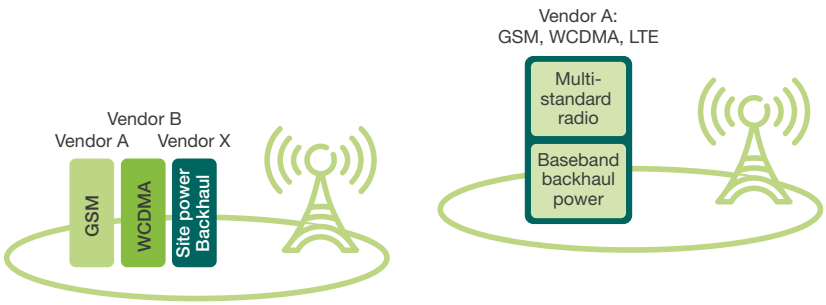
Ericsson has customers in more than 180 countries. Of 104,525 employees across the world, 56,000 are services professionals. This makes Ericsson a true global player.

Ericsson's market share in mobile network equipment makes it twice that of the number two player. This provides scale advantages.

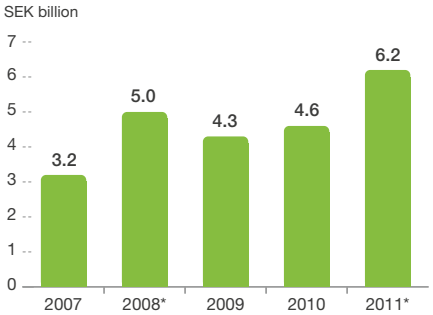
The Company has a mobile network equipment market share of 43% in the world's 100 largest cities.

More than 1.4 billion consumers are charged and billed through Ericsson's solutions. In the OSS and BSS market, the Company is aspiring to a leading position.

MULTI-STANDARD RADIO



IPR REVENUES (NET)



* One-off patent sales included

Difference between IPR revenues and reported license revenues for 2007–2009 are related to Ericsson Mobile Platforms' (EMP) revenues

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Technology leadership as an asset

Ericsson has more than 22,000 employees in R&D. Measured in software revenues, Ericsson is the world's fifth largest software company. The Company has 30,000 granted patents covering all generations of mobile technologies. Ericsson believes it has the industry's strongest wireless IPR portfolio. In LTE, Ericsson expects to hold approximately 25% of all essential patents. IPR revenues were SEK 6.2 (4.6) billion in 2011.

The Company's unique combination of software and hardware provides superior performance in live networks. Measurements in live networks show that Ericsson networks have higher performance than its competitors. Ericsson's software design targets stability and optimized commercial performance in networks. In radio, The Company's software is run on proprietary hardware while in OSS and BSS the software is largely independent of hardware. In both areas, the strategy is to make the products configurable and flexible to integrate with a common platform strategy.

In 2011, Ericsson introduced its new Smart Services Router (SSR 8000) family. Volume deliveries are expected in 2012. It is the first router ever to be built on a common platform for fixed and mobile applications.

Services leadership as an asset

Ericsson estimates its market share in telecom services at over 10%, making the Company the leader in this highly fragmented market. Of Ericsson's 56,000 services professionals, some 12,000 are involved in consulting and systems integration. Many employees have been transferred from telecom operators in managed services deals over the recent years and represent an important experience base.

Ericsson provides support to networks that serve more than two billion subscribers 24/7, and has global service centers in China, India, Mexico and Romania. The Company also has ten regional service centers across the world.

In 2011, Ericsson participated in 1,200 major deployment projects, of which 100 were large and complex turnkey projects. The Company was also involved in 1,300 consulting and systems integration projects.

Ericsson has more than 15 years of experience in managed services and manages networks with 900 million subscribers.

BUSINESS MIX DYNAMICS

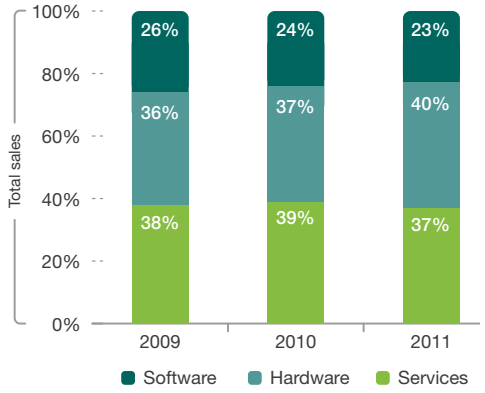
Ericsson's gross margin and the amount of capital tied up by projects vary with project type. Typically, there are two types of projects: coverage and capacity/expansions. These are to a high degree related to the mobile networks' technology cycles, which are long, normally 10 to 20 years. Coverage projects are frequent in the initial phases of a technology cycle whereas capacity/expansion projects typically occur towards the later stages of a cycle.

The initial phase of a technology cycle includes a higher degree of coverage buildouts and more rollout services. In many parts of the world, such as in Europe where networks are now being modernized, the projects are often of a turnkey character and civil works are sometimes part of the commitment. There is more hardware involved resulting in lower gross margin and a larger tie-up of capital in equipment.

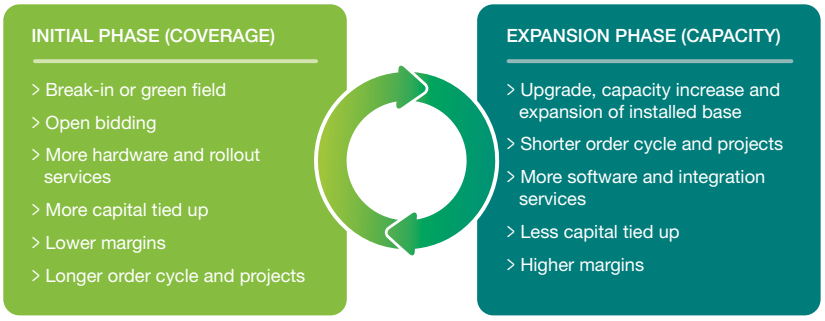
When coverage has been built and traffic in the network increases, the operator moves into the capacity/expansion phase. In this phase, capacity is increased, either by expanding a radio base station with software upgrades to higher speeds or by adding more sites. In capacity/expansion projects, the Company sells a larger share of software and integration services, which yields higher gross margins, and ties up less capital.

Ericsson is now in a phase when there is more hardware in the business mix. This is due to the technology cycle where WCDMA/HSPA, i.e. mobile broadband, is being rolled out. To a high degree, operators now deploy the new multi-standard radio base station RBS 6000. This means that a limited amount of hardware installations will be needed when operators upgrade to LTE in the future.

SOFTWARE, HARDWARE AND SERVICES: SHARE OF TOTAL SALES



BUSINESS MIX IMPACTING GROSS MARGIN



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FINANCIAL RESULTS OF OPERATIONS

ABBREVIATED INCOME STATEMENT WITH RECONCILIATION IFRS – NON-IFRS MEASURES

SEK billion	IFRS 2011	IFRS 2010	IFRS 2009	Restructuring charges 2011	Restructuring charges 2010	Restructuring charges 2009	Non-IFRS measures 2011	Non-IFRS measures 2010	Non-IFRS measures 2009
Net sales	**226.9**	203.3	206.5				**226.9**	203.3	206.5
Cost of sales	**–147.2**	–129.1	–136.3	**–1.2**	–3.4	–4.2	**–146.0**	–125.7	–132.1
Gross income	**79.7**	74.3	70.2	**–1.2**	–3.4	–4.2	**80.9**	77.6	74.4
Gross margin %	**35.1%**	36.5%	34.0%				**35.7%**	38.2%	36.0%
Operating expenses	**–59.3**	–58.6	–60.0	**–2.0**	–3.5	–7.1	**–57.3**	–55.2	–52.9
Operating expenses as % of sales	**26.1%**	28.8%	29.0%				**25.3%**	27.1%	25.6%
Other operating income and expenses	**1.3**	2.0	3.1	**–**	–	–	**1.3**	2.0	3.1
Operating income before share in earnings of JVs and associated companies	**21.7**	17.6	13.3	**–3.2**	–6.8	–11.3	**24.9**	24.4	24.6
Operating margin % before share in earnings of JVs and associated companies	**9.6%**	8.7%	6.5%				**11.0%**	12.0%	11.9%
Share in earnings of JVs and associated companies	**–3.8**	–1.2	–7.4	**–0.6**	–0.5	–1.3	**–3.2**	–0.7	–6.1
Operating income	**17.9**	16.5	5.9	**–3.7**	–7.3	–12.6	**21.6**	23.7	18.5
Operating margin %	**7.9%**	8.1%	2.9%				**9.5%**	11.7%	9.0%
Financial income and expense, net	**0.2**	–0.7	0.3						
Taxes	**–5.6**	–4.5	–2.1						
Net income	**12.6**	11.2	4.1						
EPS diluted (SEK)	**3.77**	3.46	1.14				**4.72** [1]	4.80 [1]	2.87 [1]

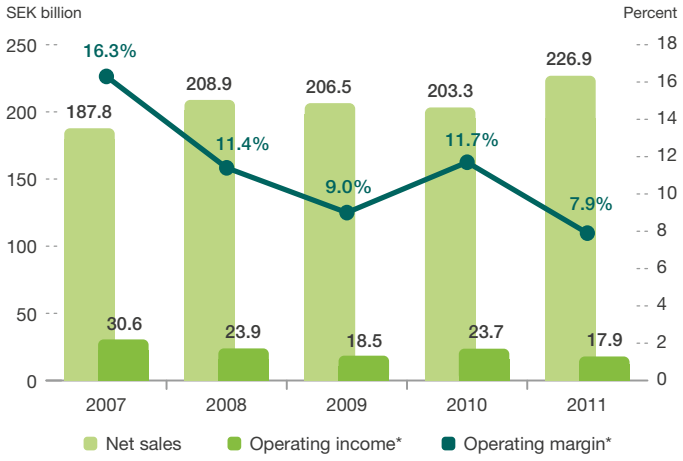
[1] EPS, diluted (non-IFRS), excluding amortizations and write-downs of acquired intangible assets, SEK.

The non-IFRS financial measures presented herein are not recognized measures of financial performance under IFRS, but rather are measures used as supplemental information to the IFRS results. Since there were restructuring costs during 2009 and 2010 with significant impact on reported results and margins, certain income statement line items excluding restructuring charges, are presented as non-IFRS measures to facilitate analysis by indicating Ericsson's underlying performance. Non-IFRS measures have limitations as analytical tools and should not be viewed in isolation or as substitutes to the IFRS measures, and do not necessarily indicate whether cash flow will be sufficient or available to meet Ericsson's requirements, and may not be indicative of our historical operating results, nor are such measures meant to be predictive of future results. Non-IFRS measures for 2011 have also been included to facilitate comparison with previous years. For more details on the restructuring activities and corresponding charges, please see Note C5 – "Expenses by Nature".

Sales

2011 was a year with strong sales growth of 12%, driven by strong demand for mobile broadband along with network rollout services. Sales were negatively impacted by the strong SEK. Sales for comparable units, adjusted for currency exchange rate effects and hedging, increased 19%.

NET SALES, OPERATING INCOME AND OPERATING MARGIN INCLUDING JVS



* 2008–2010, excluding restructuring charges.
2007 and 2011 including restructuring charges.

In 2011, the Company executed on its strategy to leverage its strengths in the growth areas mobile broadband, managed services, OSS and BSS. Due to the technology cycle where mobile broadband is being rolled out, the business mix shifted to more coverage projects. Ericsson also implemented its strategy to capture new market share in the network modernization projects in Europe, despite their initial lower margins.

In 2011, seven out of ten regions grew. In the year, there was an impact from slower operator spending after a period of high investments in capacity, especially in North America and Russia, as well as political unrest in certain countries. In the last quarter of the year, the Company also noticed some increased operator cautiousness due to uncertainties such as economic development and continued political unrest in certain countries.

In 2011, the share of software sales declined to 23% (24%) of sales while the portion of hardware increased to 40% (37%). The increase in hardware is a result of demand for mobile broadband products. In the short term, the software share might continue to decrease due to a higher portion of projects with a lot of hardware. Longer term, the software part should increase following more expansions and upgrades of networks.

Services sales amounted to 37% (39%) in 2011.

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Seasonality

The Company's quarterly sales, income and cash flow from operations are seasonal in nature, generally lowest in the first quarter of the year and highest in the fourth quarter. This is mainly a result of the seasonal purchase patterns of network operators.

MOST RECENT FIVE-YEAR AVERAGE SEASONALITY

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	–21%	8%	–4%	27%
Share of annual sales	23%	24%	23%	30%

Financial numbers in this section are reported:
- for 2011, including restructuring charges
- for 2010, excluding restructuring charges.

Gross margin

Gross margin declined to 35.1% (38.2%) due to higher share of coverage projects, network modernization projects in Europe and 3G rollouts in India. Gross margin in 2010, including restructuring charges, amounted to 36.5%.

Operating expenses

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses amounted to SEK 32.6 (29.9) billion. Spending on R&D as a percentage of sales was 14.4% (14.7%). In 2010, R&D spend including restructuring charges was SEK 31.6 billion or 15.5% of sales. The increase in absolute number is a result of planned higher investments in radio, such as TD-LTE, IP and the acquired LG-Ericsson operations. In 2012, R&D expenses of SEK 29–31 billion is estimated. The estimate includes amortizations/write-downs of intangible assets related to major acquisitions previously made. However, currency effects may cause this to change.

Selling and administrative expenses represented 11.8% of sales compared to 12.4% in 2010. The amount was SEK 26.7 (25.3) billion. In 2010, the amount including restructuring charges was SEK 27.1 billion, representing 13.3% of sales. In the year, there were positive effects from efficiency work along with the strong SEK.

Operating margin before JVs

Operating margin before share in JV earnings decreased to 9.6% (12.0%). However, in 2010, operating margin before share in JV earnings and including restructuring charges amounted to 8.7%.

Share in earnings of JVs

In 2011, Sony Ericsson reported a loss. The loss reflects intense competition, price erosion, restructuring charges and supply chain issues following the earthquake and tsunami in Japan. Ericsson's share in Sony Ericsson's income before tax was SEK –1.2 (0.9) billion. In 2010, Ericsson's share amounted to SEK 0.7 billion including restructuring charges.

ST-Ericsson reported a loss also in 2011. ST-Ericsson is currently in a shift from legacy to new products. Ericsson's share in ST-Ericsson's income before tax, adjusted to IFRS, was SEK –2.7 (–1.5) billion. In 2010, the loss amounted to SEK –1.8 billion including restructuring charges.

Operating income

Operating income was SEK 17.9 (23.7) billion. However, in 2010, operating income including restructuring charges amounted to SEK 16.5 billion.

Financial net

The financial net was SEK 0.2 (–0.7) billion. The difference is mainly attributable to a higher interest net of SEK 0.8 billion compared to 2010.

Taxes

The tax expense for the year was SEK 5.6 (4.5) billion or 30.6% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographic mix. The tax rate excluding joint ventures and associated companies was 26.4% (25.7%) due to lower tax rates from the loss-making joint ventures.

Net income

Net income increased 12% to SEK 12.6 (11.2) billion driven by higher sales and lower restructuring charges.

Earnings per share, diluted

Earnings per share increased 9% to SEK 3.77 (3.46). Earnings per share, non-IFRS, decreased –2% to SEK 4.72 (4.80). The Board of Directors proposes a dividend of SEK 2.50 (2.25). This represents an increase of 11%.

Restructuring charges

Total restructuring charges were SEK 3.2 (6.8) billion, excluding joint ventures. Cash outlays that have been provided for were SEK 3.2 (3.3) billion. At the end of the year, cash outlays of SEK 1.3 billion remain to be made. In 2012, restructuring charges of approximately SEK 4 billion are estimated.

Ericsson's share in Sony Ericsson's restructuring charges amounted to SEK 0.4 (0.2) billion. Ericsson's share in ST-Ericsson's restructuring charges was SEK 0.1 (0.3) billion.

RESEARCH AND DEVELOPMENT PROGRAM

	2011	2010	2009
Expenses (SEK billion) [1]	**32.6**	29.9	27.0
As percent of Net sales	**14.4%**	14.7%	13.1%
Employees within R&D as of December 31 [2]	**22,400**	20,800	18,300
Patents [2]	**30,000**	27,000	25,000

[1] Excluding restructuring charges for 2009 and 2010.
[2] The number of employees and patents are approximate.

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FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET (ABBREVIATED)

December 31, SEK billion	2011	2010	2009		2011	2010	2009
ASSETS				EQUITY AND LIABILITIES			
Non-current assets, total	**81.5**	83.4	87.4	Equity	**145.3**	146.8	141.0
of which intangible assets	***44.0***	*46.8*	*48.2*	Non-current liabilities	**38.1**	38.3	43.3
of which property, plant and equipment	***10.8***	*9.4*	*9.6*	*of which post-employment benefits*	***10.0***	*5.1*	*8.5*
of which financial assets	***13.7***	*14.5*	*15.3*	*of which borrowings*	***23.3***	*27.0*	*30.0*
of which deferred tax assets	***13.0***	*12.7*	*14.3*	*of which other non-current liabilities*	***4.8***	*6.2*	*4.8*
Current assets, total	**198.8**	198.4	182.4	Current liabilities	**97.0**	96.8	85.5
of which inventory	***33.1***	*29.9*	*22.7*	*of which provisions*	***6.0***	*9.4*	*12.0*
of which trade receivables	***64.5***	*61.1*	*66.4*	*of which current borrowings*	***7.8***	*3.8*	*2.1*
of which other receivables/financing	***20.7***	*20.2*	*16.6*	*of which trade payables*	***25.3***	*25.0*	*18.9*
of which short-term investments, cash and cash equivalents	**80.5** [2]	*87.2*	*76.7*	*of which other current liabilities*	***58.0***	*58.6*	*52.5*
Total assets	**280.3**	281.8	269.8	**Total equity and liabilities** [1]	**280.3**	281.8	269.8

[1] Of which interest-bearing liabilities and post-employment benefits SEK 41.0 (35.9) billion.
[2] Including loan to ST-Ericsson of SEK 2.8 billion.

Ericsson's strategy is to maintain a strong balance sheet including a sufficiently large cash position to ensure the financial flexibility to operate freely and to capture business opportunities. This has been particularly important during the past years' difficult macroeconomic and financial market situation.

By maintaining a strong cash position, the Company can also maintain an active strategy for strategic mergers and acquisitions.

An important focus area is the monitoring of working capital. Major efforts have been made during the year in order to reduce days sales outstanding and inventory turnover days as well as to increase payable days. The target for payable days was met, while the other two targets were not achieved. The efforts to further reduce working capital will continue in 2012 and the working capital targets are the same as previous years.

In 2011, the dividend was SEK 2.25 per share. The Board of Directors will propose to the Annual General Meeting 2012 a dividend of SEK 2.50 per share. This represents a total dividend of approximately SEK 8.2 billion. The proposal reflects year 2011's earnings and balance sheet structure, as well as coming years' business plans and expected economic development.

Non-current assets

Intellectual property rights, brands and other intangible assets decreased to SEK 13.1 (16.7) billion due to amortizations.

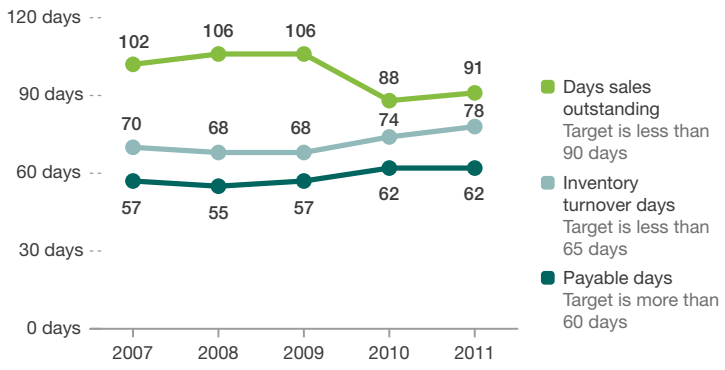
Customer financing, current and non-current, decreased slightly to SEK 4.2 (4.4) billion.

Current assets

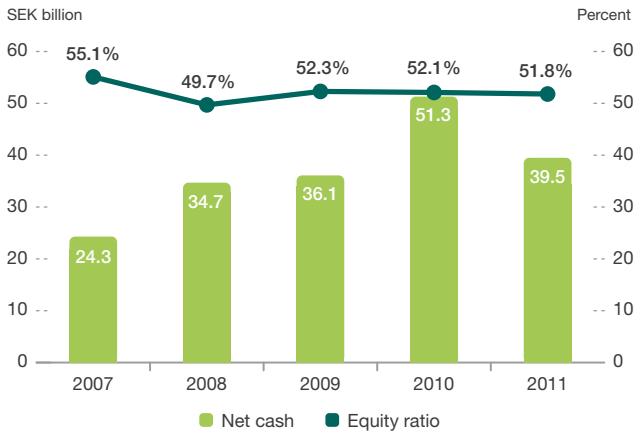
Inventory levels increased during the year by SEK 3.2 billion due to higher sales and increased share of coverage projects. At year end, inventory was SEK 33.1 (29.9) billion. The higher inventory level followed a higher level of work in progress in the regions. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2012.

Trade receivables: Days sales outstanding reached 91 (88) days at year-end. This reflects a higher portion of coverage projects and higher sales volumes. The Company's nominal credit

WORKING CAPITAL TARGETS



NET CASH AND EQUITY RATIO



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losses have historically been low and continued to be so in 2011.

Net cash decreased to SEK 39.5 (51.3) billion, mainly due to a negative change in net operating assets, investing and dividend paid to shareholders. Pension liabilities increased due to lower discount rate and this impacted net cash negatively. For a more detailed discussion on changes in cash, see pages 30–31.

Equity

Equity decreased by SEK –1.5 billion to SEK 145.3 (146.8) billion. Net income was SEK 12.6 (11.2) billion and dividends of SEK 7.5 (6.7) billion was paid during the year. The equity ratio was maintained at a healthy level of 52% (52%).

Return on equity increased to 8.5% (7.8%), primarily due to higher sales and lower restructuring charges.

Return on capital employed (ROCE) was 11.3% (9.6%). In 2010, ROCE excluding restructuring charges was 13.6%.

Non-current liabilities

Post-employment benefits related to defined benefit plans increased to SEK 10.0 (5.1) billion. In 2011 there was a decrease in discount rates, and plan assets yielded lower than expected. Consequently, the Company experienced an increase in the net pension liability and the funded ratio (plan assets as percentage of defined benefit obligations) decreased to 77% (89%).

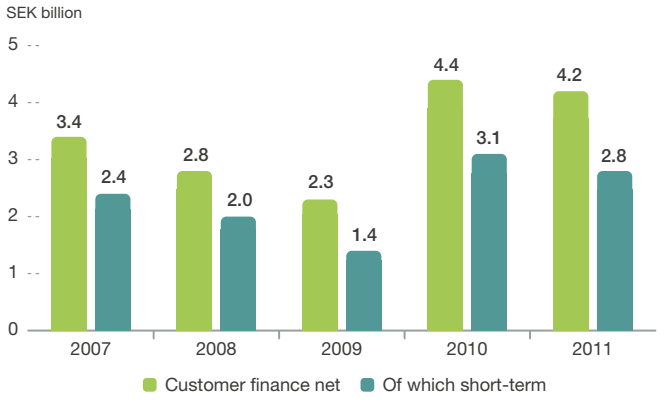
Current liabilities

Provisions declined to SEK 6.0 (9.4) billion. SEK 1.3 (3.2) billion were related to restructuring. The cash outlays of provisions were SEK 6.0 (7.2) billion. The lower amount of provisions is mainly due to lower restructuring. In addition, the business mix with more coverage projects as well as good performance in both hardware and software for new products introduced decreased the need for warranty provisions. There is also an effect of improved project management as well as geographical mix. Provisions will fluctuate over time, depending on business mix, market mix and technology shifts.

Payable days was unchanged at 62 (62) days. The target of payable days of above 60 days was met.

Non-current borrowings decreased to SEK 23.3 (27.0) billion. No major changes were made in the debt maturity profile during 2011. Debt of SEK 3.4 billion is maturing in 2012 and SEK 5.4 billion in 2013. The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.

CUSTOMER FINANCE



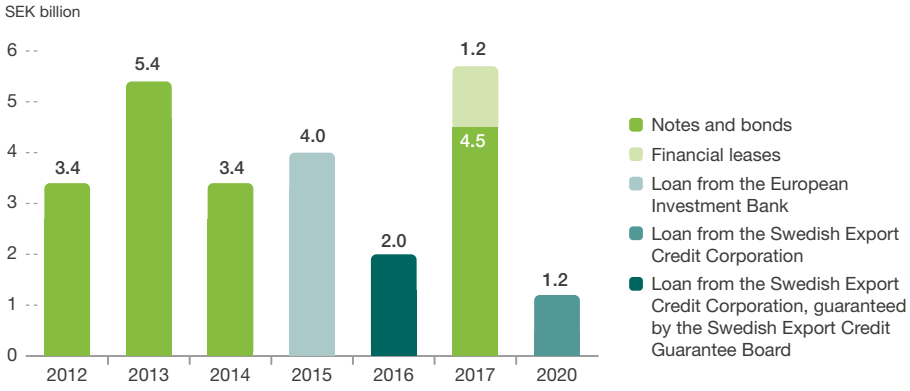
Credit ratings at "solid investment grade"

On June 10, 2011, Moody's upgraded Ericsson's rating to A3 from Baa1, with a stable outlook. Standard & Poor's rating at BBB+ with stable outlook was unchanged.

Off-balance sheet arrangements

There are currently no material off-balance sheet arrangements that have, or would be reasonably likely to have, a current or anticipated effect on the Company's financial condition, revenues, expenses, result of operations, liquidity, capital expenditures or capital resources.

DEBT MATURITY PROFILE



RETURN ON CAPITAL EMPLOYED

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CASH FLOW

CASH FLOW (ABBREVIATED) JANUARY-DECEMBER

SEK billion	2011	2010	2009
Net income	**12.6**	11.2	4.1
Income reconciled to cash	**25.2**	23.7	21.0
Changes in operating net assets	**–15.2**	2.9	3.5
Cash flow from operating activities	**10.0**	26.6	24.5
Adjusted operating cash flow [1]	**13.2**	29.8	28.7
Cash flow from investing activities	**4.5**	–12.5	–37.5
of which capital expenditures, sales of PP&E, product development	***–6.1***	*–5.2*	*–4.9*
of which acquisitions/divestments, net	***–3.1***	*–2.8*	*–18.1*
of which short-term investments for cash management purposes and other investing activities	***13.8***	*–4.5*	*–14.5*
Cash flow before financing activities	**14.5**	14.0	–13.0
Cash flow from financing activities	**–6.5**	–5.7	–1.7
Cash conversion (Cash flow from operating activities divided by income reconciled to cash)	**40%**	112%	117%
Gross cash (Cash, cash equivalents and short-term investments)	**80.5** [2]	87.2	76.7
Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)	**39.5**	51.3	36.1

[1] Cash flow from operations excl. restructuring cash outlays that have been provided for.
[2] Including loan to ST-Ericsson of SEK 2.8 billion.

In 2011, gross cash decreased by SEK 6.6 billion to SEK 80.5 (87.2) billion. The net income reconciled to cash of SEK 25.2 billion was offset by a change in net operating assets of SEK –15.2 billion and investing activities of SEK –9.9 billion. Dividends to shareholders amounted to SEK –7.5 (–6.7) billion.

Net cash decreased to SEK 39.5 (51.3) billion.

Cash flow from operating activities

The adjusted operating cash flow was negatively impacted by higher working capital.

During 2011, cash flow was negatively impacted by a significant increase in working capital as a result of higher sales and more projects.

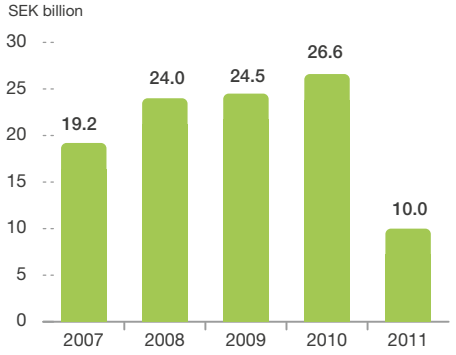
Cash flow from investing activities

Cash outlays for regular investing activities increased to SEK –6.1 (–5.2) billion.

Acquisitions and divestments during the year were net SEK –3.1 (–2.8) billion, with the major items Nortel's GDNT operation in China and Nortel's Multi-Service Switch business (MSS). The Nortel patent portfolio was acquired in partnership with other industry players.

Cash flow for short-term investments for cash management purposes and other investing activities was net SEK 13.8 (–4.5) billion, mainly attributable to changes between short-term investments and cash and cash equivalents.

CASH FLOW FROM OPERATING ACTIVITIES



Capital expenditures

Annual capital expenditures are normally around two percent of sales and are expected to remain at this level. This corresponds to the needs for keeping and maintaining the current capacity level, including the introduction of new technology and methods. The expenditures are largely related to test equipment in R&D units, network operations centers as well as manufacturing and repair operations.

The Board of Directors reviews the Company's investment plans and proposals.

The Company has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2012.

We believe that the Company's property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2011, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

CAPITAL EXPENDITURES 2007–2011

SEK billion	2011	2010	2009	2008	2007
Capital expenditures	**5.0**	3.7	4.0	4.1	4.3
of which in Sweden	***1.7***	*1.4*	*1.3*	*1.6*	*1.3*
as percent of net sales	**2.2%**	1.8%	1.9%	2.0%	2.3%

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Cash flow from financing activities

Cash flow from financing activities was SEK –6.5 billion. Dividends paid were SEK –7.5 (–6.7) billion and other financing activities net amounted to SEK 1.0 billion.

Cash conversion

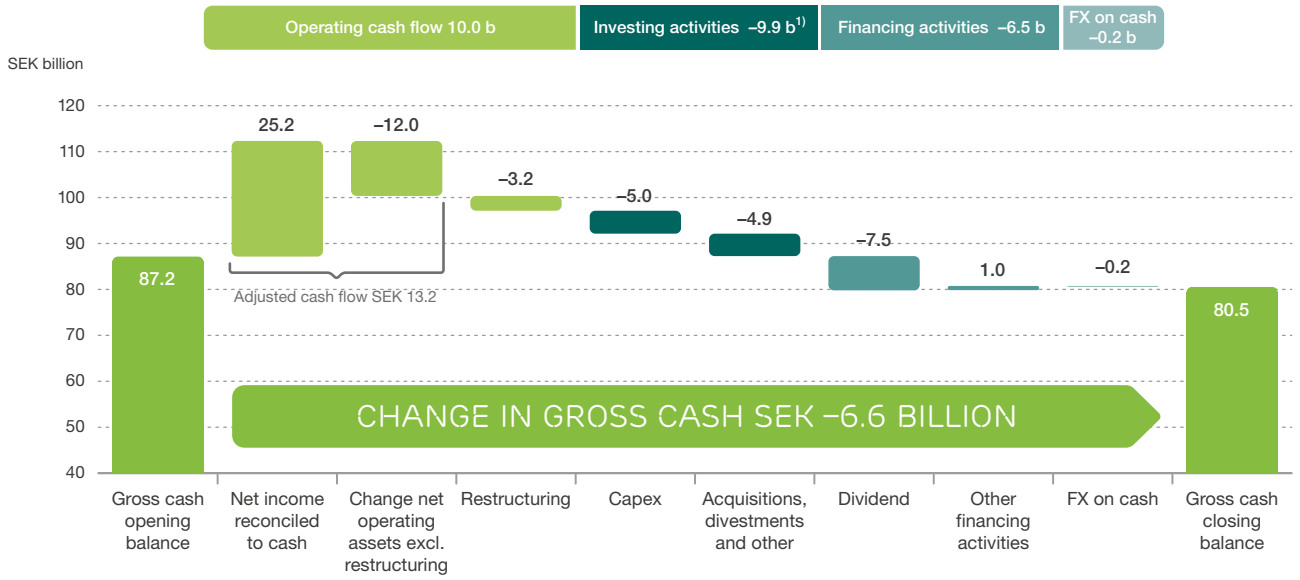
Cash conversion was 40% (112%), below the target of 70%. Over the years 2008–2010, cash conversion was above target. The cash conversion in 2011 was negatively impacted by higher working capital.

Restricted cash

Cash balances in certain countries with restrictions on transfers of funds to the Parent Company as cash dividends, loans or advances amounted to SEK 13.9 (10.8) billion.

In this context all countries with currency restrictions are included. In most cases the currency is nonconvertible and flow of funds in a foreign currency requires approval by a central bank or similar. Out of the total amount, China, India, Korea, Brazil and Indonesia are the top five countries accounting for SEK 9.6 billion.

CHANGE IN GROSS CASH 2011



[1)] As disclosed under Financial Terminology, Gross Cash is defined as cash, cash equivalents and short-term investments. Cash as presented in the balance sheet and related notes includes cash, cash equivalents and short-term investments of a maturity less than three months. Due to different treatment of cash in the above table and related foreign currency impact, the amounts differ from those in other presentations of cash flows.

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BUSINESS RESULTS – REGIONS

SALES PER REGION AND SEGMENT 2011 AND 2010

SEK billion	Networks 2011	Networks Percent change	Global Services 2011	Global Services Percent change	Multimedia 2011	Multimedia Percent change	Total 2011	Percent change
North America	28.9	–5%	18.6	5%	1.3	7%	**48.8**	–1%
Latin America	11.5	25%	9.5	23%	1.0	5%	**22.0**	23%
Northern Europe and Central Asia	9.7	34%	5.0	17%	0.5	–20%	**15.2**	25%
Western and Central Europe	7.8	–7%	10.3	–2%	1.0	–7%	**19.0**	–4%
Mediterranean	10.7	1%	11.8	11%	1.3	–5%	**23.8**	5%
Middle East	7.4	4%	6.8	4%	1.2	–13%	**15.5**	2%
Sub-Saharan Africa	5.9	63%	3.4	–26%	0.9	–12%	**10.2**	11%
India	6.1	19%	3.1	13%	0.5	–25%	**9.8**	13%
China and North East Asia	27.8	63%	9.9	19%	0.5	–5%	**38.2**	47%
South East Asia and Oceania	7.6	–3%	5.6	–14%	0.7	26%	**13.9**	–7%
Other*	9.1	53%	–0.2	–132%	1.7	57%	**10.6**	41%
Total	**132.4**	**17%**	**83.9**	**5%**	**10.6**	**1%**	**226.9**	**12%**
Share of total	58%		37%		5%		100%	

* Other includes sales of e.g. mobile broadband modules, cables, power modules as well as licensing and IPR. Mobile broadband modules are sold directly by business unit Networks to PC/netbook manufacturers. A central IPR unit manages sales of licenses to equipment vendors or others who wish to use Ericsson's patented technology. TV solutions are sold both through other equipment vendors as resellers and directly by business unit Multimedia to cable TV operators.

Regional development

The regions are the Company's primary sales channels. Ericsson reports ten regions, mirroring the internal geographical organization.

NORTH AMERICA

North America is the world's most developed region in terms of smartphone penetration and mobile data usage. Operators are continuing the implementation of tiered pricing to capitalize on changing user behavior. Half of the net additions of subscriptions in the second half of 2011 came from connected devices or machine to machine communication. Through the year multiple LTE network buildouts have been initiated and launched in both the US and Canada, and Ericsson is a leading supplier to these projects.

The networks business developed slower in the second half of 2011 after a period of high operator investments in network capacity. Operators' focus on cash flow management and operator consolidation also had a negative impact. This was to a large degree offset by a positive uptake in services and multimedia.

LATIN AMERICA

There is a push for mobile broadband in Latin America, driven by consumer demand for 3G services. Smartphone penetration is still low, but is expected to grow as these handsets become more affordable.

Operators show an increasing interest in network performance and Ericsson is taking part in OSS/BSS transformation projects in managed services deals, including network sharing arrangements.

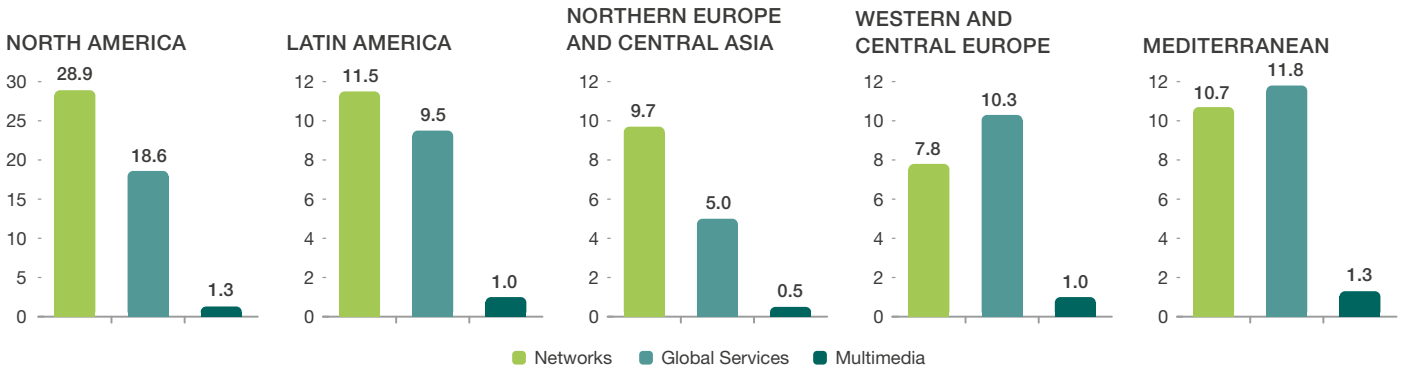
NORTHERN EUROPE AND CENTRAL ASIA

The Nordics are mature and advanced markets with strong 3G coverage and LTE commercially available in all countries. Nordic operators are increasingly shifting their business models towards network sharing and the outsourcing of network operations.

Deployment of 3G networks started later in the eastern part of the region. Here, operators are focusing on providing coverage and quality in the networks. Mobile broadband is growing rapidly in the region. Many consolidation activities, of both operators and networks, are taking place. In the latter half of the year, network sales slowed, especially in Russia, following strong operator investments in network capacity and coverage.

SALES IN NETWORKS, GLOBAL SERVICES AND MULTIMEDIA 2011 PER REGION

SEK billion



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WESTERN AND CENTRAL EUROPE

Modernization of networks accelerated across the region in 2011. Operator focus is on replacing old 2G/3G equipment with modern, more efficient multi-standard radio base stations. Interest in LTE is limited, with certain countries still to allocate spectrum for this.

Penetration of mobile broadband is high, with some operators' smartphone shipments representing more than half of their totals. Data revenues are growing and represent over 40% with some operators. There is also high interest in managed services and network sharing.

MEDITERRANEAN

This region has seen an impact from weak economies as well as political unrest in Northern Africa. The uptake of mobile broadband is mixed, with the strongest growth in the south west parts of the region. Here, operators are implementing a range of tiered pricing models.

Mobile data usage is high in the Mediterranean area, due to the low availability of fixed broadband. Most operators' investments are for 3G coverage and in the second half of the year, network modernization projects took off.

MIDDLE EAST

The Middle East was impacted by political unrest in several countries and by delays in license auctions. As a consequence, some operators have postponed their infrastructure investments and increased their focus on efficiencies.

The region has lower penetration rates, mobile broadband adoption and mobile data usage than the world average. The crucial driver for increasing these parameters is the affordability of smartphones.

Rollouts of LTE have started in some parts of the region.

SUB-SAHARAN AFRICA

Mobile penetration continues to increase rapidly in Africa. Operator focus is still on 2G coverage and capacity buildouts, although some operators are building 3G coverage.

With smartphones in the region set to become cheaper, operators are focusing on creating efficiency in their networks to allow them to capitalize on future uptake.

Inflation and competition are also driving operators' need for increased efficiency. This leads them to focus on power consumption reductions and managed services solutions. There is also a need for operators to harmonize policy frameworks to increase data take-up.

INDIA

Initial 3G rollouts reached a temporary peak in 2011. The Indian market is fragmented and in the near future a telecom policy reform is expected which might make operator consolidation easier.

Besides the need for affordable smartphones, availability of dual SIM card phones is a key component in driving mobile data uptake. The Indian market is highly competitive, which drives operator interest in managed services and network sharing.

CHINA AND NORTH EAST ASIA

China's operators have focused on building 2G capacity with GPRS/EDGE to meet the increase in mobile data traffic from smartphones. In 2011, large scale trials for TD-LTE took place with China Mobile.

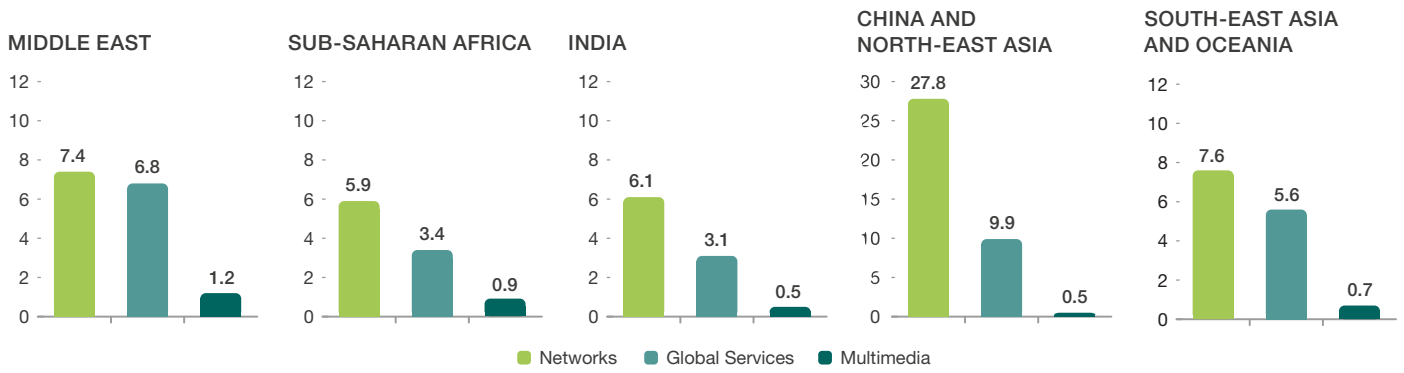
In Korea and Japan, 3G capacity and LTE coverage rollouts are ongoing, driven by high smartphone penetration, mobile broadband adoption and mobile data usage. In Korea, three LTE networks are live, and Ericsson is a supplier to all of them.

SOUTH EAST ASIA AND OCEANIA

Parts of this region, such as Australia and Singapore, have high penetration rates, adoption and usage. In these areas, LTE is also starting to emerge. Indonesia is moving towards 3G, however take-up is hampered by the affordability of devices. 3G auctions are yet to take place in some markets. Coverage projects, where old equipment is replaced with new, are underway across most markets, as operators build for data growth and seek operating cost efficiencies. The decline in network sales is due to reduced 2G business in Vietnam. The services business declined due to a concluded managed services contract in Australia.

SALES IN NETWORKS, GLOBAL SERVICES AND MULTIMEDIA 2011 PER REGION

SEK billion



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BUSINESS RESULTS – SEGMENTS

NETWORKS

Sales

Networks sales increased 17% to SEK 132.4 billion, negatively impacted by a strong SEK in 2011. The increase was an effect of continued high sales in mobile broadband-related equipment including packet core, IP routers and microwave-based backhaul. Demand was especially strong in regions China and North East Asia and North America.

The year was characterized by high volumes of mobile broadband equipment and ramp-up of the multi-standard radio base station RBS 6000. The product introduction of the RBS 6000 has been the quickest and most successful in the Company's history. At the end of the year, the first RBS 6000 with CDMA functionality was shipped. The RBS 6000 accounts for close to 100% of all deliveries of GSM/WCDMA/LTE radio base stations. In the fourth quarter, shipping of the IP Edge router, the Smart Services Router SSR 8000 family, and the Antenna Integrated Radio unit (AIR) also commenced.

In 2010, Ericsson acquired Nortel's CDMA business in order to strengthen its position in North America. Ericsson is now established as the leader in this market. CDMA sales increased slightly in 2011. At the end of the year the Company saw the expected decline in CDMA sales and subsequent rapid shift to LTE. The CDMA acquisition has created substantial value for the Company.

In March, the earthquake and tsunami in Japan caused temporary delays in the supply chain, but by the third quarter lead times were back to normal.

Profitability

Operating margin decreased to 13% (15%). The margin was negatively impacted by planned R&D investments to accelerate technology leadership. Operating margin in 2010 was 11% including restructuring charges.

Cost structure

In the Networks segment, cost of sales is quite large and to a large part variable. To reduce variable cost, the Company works with product rationalization and product substitution. R&D is a significant cost item and for this reason it is important to focus on R&D effectiveness and efficiency. It is essential to ensure global platforms and common components across the whole portfolio. To maximize the outcome of R&D investment, the Company also seeks to give R&D sites clear accountability and the same IS/IT environment.

The networks business

Sales to network operators are normally based on multi-year frame agreements after an initial open tender. During the frame agreement, software, equipment, services and spare parts are called off according to price lists.

Prior to the introduction of the multi-standard radio base station RBS 6000, operators could have co-siting, with one supplier for GSM and another for WCDMA. Today, a multi-standard approach means that all technologies are supported by one radio base station. Any supplier has to be equally capable of all technologies. R&D investments and scale are therefore essential for a supplier to stay competitive. The footprint of multi-standard radio access network increases opportunities for additional network business, e.g. backhaul and core networks. Following radio and core footprint is a significant software sales opportunity based on capacity, functionality and new features.

Competitors

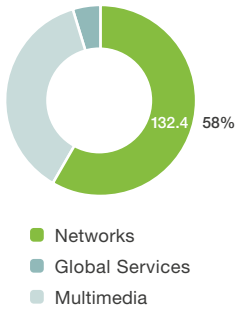
In the networks segment, Ericsson competes mainly with telecommunication equipment suppliers such as Alcatel-Lucent, Cisco, Huawei, Juniper, Nokia Siemens Networks, Samsung and ZTE. The Company also competes with local and regional manufacturers and providers of telecommunications equipment.

HIGHLIGHTS IN 2011

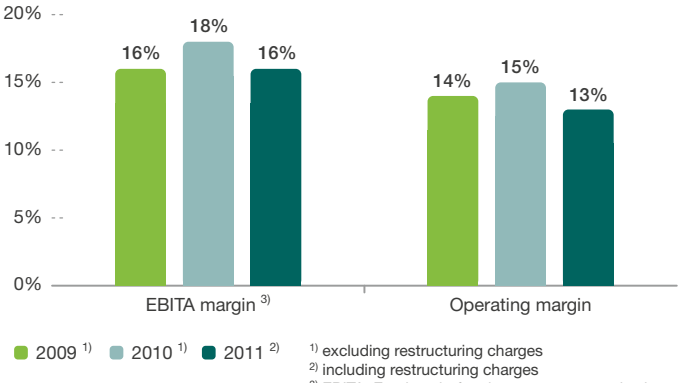
- Increased market share in mobile network equipment by 6 percentage points to 38% (estimated)
- Market share of more than 60% in LTE
- Smart Services Router family introduced. Volume deliveries expected in 2012

NETWORKS SALES SHARE OF TOTAL 2011

Net sales (SEK billion and percent)



NETWORKS PROFITABILITY



1) excluding restructuring charges
2) including restructuring charges
3) EBITA: Earnings before interest, tax, amortizations and write-downs of acquired intangibles

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GLOBAL SERVICES

Sales

Global Services sales increased 5% to SEK 83.9 (80.1) billion, driven by network rollout, consulting and systems integration.

Professional Services sales were SEK 58.8 billion, up 1% from 2010. Currency adjusted sales of Professional Services increased 7%. The increase is mainly a result of increased sales of consulting and systems integration. Managed Services sales decreased by –1% to SEK 21.0 billion. Currency adjusted sales increased 7%. The growth reflects the 70 (54) signed managed services contracts, of which 32 (26) were extensions or expansions. More than 60% of Professional Services sales were recurring.

Network Rollout sales amounted to SEK 25.1 (21.6) billion, an increase of 16%, driven by high volumes of network modernization.

Profitability

Global Services' operating margin decreased to 7% (11%).The margin was negatively impacted by a loss in Network Rollout.

Operating margin in 2010 was 8% including restructuring charges.

Operating margin for Professional Services amounted to 13% (15%). Operating margin in 2010 was 11% including restructuring charges.

Operating margin for Network Rollout amounted to –8% (1%), due to high activity levels related to network modernization projects in Europe and 3G rollouts in India. Operating margin in 2010 was 0% including restructuring charges.

Cost structure

In the services segment, almost all cost resides in cost of sales and the majority of the cost is related to employee costs. A few years ago, the cost of sales base was to a higher degree variable. With the increasing share of managed services, the portion of fixed costs has increased, which makes it important to find scale by winning more deals in the same geographical area. Another measure to keep cost down is to establish a one-to-many delivery model. The development of global tools, methods and processes are also crucial in order to secure efficiencies and knowledge sharing.

In managed services, Ericsson often insources employees from the customer. In the transition period, restructuring costs are taken, e.g. for replacement of IS/IT systems and migration of employees into new systems and premises. In the transformation phase, following the transition, synergies are carried through.

The services business

Ericsson's offering covers all areas within an operator's operational scope. The Company's service offering includes consulting, systems integration, managed services, network deployment and integration, education and support services. Ericsson provides services for both mobile and fixed telecom networks as well as for IT and broadcast networks and in some cases for adjacent industries such as the utilities industry. Most often operators turn to Ericsson for support in a certain part of their operations. Contracts for managed services and customer support are typically for five to seven years. Payments with regularity provide a lower rate of working capital. Consulting and systems integration contracts are shorter and paid after fulfillment of contract.

In managed services deals the contracts are normally split into fixed and variables, where the variables are a smaller part. The invoicing is based on fulfillment of certain key performance indicators and projects. When an operator explores the possibility of a managed services deal, the financial strength of the supplier is a prerequisite.

Network rollout includes coverage and modernization projects with a large part of third-party sourcing, making it a lower-margin business.

The Company rolls out its own equipment, but also has high multi-vendor skills in all other parts of the services business.

Competitors

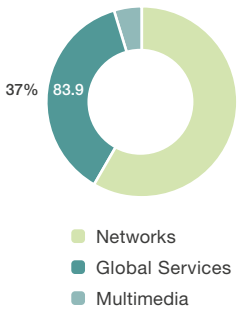
Competition in services includes the traditional telecommunication equipment suppliers. The Company also competes with companies such as Accenture, HP, IBM, Oracle, Tata Consultancy Services and Tech Mahindra. Among the competition is also a large number of smaller but specialized companies operating on a local or regional basis.

HIGHLIGHTS IN 2011

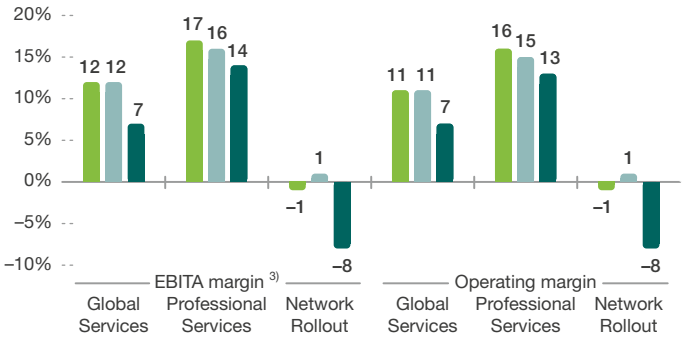
- More than 2 billion subscribers in networks for which Ericsson provides support
- Over 900 million subscriber in networks managed by Ericsson
- 500 million subscribers in network operation contracts

GLOBAL SERVICES SALES SHARE OF TOTAL 2011

Net sales (SEK billion and percent)



GLOBAL SERVICES PROFITABILITY



1) excluding restructuring charges
2) including restructuring charges
3) EBITA: Earnings before interest, tax, amortizations and write-downs of acquired intangibles

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MULTIMEDIA

Sales

Multimedia sales increased 1% to SEK 10.6 (10.5) billion, negatively impacted by political unrest in the Middle East and weak development in India.

Profitability

Operating margin was –5% (–4%). Restructuring charges had no material impact on profitability.

Cost structure

In the multimedia segment, cost of sales is low and the majority is variable, due to the fact that third party hardware is used, on which the Company implements its software. Multimedia is a software business with a high degree of fixed R&D cost for software development.

The OSS and BSS business

The OSS/BSS business is divided into two different sales types:

TRANSFORMATION SALES

Simplification and consolidation of processes, operations, systems and platforms. Key components are software solutions, consulting and systems integration. Typically these projects last for 18–36 months. The software part represents 25–40% of the contract value and the rest is consulting and systems integration.

PRODUCT SALES

Product sales is mainly expansions and upgrades, e.g. upgrading from Ericsson Charging System version 4 to 5. Key components are software solutions and systems integration. Typically these projects last for 1–12 months. The software part represents 70–90% of the contract value and the rest is systems integration.

Telcordia acquisition

In 2011, Ericsson announced the acquisition of Telcordia, a global leader in the development of software and services for OSS/BSS. The price was USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. The acquisition is expected to be accretive to Ericsson's earnings per share within twelve months. Telcordia has approximately 2,600 employees. During its last fiscal year, ended January 31, 2011, Telcordia generated revenues of USD 739 million. Telcordia's revenues will be split between segments Multimedia and Global Services according to portfolio mix. With the acquisition, Ericsson aspires to a leading position in the OSS and BSS market.

Competitors

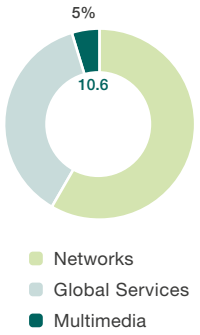
In the multimedia segment, Ericsson competes in rather fragmented markets with many local players. Competitors vary depending on the solution being offered. In the OSS and BSS market, they include many of the traditional telecommunication equipment suppliers as well as IT suppliers, such as Amdocs, Comverse and Oracle. Competition in the TV business includes Harmonic and Thompson.

HIGHLIGHTS IN 2011

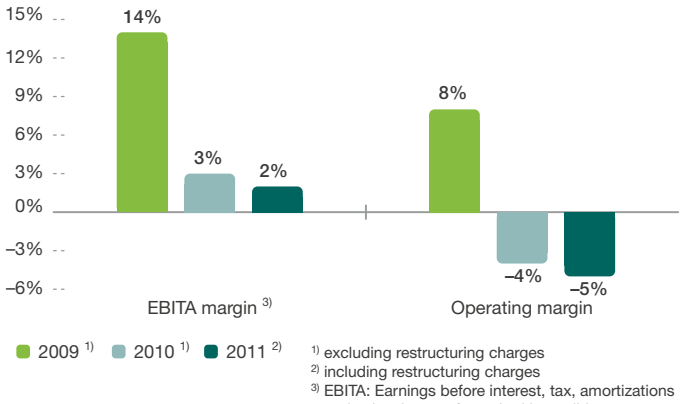
- 13 new contracts signed for mobile broadband charging
- World's largest IPTV upgrade in Taiwan
- 11 new customers for convergent charging and billing

MULTIMEDIA SALES SHARE OF TOTAL 2011

Net sales (SEK billion and percent)



MULTIMEDIA PROFITABILITY



1) excluding restructuring charges
2) including restructuring charges
3) EBITA: Earnings before interest, tax, amortizations and write-downs of acquired intangibles

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SONY ERICSSON

Sony Ericsson is a 50/50 joint venture between Sony Corporation and Ericsson, established in 2001. Sony Ericsson is accounted for according to the equity method. In October 2011, it was announced that Sony Corporation would acquire Ericsson's 50% share in Sony Ericsson. As part of the deal, Sony and Ericsson will also enter into a broad IP cross-licensing agreement and create a wireless connectivity initiative to drive connectivity across multiple platforms. The transaction is a logical strategic step that makes it possible for Ericsson to focus on enabling connectivity for all devices.

Sony Ericsson will become a wholly-owned subsidiary of Sony and integrated into Sony's broad platform of network-connected consumer electronics products. The agreed cash consideration for the transaction is a EUR 1.05 billion cash payment.

Sony Ericsson's units shipped in 2011 decreased by –20% to 34.4 (43.1) million while the average selling price increased by 4% to EUR 152 (146). Sales decreased by –17% to EUR 5.2 (6.3) billion.

In 2011, Sony Ericsson had a market share of 10% in the smartphone market, measured in units, and 10% measured in value.

Gross margin decreased during the year to 28% (29%) attributed to product and geographic mix. Income before taxes, including restructuring charges, was EUR –0.24 (0.15) billion. Income decreased during the year due to declining gross margin and increased operating expenses. The result includes restructuring charges of EUR 93 million. Ericsson's share in Sony Ericsson's income before taxes was SEK –1.2 (0.7) billion.

Sony Ericsson's primary competitors include Apple, HTC, LG, Motorola, Nokia, RIM and Samsung.

ST-ERICSSON

ST-Ericsson is a 50/50 joint venture between STMicroelectronics and Ericsson, established in February, 2009. ST-Ericsson is accounted for according to the equity method.

At the end of 2011, ST-Ericsson was still in a shift from legacy to new products. Though its path to success is challenging, ST-Ericsson is, when entering 2012, continuing to focus on securing the successful execution and delivery of its new products to customers while lowering its break-even point.

The changes in the business environment at a large customer during 2011 reduced demand for legacy products and delayed the ramp-up of new products with that customer. In the light of the business environment at the end of 2011, ST-Ericsson's CEO is reviewing the company's strategic plan and financial prospects. Ericsson, together with its partner STMicroelectronics, is firmly committed to supporting ST-Ericsson in the transition to turn-over to sustainable profitability and cash generation. As a result of the strategic review, Ericsson may consider additional actions to solidify and accelerate ST-Ericsson's path to profitability. In such an event, or in case of a significant worsening of business prospects, the value of ST-Ericsson for Ericsson could decrease to a value significantly lower than the current carrying amount of ST-Ericsson on Ericsson's books and Ericsson might be required to take an impairment charge.

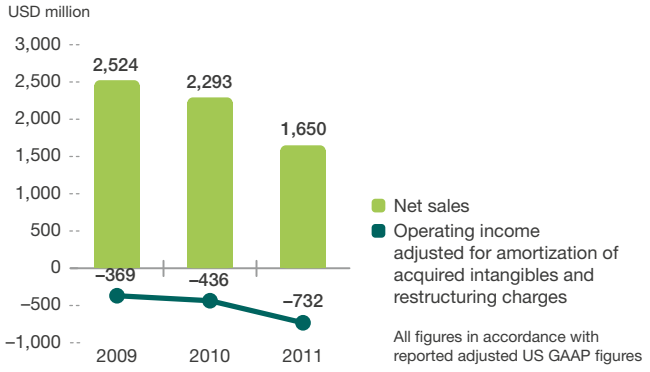
Sales in 2011 declined –28% to USD 1.7 (2.3) billion. The operating loss for the year, adjusted for restructuring costs, was USD –0.7 (–0.4) billion. ST-Ericsson reports in US-GAAP. Ericsson's share in ST-Ericsson's income before taxes, adjusted to IFRS, was SEK –2.7 (–1.8) billion. Adjustments for IFRS compliance mainly consist of capitalization of R&D expenses for hardware development. The Company's net financial position was USD –798 (–82) million at year-end. At the end of the year, ST-Ericsson had utilized USD 800 million of a short-term credit facility granted on a 50/50 basis by the parent companies.

In December 2011, a new President and CEO of ST-Ericsson was appointed.

ST-Ericsson's major competitor is Qualcomm. The market is growing in complexity as several new operating systems for handsets and other devices have been launched, e.g. Google's Android, Microsoft's Windows phone and Samsung's Bada.

SONY ERICSSON NET SALES AND ADJUSTED INCOME BEFORE TAXES

ST-ERICSSON NET SALES AND ADJUSTED OPERATING INCOME



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SUSTAINABILITY AND CORPORATE RESPONSIBILITY

The Company has implemented strong social, environmental and ethical standards supporting risk management and value creation. This commitment generates positive business impacts, which in turn benefit society.

Ericsson's approach to Sustainability and Corporate Responsibility (CR) is integrated into its core business operations and in its relationship with stakeholders. The Board of Directors considers these aspects in governance decision-making. Group level policies and directives ensure consistency across global operations.

Ericsson publishes an annual Sustainability and Corporate Responsibility Report which provides additional information.

Responsible business practices

Since 2000, Ericsson has actively supported the UN Global Compact, and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. The Ericsson Group Management System includes policies and directives that cover responsible business practices, such as the Code of Business Ethics, Code of Conduct (CoC), anti-corruption and environmental management. It is reinforced by training, workshops and monitoring, including a global assessment program run by an external assurance provider where CR criteria represent some 20% of areas assessed.

Supply chain

Suppliers must comply with Ericsson's CoC. Approximately 170 employees, covering all regions, are trained as supplier CoC auditors. The Company performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made. Training for suppliers is available in 13 languages. To effectively address the issue of conflict minerals, Ericsson participates in the Global e-Sustainability Initiative (GeSI) work on conflict minerals, and takes other active measures in its sourcing and product management processes.

Reducing environmental impact

Energy use for products in operation remains the Company's most significant environmental impact. Ericsson works proactively with its customers to encourage network and site energy optimization, through innovative products, software, solutions and advisory services. Processes and controls are in place to ensure compliance with relevant product-related environmental, customer and regulatory requirements. The Company works actively to reduce its own environmental impact, with a focus on Design for Environment, which includes product energy efficiency and materials management, as well as facilities management, travel reduction and logistics.

Product take-back and recycling

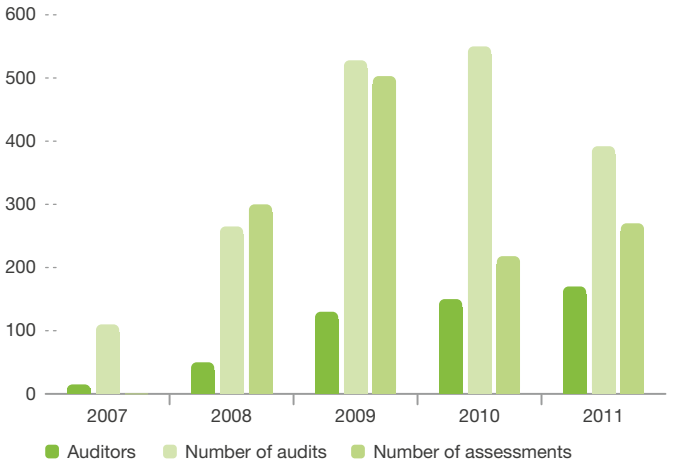
Ericsson Ecology Management is a program to take responsibility for products at the end of their life and is offered to all customers globally free of charge, not only in markets where legislated.

During 2011, Ericsson worked actively to help build up e-waste capabilities in Africa, through a public private partnership in Ghana. This was done with the Raw Materials Group and the Ghana Environmental Protection Agency and was financed by the Nordic Development Fund. The goal is to establish local recycling capabilities and transform the current informal e-waste recycling yards into a formal business. This will help to reduce negative environmental and health impacts while also alleviating poverty.

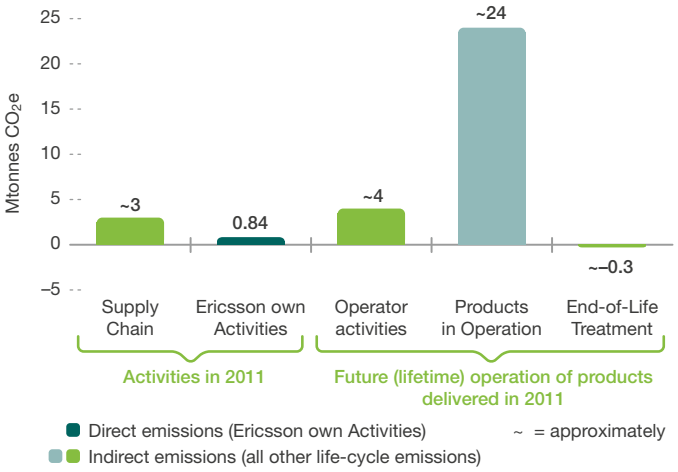
Radio waves and health

Ericsson provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Ericsson has co-sponsored over 90 studies related to electromagnetic fields, radio waves and health since 1996. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate

SUPPLIER CODE OF CONDUCT AUDITS AND ASSESSMENTS



ERICSSON LIFE-CYCLE ASSESSMENT CARBON FOOTPRINT 2011



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any health effects associated with radio wave exposure from either mobile phones or radio base stations.

Ericsson is co-sponsoring the Swedish part of the COSMOS study, which is conducted in five countries. The study aims to carry out long term health monitoring of more than 200,000 people to identify if there are any health issues linked to long term mobile phone use. To assure scientific independence there is a firewall in place between the industrial sponsors and the researchers.

Climate change

ICT represents about 2% of global CO_2 emissions, but can potentially offset a significant portion of the remaining 98% from other industries. Ericsson takes active measures to ensure that its own carbon footprint intensity will be continuously reduced. A five year target which aims to reduce the carbon emission intensities by 40% was set in 2008. The target comprises two focus areas: Ericsson's own activities and the life-cycle impacts of products in operation (see graph).

- A 6% reduction in direct emission intensity from own activities was achieved during 2011. Despite delivering higher volumes, Ericsson still achieved the target of 70% surface transport by weight. Business travel is roughly the same per employee.
- A 3% reduction was achieved in indirect emission intensity from products in operation. While the reduction was lower this year compared to last, Ericsson is well on track to meet its five year target.
- Ericsson has increased 3G/4G energy efficiency by 85% over the last decade, while continuing to meet the bandwidth demands of the networked society, and without increasing energy consumption per subscriber.

Ericsson's sustainability strategy focuses on the role broadband can play in helping to offset global CO_2 emissions, 70% of which are attributed to cities. Ericsson works on sustainable city solutions and is engaged in global climate policy. Ericsson's CEO leads the Climate Change Working Group of the Broadband Commission. Ericsson also co-chairs the Policy Group in GeSI, and helped launch its Low Carbon Cities benchmark.

Meeting the UN Millennium Development Goals

Mobile connectivity fuels economic growth, which is vital for billions of people living at the base of the economic pyramid. Ericsson is committed to using its technology and competence to help achieve the Millennium Development Goals (MDGs). Ericsson launched the Technology for Good program in 2011. It focuses on applying the Company's expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world.

Connect to Learn

In 2011, Ericsson and its partners, The Earth Institute at Columbia University and Millennium Promise, celebrated one year of progress for Connect To Learn, a global initiative focused on improving quality of and access to secondary education. Some 5,000 students now have access to education in schools throughout Millennium Villages and cities in Africa. An innovative cloud computing solution, PC as a Service, dramatically reduces the cost of access. The initiative has been extended to Latin America.

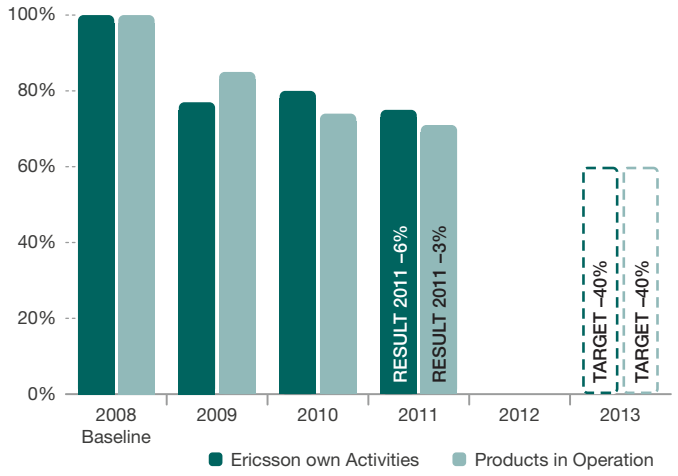
Ericsson Response™

Ericsson Response is a global Ericsson employee volunteer initiative which rapidly deploys communication solutions and provides telecommunications experts to assist disaster relief operations. Ericsson Response partners with many UN and humanitarian organizations. In 2011, Ericsson Response missions included the 'One UN' initiative in Tanzania, in collaboration with the World Food Programme. A partnership with operator SingTel was also announced to provide emergency communications services to support disaster relief efforts in South and Southeast Asia through Ericsson Response.

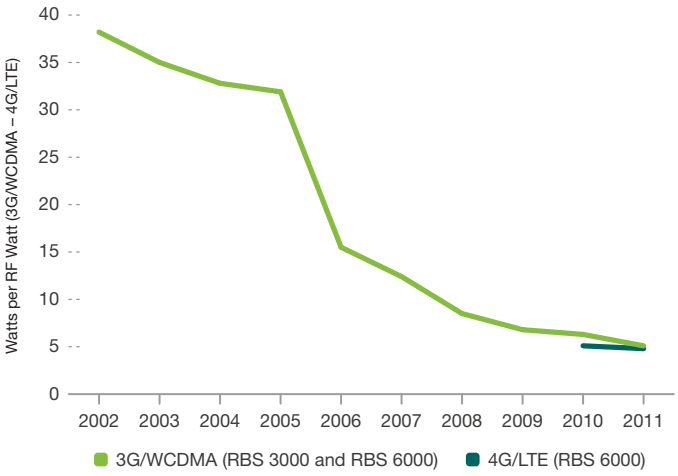
Reporting according to GRI 3.0

Full key performance data is available at www.ericsson.com and has achieved an A+ rating according to the Global Reporting Initiative (GRI). The performance data has been externally assured, and the application level has been checked by a third party.

CARBON FOOTPRINT INTENSITY TARGET



POWER CONSUMPTION PER UNIT OUTPUT POWER



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CORPORATE GOVERNANCE

In accordance with the Annual Accounts Act (1995:1554 Chapter 6, Section 6 and 8), a separate Corporate Governance Report, including an Internal Control section, has been prepared.

Continued compliance with the Swedish Corporate Governance Code

Ericsson applies the Swedish Corporate Governance Code and is committed to complying with best-practice corporate governance standards on a global level wherever possible. This includes continued compliance with the corporate governance provisions expressed by the Code, without deviations.

An ethical business

Ericsson's Code of Business Ethics summarizes the Group's fundamental policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to achieve and maintain its high ethical standards. There have been no amendments or waivers to Ericsson's Code of Business Ethics for any Director, member of management or other employee.

Board of Directors 2011/2012

The Annual General Meeting on April 13, 2011, elected Leif Johansson new Chairman of the Board, replacing Michael Treschow. Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Carl-Henric Svanberg, Hans Vestberg and Michelangelo Volpi were re-elected and Jacob Wallenberg was elected new member of the Board. Pehr Claesson, Jan Hedlund and Karin Åberg were appointed employee representatives with Kristina Davidsson, Karin Lennartsson and Roger Svensson as deputies.

Management

Hans Vestberg is President and CEO of the Group since January 1, 2010. The President and CEO is supported by the Group management, consisting of the Executive Leadership Team (ELT). The ELT, in addition to the President and CEO, consists of heads of Group functions, heads of business units and two of the heads of Ericsson's regions. Up until December 21, 2011, the Chief Brand Officer was part of ELT.

A management system is in place to ensure that the business is well-controlled and has the ability to fulfill the objectives of major stakeholders within established risk limits. The system also monitors internal control and compliance with applicable laws, listing requirements and governance codes.

Remuneration

Fees to the members of the Board of Directors and the remuneration to Group management (the Executive Leadership Team, ELT), as well as the 2011 guidelines for remuneration to Group management, are reported in Notes to the Consolidated Financial Statements – Note C28, "Information Regarding Members of the Board of Directors, the Group management and Employees".

As of December 31, 2011, there were no loans outstanding from and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management.

The Board of Directors' proposal for guidelines for remuneration to Group management

The Board of Directors proposes that the current guidelines for remuneration to the Group management (ELT) remain unchanged for the period up to the 2013 Annual General Meeting.

Details of how Ericsson delivers on these guidelines and policy, including information on previously decided long-term variable remuneration that has not yet become due for payment, can be found in Note C28, "Information regarding Members of the Board of Directors, the Group management and Employees".

RISK MANAGEMENT

Risks are broadly categorized into operational and financial risks. Ericsson's risk management is based on the following principles, which apply universally across all business activities and risk types:

- Risk management is an integrated part of the Ericsson Group Management System
- Each operational unit is accountable for owning and managing its risks according to policies, directives and process tools. Decisions are made or escalated according to defined delegation of authority. Financial risks are coordinated through Group Function Finance.
- Risks are dealt with during the strategy process, the annual planning and target setting, the continuous monitoring through monthly and quarterly steering group meetings and during operational processes by transaction (customer bid/contract, acquisition, investment and product development projects). They are subject to various controls such as decision tollgates and approvals.

A central security unit coordinates management of certain risks, such as business interruption, information security and physical security. The Crisis Management Council deals with events of serious nature.

For information on risks that could impact the fulfillment of the targets and form the basis for mitigating activities, see the other sections of the Board of Directors' Report, Notes C2, "Critical Accounting Estimates and Judgments", C14, "Trade receivables and customer finance", C19, "Interest-bearing liabilities", C20, "Financial risk management and financial instruments" and the chapter Risk Factors.

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LEGAL AND TAX PROCEEDINGS

Together with most of the mobile communications industry, Ericsson was sued in two class action lawsuits in the US in which plaintiffs alleged that adverse health effects could be associated with mobile phone usage. The cases were pending in federal court in Pennsylvania and the Superior Court of the District of Columbia. In the Pennsylvania case, the federal district court dismissed the plaintiffs' claims as preempted by federal law. The Third Circuit Court of Appeals subsequently affirmed this ruling, and in October 2011, the Supreme Court declined to consider the case. The plaintiff has no further right of appeal, and as a result, the Pennsylvania case is officially closed.

In the District of Columbia case, the plaintiff dismissed Ericsson from the case with prejudice in February 2011 shortly after an opinion by the D.C. Court of Appeals made it clear that the plaintiff did not have standing to sue Ericsson under the D.C. consumer protection statute.

In January 2011, a US company SynQor filed a patent infringement lawsuit against Ericsson Inc. alleging that Ericsson infringes five US patents related to bus converters. In February 2011, SynQor filed a motion for preliminary injunction seeking to prevent Ericsson from manufacturing, using, selling, and offering for sale in the US and/or importing into the US certain unregulated and semi-regulated bus converters and any Ericsson products that contain those bus converters. In May 2011, Ericsson and SynQor entered into a confidential settlement agreement that resulted in mutual releases and a dismissal with prejudice of all claims asserted by the parties against each other in the litigation.

In May 2011, Ericsson settled a US patent infringement lawsuit brought by an Australian company, QPSX Developments PTY Ltd. The lawsuit had been pending since April 2007 and involved Asynchronous Transfer Mode (ATM) technology. Ericsson considers this matter closed.

In July 2011, a US company TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent (ALU), the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) for purported federal antitrust violations. The complaint alleges that Ericsson, Qualcomm and ALU illegally conspired to block the adoption of TruePosition's proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. In October 2011, the defendants filed motions to dismiss the case.

The Swedish fiscal authorities disallowed deductions for sales commission payments via external service companies to sales agents in certain countries. The decision covering the fiscal year 1999 was appealed. In December 2006, the County Administrative Court in Stockholm rendered a judgment in favor of the fiscal authorities. The Administrative Court of Appeal in Stockholm affirmed the County Administrative Court's judgment. The judgment was appealed to the Administrative Supreme Court. In February 2011 the Administrative Supreme Court revoked the County Administrative Court's judgment and ruled in Ericsson's favor, thus allowing deductions for sales commission payments.

SOURCING AND SUPPLY

Ericsson's hardware, accounting for approximately 40% of total sales, largely consists of electronics, such as circuit boards, radio frequency (RF) modules and antennas. For manufacturing, the Company purchases customized and standardized components and services from several global providers as well as from local and regional suppliers. Certain types of components, such as power modules and cables, are produced in-house.

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority is in low-cost countries. Production of radio base stations is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into units such as complete radio base stations and mobile switching centers. Final assembly and testing are concentrated to a few sites. Ericsson has 17 manufacturing sites in Brazil, China, Estonia, Italy, India and Sweden.

A number of suppliers design and manufacture highly specialized and customized components. The Company generally attempts to negotiate global supply agreements with its primary suppliers. All Ericsson suppliers are required to comply with the Code of Conduct.

Where possible, Ericsson relies on alternative supply sources and seeks to avoid single source supply situations.

A need to switch to an alternative supplier may require allocation of additional resources to ensure that technical standards and other requirements are met. This process could take some time to complete.

Variations in market prices for raw materials generally have a limited effect on total cost of goods sold.

MATERIAL CONTRACTS

Material contractual obligations are outlined in Note C31 "Contractual obligations". These are primarily related to operating leases for office and production facilities, purchase contracts for outsourced manufacturing, R&D and IT operations, and the purchase of components for the Company's own manufacturing.

Ericsson is party to certain agreements, which include provisions that may take effect or be altered or invalidated by a change in control of the Company as a result of a public takeover offer. However, none of the agreements currently in effect would entail any material consequence to Ericsson due to a change in control of the Company.

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PARENT COMPANY

The Parent Company business consists mainly of corporate management, holding company functions and internal banking activities. It also handles customer credit management, performed on a commission basis by Ericsson Credit AB.

The Parent Company has 6 (6) branch offices. In total, the Group has 70 (68) branch and representative offices.

Financial information

Income after financial items was SEK 4.4 (7.8) billion. The Parent Company had no sales in 2011 or 2010 to subsidiaries, while 31% (45%) of total purchases of goods and services were from such companies.

Major changes in the Parent Company's financial position for the year included:

- Increased current and non-current receivables from subsidiaries of SEK 2.7 billion
- Decreased other current receivables of SEK 1.7 billion
- Decreased cash, cash equivalents and short-term investments of SEK 14.5 billion
- Decreased current and non-current liabilities to subsidiaries of SEK 7.8 billion
- Increased other current liabilities of SEK 2.4 billion.

At year end, cash, cash equivalents and short-term investments amounted to SEK 56.1 (70.6) billion.

Share information

As per December 31, 2011, the total number of shares in issue was 3,273,351,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,011,595,752 Class B shares, each carrying one tenth of one vote. The two largest shareholders at year end were Investor and Industrivärden holding 21.48% and 14.34% respectively of the voting rights in the Parent Company.

Both classes of shares have the same rights of participation in the net assets and earnings.

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 10,242,012 treasury shares were sold or distributed to employees in 2011. The quotient value of these shares was SEK 51.2 million, representing less than 1% of capital stock, and compensation received amounted to SEK 122.9 million. The holding of treasury stock at December 31, 2011 was 62,846,503 Class B shares. The quotient value of these shares is SEK 314.2 million, representing 1.9% of capital stock, and the related acquisition cost amounts to SEK 535.0 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 2.50 (2.25) per share be paid to shareholders duly registered on the record date May 8, 2012, and that the Parent Company shall retain the remaining part of non-restricted equity.

The Class B treasury shares held by the Parent Company are not entitled to receive a dividend. Assuming that no treasury shares remain on the record date, the Board of Directors proposes that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 8,183,379,338
Amount to be retained by the Parent Company	SEK 32,536,021,737
Total non-restricted equity of the Parent Company	SEK 40,719,401,075

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company's and the Group's need for financial resources as well as the Parent Company's and the Group's liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 52% (52%) and a net cash amount of SEK 39.5 (51.3) billion.

The Board of Directors has also considered the Parent Company's result and financial position and the Group's position in general. In this respect, the Board of Directors has taken into account known commitments that may have an impact on the financial positions of the Parent Company and its subsidiaries.

The proposed dividend does not limit the Group's ability to make investments or raise funds, and it is the Board of Directors' assessment that the proposed dividend is well-balanced considering the nature, scope and risks of the business activities as well as the capital requirements for the Parent Company and the Group as well as coming years' business plans and economic development.

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POST-CLOSING EVENTS

On January 12, 2012, Ericsson announced the closing of the acquisition of all the shares in Telcordia, a global leader in the development of software and services for OSS/BSS, for USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. Balances to facilitate a Purchase Price Allocation have not yet been established. Approximately 2,600 skilled employees have joined Ericsson. This acquisition consolidates Ericsson's position as a leading player in the operations support systems and business support systems (OSS/BSS) market with a key position in service fulfillment, assurance, network optimization and real-time charging.

On January 14, 2012, as per the trust's funding requirements, the Company made an employer contribution payment of SEK 900 million to the Swedish pension trust fund.

On January 20, 2012, Ulf Ewaldsson was appointed Senior Vice President, Chief Technology Officer, Head of Group function Technology and Portfolio Management, effective as of February 1.

In February 2012, Airvana Networks Solutions Inc., a State of Delaware, US corporation ("Airvana"), filed a complaint against Ericsson Inc. and Ericsson AB in the Supreme Court of the State of New York, US, alleging that Ericsson has violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Airvana is seeking damages of USD 330 million and to enjoin Ericsson from developing, deploying or commercializing Ericsson products allegedly based on Airvana's proprietary technology.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. The deal includes a broad IP cross-licensing agreement. Sony Ericsson is now a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

The divestment has resulted in a gain of approximately SEK 7.5 billion, to be recognized in the first quarter of 2012 and reported under Other operating income and expenses.

BOARD ASSURANCE

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company's financial position and results of operations.

The Board of Directors' Report for the Ericsson Group and the Parent Company provides a fair view of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm February 24, 2012
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016-0680

Sverker Martin-Löf Deputy Chairman	Leif Johansson Chairman	Jacob Wallenberg Deputy Chairman
Roxanne S. Austin Member of the Board	Sir Peter L. Bonfield Member of the Board	Börje Ekholm Member of the Board
Ulf J. Johansson Member of the Board	Nancy McKinstry Member of the Board	Anders Nyrén Member of the Board
Carl-Henric Svanberg Member of the Board	Hans Vestberg President, CEO and member of the Board	Michelangelo Volpi Member of the Board
Pehr Claesson Member of the Board	Jan Hedlund Member of the Board	Karin Åberg Member of the Board

50 BILLION CONNECTED DEVICES BY 2020.

50 BILLION

EXTENDING OUR REACH

To build the networked society, our innovations need to be offered more widely than to operators alone.

We are finding new ways to extend our reach. Today we also address sectors like utilities and TV & media.

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CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

Consolidated Financial Statements

Consolidated Income Statement and Statement of Comprehensive Income 46
Consolidated Balance Sheet 47
Consolidated Statement of Cash Flows 48
Consolidated Statement of Changes in Equity 49

Notes to the Consolidated Financial Statements

C1 Significant Accounting Policies 50
C2 Critical Accounting Estimates and Judgments 57
C3 Segment Information 59
C4 Net Sales 62
C5 Expenses by Nature 62
C6 Other Operating Income and Expenses 62
C7 Financial Income and Expenses 63
C8 Taxes 63
C9 Earnings per Share 64
C10 Intangible Assets 65
C11 Property, Plant and Equipment 67
C12 Financial Assets, Non-Current 68
C13 Inventories 69
C14 Trade Receivables and Customer Finance 70
C15 Other Current Receivables 71
C16 Equity and Other Comprehensive Income 72
C17 Post-Employment Benefits 76
C18 Provisions 81
C19 Interest-Bearing Liabilities 82
C20 Financial Risk Management and Financial Instruments 83
C21 Other Current Liabilities 86
C22 Trade Payables 86
C23 Assets Pledged as Collateral 86
C24 Contingent Liabilities 86
C25 Statement of Cash Flows 87
C26 Business Combinations 87
C27 Leasing 89
C28 Information Regarding Members of the Board of Directors, the Group Management and Employees 90
C29 Related Party Transactions 95
C30 Fees to Auditors 96
C31 Contractual Obligations 96
C32 Events after the Balance Sheet Date 96

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CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED INCOME STATEMENT

January–December, SEK million	Notes	2011	2010	2009
Net sales	C3, C4	**226,921**	203,348	206,477
Cost of sales		**–147,200**	–129,094	–136,278
Gross income		**79,721**	74,254	70,199
Gross margin (%)		**35.1%**	36.5%	34.0%
Research and development expenses		**–32,638**	–31,558	–33,055
Selling and administrative expenses		**–26,683**	–27,072	–26,908
Operating expenses		**–59,321**	–58,630	–59,963
Other operating income and expenses	C6	**1,278**	2,003	3,082
Operating income before shares in earnings of joint ventures and associated companies		**21,678**	17,627	13,318
Operating margin before shares in earnings of joint ventures and associated companies (%)		**9.6%**	8.7%	6.5%
Share in earnings of joint ventures and associated companies	C12	**–3,778**	–1,172	–7,400
Operating income		**17,900**	16,455	5,918
Financial income	C7	**2,882**	1,047	1,874
Financial expenses	C7	**–2,661**	–1,719	–1,549
Income after financial items		**18,121**	15,783	6,243
Taxes	C8	**–5,552**	–4,548	–2,116
Net income		**12,569**	11,235	4,127
Net income attributable to:				
Stockholders of the Parent Company		**12,194**	11,146	3,672
Non-controlling interest		**375**	89	455
Other information				
Average number of shares, basic (million)	C9	**3,206**	3,197	3,190
Earnings per share attributable to stockholders of the Parent Company, basic (SEK) [1]	C9	**3.80**	3.49	1.15
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK) [1]	C9	**3.77**	3.46	1.14

[1] Based on Net income attributable to stockholders of the Parent Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January–December, SEK million	Notes	2011	2010	2009
Net income		**12,569**	11,235	4,127
Other comprehensive income				
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions	C16	**–6,963**	3,892	–633
Revaluation of other investments in shares and participations				
Fair value remeasurement	C16	**–**	7	–2
Cash Flow hedges				
Gains/losses arising during the period	C16	**996**	966	665
Reclassification adjustments for gains/losses included in profit or loss	C16	**–2,028**	–238	3,850
Adjustments for amounts transferred to initial carrying amount of hedged items	C16	**–**	–136	–1,029
Changes in cumulative translation adjustments	C16	**–964**	–3,259	–1,067
Share of other comprehensive income of joint ventures and associated companies	C16	**–262**	–434	–259
Tax on items relating to components of Other comprehensive income	C16	**2,158**	–1,120	–1,040
Total other comprehensive income		**–7,063**	–322	485
Total comprehensive income		**5,506**	10,913	4,612
Total Comprehensive Income attributable to:				
Stockholders of the Parent Company		**5,081**	10,814	4,211
Non-controlling interest		**425**	99	401

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CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2011	2010
ASSETS			
Non-current assets			
Intangible assets	C10		
Capitalized development expenses		**3,523**	3,010
Goodwill		**27,438**	27,151
Intellectual property rights, brands and other intangible assets		**13,083**	16,658
Property, plant and equipment	C11, C26, C27	**10,788**	9,434
Financial assets			
Equity in joint ventures and associated companies	C12	**5,965**	9,803
Other investments in shares and participations	C12	**2,199**	219
Customer finance, non-current	C12	**1,400**	1,281
Other financial assets, non-current	C12	**4,117**	3,079
Deferred tax assets	C8	**13,020**	12,737
		81,533	83,372
Current assets			
Inventories	C13	**33,070**	29,897
Trade receivables	C14	**64,522**	61,127
Customer finance, current	C14	**2,845**	3,123
Other current receivables	C15	**17,837**	17,146
Short-term investments	C20	**41,866**	56,286
Cash and cash equivalents	C25	**38,676**	30,864
		198,816	198,443
TOTAL ASSETS		**280,349**	281,815
EQUITY AND LIABILITIES			
Equity			
Stockholders' equity	C16	**143,105**	145,106
Non-controlling interest in equity of subsidiaries	C16	**2,165**	1,679
		145,270	146,785
Non-current liabilities			
Post-employment benefits	C17	**10,016**	5,092
Provisions, non-current	C18	**280**	353
Deferred tax liabilities	C8	**2,250**	2,571
Borrowings, non-current	C19, C20	**23,256**	26,955
Other non-current liabilities		**2,248**	3,296
		38,050	38,267
Current liabilities			
Provisions, current	C18	**5,985**	9,391
Borrowings, current	C19, C20	**7,765**	3,808
Trade payables	C22	**25,309**	24,959
Other current liabilities	C21	**57,970**	58,605
		97,029	96,763
TOTAL EQUITY AND LIABILITIES [1]		**280,349**	281,815

[1] Of which interest-bearing liabilities and post-employment benefits SEK 41,037 (35,855) million.

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CONSOLIDATED STATEMENT OF CASH FLOWS

January–December, SEK million	Notes	2011	2010	2009
Operating activities				
Net income		12,569	11,235	4,127
Adjustments to reconcile net income to cash	C25	12,613	12,490	16,856
		25,182	23,725	20,983
Changes in operating net assets				
Inventories		–3,243	–7,917	5,207
Customer finance, current and non-current		74	–2,125	598
Trade receivables		–1,700	4,406	7,668
Trade payables		–1,648	5,964	–3,522
Provisions and post-employment benefits		–5,695	–2,739	–2,950
Other operating assets and liabilities, net		–2,988	5,269	–3,508
		–15,200	2,858	3,493
Cash flow from operating activities		9,982	26,583	24,476
Investing activities				
Investments in property, plant and equipment	C11	–4,994	–3,686	–4,006
Sales of property, plant and equipment		386	124	534
Acquisitions of subsidiaries and other operations	C25, C26	–3,181	–3,286	–19,321
Divestments of subsidiaries and other operations	C25, C26	53	454	1,239
Product development	C10	–1,515	–1,644	–1,443
Other investing activities		–900	–1,487	2,606
Short-term investments		14,692	–3,016	–17,071
Cash flow from investing activities		4,541	–12,541	–37,462
Cash flow before financing activities		14,523	14,042	–12,986
Financing activities				
Proceeds from issuance of borrowings		2,076	2,580	14,153
Repayment of borrowings		–1,259	–1,449	–9,804
Sale of own stock and options exercised		92	51	69
Dividends paid		–7,455	–6,677	–6,318
Other financing activities		52	–175	199
Cash flow from financing activities		–6,494	–5,670	–1,701
Effect of exchange rate changes on cash		–217	–306	–328
Net change in cash		7,812	8,066	–15,015
Cash and cash equivalents, beginning of period		30,864	22,798	37,813
Cash and cash equivalents, end of period	C25	38,676	30,864	22,798

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Capital stock	Additional paid in capital	Retained earnings	Stockholders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2011		16,367	24,731	104,008	**145,106**	1,679	**146,785**
Total comprehensive income	C16	–	–	5,081	**5,081**	425	**5,506**
Transactions with owners							
Sale of own shares		–	–	92	**92**	–	**92**
Stock Purchase Plans		–	–	413	**413**	–	**413**
Dividends paid		–	–	–7,207	**–7,207**	–248	**–7,455**
Transactions with non-controlling interest		–	–	–380	**–380**	309	**–71**
December 31, 2011		**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**
January 1, 2010		16,367	24,731	98,772	**139,870**	1,157	**141,027**
Total comprehensive income	C16	–	–	10,814	**10,814**	99	**10,913**
Transactions with owners							
Sale of own shares		–	–	52	**52**	–	**52**
Stock Purchase Plans		–	–	762	**762**	–	**762**
Dividends paid		–	–	–6,391	**–6,391**	–286	**–6,677**
Transactions with non-controlling interest		–	–	–	**–**	708	**708**
December 31, 2010		**16,367**	**24,731**	**104,008**	**145,106**	**1,679**	**146,785**
January 1, 2009		16,232	24,731	99,860	**140,823**	1,261	**142,084**
Total comprehensive income	C16	–	–	4,211	**4,211**	401	**4,612**
Transactions with owners							
Stock issue		135	–	–	**135**	–	**135**
Sale of own shares		–	–	75	**75**	–	**75**
Repurchase of own shares		–	–	–135	**–135**	–	**–135**
Stock Purchase and Stock Option Plans		–	–	658	**658**	–	**658**
Dividends paid		–	–	–5,897	**–5,897**	–421	**–6,318**
Transactions with non-controlling interest		–	–	–	**–**	–84	**–84**
December 31, 2009		**16,367**	**24,731**	**98,772**	**139,870**	**1,157**	**141,027**

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C1 SIGNIFICANT ACCOUNTING POLICIES

Introduction

The consolidated financial statements comprise Telefonaktiebolaget LM Ericsson, the Parent Company, and its subsidiaries ("the Company") and the Company's interests in joint ventures and associated companies. The Parent Company is domiciled in Sweden at Torshamnsgatan 23, SE-164 83 Stockholm.

The consolidated financial statements for the year ended December 31, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 "Additional rules for Group Accounting", related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2011, the Company has applied IFRS as issued by the IASB (IFRS effective as per December 31, 2011) and without any early application. There is no difference between IFRS effective as per December 31, 2011, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS.

The financial statements were approved by the Board of Directors on February 24, 2012. The balance sheets and income statements are subject to approval by the annual meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2011:

- Improvements to IFRSs (Issued by the IASB in May 2010).
- Amendment to IFRIC 14,'IAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction'. Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognized as an asset rather than an expense.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.
- IAS 24, 'Related party disclosures' (revised 2009). Amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities.
- Amendment to IAS 32, 'Financial instruments: Presentation – Classification of rights issues'. Amended to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

None of the new or amended standards and interpretations have had any significant impact on the financial result or position of the Company.

For information on "New standards and interpretations not yet adopted" please see page 56.

Basis of presentation

The financial statements are presented in millions of Swedish Krona (SEK). They are prepared on a historical cost basis, except for certain financial assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and plan assets related to defined benefit pension plans.

Basis of consolidation

The consolidated financial statements are prepared in accordance with the purchase method. Accordingly, consolidated stockholders' equity includes equity in subsidiaries, joint ventures and associated companies earned only after their acquisition.

Subsidiaries are all companies in which Ericsson has an ownership interest, directly or indirectly, including effective potential voting rights, has the power to govern the financial and operating policies generally associated with ownership of more than one half of the voting rights or in which Ericsson by agreement has control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealized income and expense arising from intra-group transactions are fully eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

At the acquisition of a business, the cost of the acquisition, being the purchase price, is measured as the fair value of the assets given, and liabilities incurred or assumed at the date of exchange, including any cost related to contingent consideration. Transaction costs attributable to the acquisition are expensed as incurred. The acquisition cost is allocated to acquired assets, liabilities and contingent liabilities based upon appraisals made, including assets and liabilities that were not recognized on the acquired entity's balance sheet, for example intangible assets such as customer relations, brands, patents and financial liabilities. Goodwill arises when the purchase price exceeds the fair value of recognizable acquired net assets. In acquisitions with non-controlling interest full or partial goodwill can be recognized. Final amounts are established within one year after the transaction date at the latest.

In case there is a put option for non-controlling interest in a subsidiary a corresponding financial liability is recognized.

Non-controlling interest

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

At acquisition, there is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Joint ventures and associated companies

Both joint ventures and associated companies are accounted for in accordance with the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. JVs are ownership interests where a joint influence is obtained through agreement.

Investments in associated companies, i.e. when the Company has

Telcordia05239

significant influence and the power to participate in the financial and operating policy decisions of the associated company, but is not control or joint control over those policies. Normally this is the case when voting stock interest, including effective potential voting rights, is at least 20% but not more than 50%.

Ericsson's share of income before taxes is reported in item "Share in earnings of joint ventures and associated companies", included in Operating Income. This is due to that these interests are held for operating rather than investing or financial purposes. Ericsson's share of income taxes related to joint ventures and associated companies is reported under the line item Taxes in the income statement.

Unrealized gains on transactions between the Company and its associated companies and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Shares in earnings of joint ventures and associated companies included in consolidated equity which are undistributed are reported in Retained earnings in the balance sheet.

Impairment testing as well as recognition or reversal of impairment of investments in each joint venture is performed in the same manner as for intangible assets other than goodwill. The entire carrying amount of each investment, including goodwill, is tested as a single asset. See also description under "Intangible assets other than goodwill" below.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In Note C2, "Critical Accounting Estimates and Judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Foreign currency remeasurement and translation

Items included in the financial statements of each entity of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Swedish Krona (SEK), which is the Parent Company's functional and presentation currency.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless deferred in Other Comprehensive Income (OCI) under the hedge accounting practices as described below.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in OCI.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates
- All resulting net exchange differences are recognized as a separate component of OCI.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are accounted for in OCI. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in OCI are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

There is no significant impact due to a currency of a hyperinflationary economy.

Statement of cash flows

The statement of cash flow is prepared in accordance with the indirect method. Cash flows in foreign subsidiaries are translated at the average exchange rate during the period. Payments for subsidiaries acquired or divested are reported as cash flow from investing activities, net of cash and cash equivalents acquired or disposed of, respectively.

Cash and cash equivalents consist of cash, bank, and short-term investments that are highly liquid monetary financial instruments with a remaining maturity of three months or less at the date of acquisition.

Revenue recognition

BACKGROUND

The Company offers a comprehensive portfolio of telecommunication and data communication systems, professional services, and multimedia solutions. Products, both hardware and software as well as services are in general standardized. The impact of this is that any acceptance terms are normally only formal requirements. In Note C3, "Segment information", the Company offer is disclosed more in detail as per operating segment.

The Company's products and services are generally sold under delivery-type or multi-year recurring services contracts. The delivery type contracts often have content from more than one segment.

ACCOUNTING TREATMENT

Sales are based on fair values of consideration received and recorded net of value added taxes, goods returned and estimated trade discounts. Revenue is recognized when risks and rewards have been transferred to the customer, with reference to all significant contractual terms when:

- The product or service has been delivered
- The revenue amount is fixed or determinable
- Customer has received and activation has been made of separately sold software
- Collection is reasonably assured.

Estimation of contractual performance criteria impact the timing and amounts of revenue recognized and may therefore defer revenue recognition until the performance criteria are met. The profitability of contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

Allocation and/or timing criteria specific per type of contract are:

- Delivery-type contracts. These contracts relate to delivery, installation, integration of products and providing of related services, normally under multiple elements contracts. Under multiple elements contracts the accounting is based on that the revenue recognition criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Multimedia have contracts that relate to this type of contracts.
- Contracts for services. Relate to multi-year service contracts such as support – and managed service contracts and other types of recurring

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services. Revenue is recognized when the services have been provided, generally pro rata over the contract period. Global Services has contracts that relate to this type of contracts.

- Contracts generating license fees from third parties for the use of the Company's technology or intellectual property rights, not being a part of another product. Revenue is normally recognized based on sales of products sold to the customer/licensee. Networks and Multimedia have contracts that relate to this type of contracts.

For sales between consolidated companies, associated companies, joint ventures and segments, the Company applies arm's length pricing.

In Note C2, "Critical Accounting Estimates and Judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Earnings per share

Basic earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the weighted average number of shares outstanding (total number of shares less treasury stock) during the year.

Diluted earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company, when appropriate adjusted by the sum of the weighted average number of ordinary shares outstanding and dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

Stock options and rights to matching shares are considered dilutive when the actual fulfillment of any performance conditions as of the reporting date would give a right to ordinary shares. Furthermore, stock options are considered dilutive only when the exercise price is lower than the period's average share price.

Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognized if any rights and obligations are created or retained in the transfer.

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates. Valuations of Foreign exchange options and Interest Rate Guarantees (IRG) are made by using a Black-Scholes formula. Inputs to the valuations are market prices for implied volatility, foreign exchange and interest rates.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Gains or losses arising from changes in the fair values of the "financial assets at fair value through profit or loss"-category (excluding derivatives) are presented in the income statement within Financial income in the period in which they arise. Derivatives are presented in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent with the transaction.

LOANS AND RECEIVABLES

Receivables, including those that relate to customer financing, are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer as well as amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectability of the receivables is assessed for purposes of initial revenue recognition.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Dividends on available-for-sale equity instruments are recognized in the income statement as part of financial income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in OCI. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in OCI. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized in OCI are included in the income statement.

IMPAIRMENT

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an evidence that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from OCI and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

Telcordia05241

Financial Liabilities

Financial liabilities are recognized when the Company becomes bound to the contractual obligations of the instrument.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

BORROWINGS

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

TRADE PAYABLES

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent of the transaction.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value at trade date and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

a) **Fair value hedge:** a hedge of the fair value of recognized liabilities
b) **Cash flow hedge:** a hedge of a particular risk associated with a highly probable forecast transaction; or
c) **Net investment hedge:** a hedge of a net investment in a foreign operation.

At the inception of the hedge, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note C20, “Financial Risk Management and Financial Instruments”. Movements in the hedging reserve in OCI are shown in Note C16, “Equity and Other Comprehensive Income”.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

FAIR VALUE HEDGES

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains and losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognized in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the remaining period to maturity.

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense.

Amounts deferred in OCI are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place), either in Net Sales or Cost of Sales. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in OCI are transferred from OCI and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of Sales in case of inventory or in Depreciation in case of fixed assets. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss which at that time remains in OCI is recognized in the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within financial income or expense.

NET INVESTMENT HEDGES

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI. A gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense. Gains and losses deferred in OCI are included in the income statement when the foreign operation is partially disposed of or sold.

Financial guarantees

Financial guarantee contracts are initially recognized at fair value (i.e. usually the fee received). Subsequently, these contracts are measured at the higher of:

> The amount determined as the best estimate of the net expenditure required to settle the obligation according to the guarantee contract
> The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method.

The best estimate of the net expenditure comprises future fees and cash flows from subrogation rights.

Inventories

Inventories are measured at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis.

Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

A significant part of Inventories is Contract work in Progress(CWIP). Recognition and de recognition of CWIP relates to the Company´s revenue recognition principles meaning that costs incurred under a customer contract are recognized as CWIP. When revenue is recognized CWIP is derecognized and is instead recognized as Cost of Sales.

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In Note C2, “Critical Accounting Estimates and Judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Intangible assets

INTANGIBLE ASSETS OTHER THAN GOODWILL

Intangible assets other than goodwill comprise capitalized development expenses and acquired intangible assets, such as patents, customer relations, trademarks and software. At initial recognition, capitalized development expenses are stated at cost while acquired intangible assets related to business combinations are stated at fair value. Subsequent to initial recognition, both capitalized development expenses and acquired intangible assets are stated at initially recognized amounts less accumulated amortization and any impairment. Amortization and any impairment losses are included in Research and development expenses, mainly for capitalized development expenses and patents, in Selling and administrative expenses, mainly for customer relations and brands, and in Cost of sales.

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economical feasibility has been established until the product is available for sale or use. These capitalized expenses are mainly generated internally and include direct labor and directly attributable overhead. Amortization of capitalized development expenses begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development expenses directly related to orders from customers are accounted for as a part of Cost of sales. Other research and development expenses are charged to income as incurred.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight-line method over their estimated useful lives, not exceeding ten years. However, if the economic benefit related to an item of intangible assets is front-end loaded the amortization method reflects this. Thus, the amortization for such an item is amortized on a digressive curve basis and the asset value decreases with higher amounts in the beginning of the useful life compared to the end.

The Company has not recognized any intangible assets with indefinite useful life other than goodwill.

Impairment tests are performed whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Application of after tax amounts in calculation, both in relation to cash flows and discount rate is applied due to that available models for calculating discount rate include a tax component. The after tax discounting, applied by the Company is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

Corporate assets have been allocated to cash-generating units in relation to each unit’s proportion of total net sales. The amount related to corporate assets is not significant. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts and if the recoverable amount is higher than the carrying value. An impairment loss is reversed only to the extent that the asset’s carrying amount after reversal does not exceed the carrying amount, net of amortization, which would have been reported if no impairment loss had been recognized.

In Note C2, “Critical Accounting Estimates and Judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

GOODWILL

As from the acquisition date, goodwill acquired in a business combination is allocated to each cash-generating unit (CGU) of the Company expected to benefit from the synergies of the combination. Ericsson’s five operating segments have been identified as CGUs. Goodwill is assigned to four of them, Networks, Professional Services, Multimedia and ST-Ericsson.

An annual impairment test for the CGUs to which goodwill has been allocated is performed in the fourth quarter, or when there is an indication of impairment. Impairment testing as well as recognition of impairment of goodwill is performed in the same manner as for intangible assets other than goodwill, see description under “Intangible assets other than goodwill” above. An impairment loss in respect of goodwill is not reversed.

Additional disclosure is required in relation to goodwill impairment testing, see Note C2, “Critical Accounting Estimates and Judgments”, below and in Note C10, “Intangible Assets”.

Property, plant and equipment

Property, plant and equipment consist of real estate, machinery and other technical assets, other equipment, tools and installation and construction in process and advance payment , they are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is charged to income, generally on a straight-line basis, over the estimated useful life of each component of an item of property, plant and equipment, including buildings. Estimated useful lives are, in general, 25–50 years for real estate and 3–10 years for machinery and equipment. Depreciation and any impairment charges are included in Cost of sales, Research and development or Selling and administrative expenses.

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing a component and derecognizes the residual value of the replaced component.

Impairment testing as well as recognition or reversal of impairment of property, plant and equipment is performed in the same manner as for intangible assets other than goodwill, see description under “Intangible assets other than goodwill” above.

Gains and losses on disposals are determined by comparing the proceeds less cost to sell with the carrying amount and are recognized within Other operating income and expenses in the income statement.

Leasing

LEASING WHEN THE COMPANY IS THE LESSEE

Leases on terms in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset, although the depreciation period must not exceed the lease term.

Other leases are operating leases, and the leased assets under such contracts are not recognized on the balance sheet. Costs under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

LEASING WHEN THE COMPANY IS THE LESSOR

Leasing contracts with the Company as lessor are classified as finance leases when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases. Under a finance lease, a receivable is recognized at an amount equal to the net investment in the lease and revenue is recognized in accordance with the revenue recognition principles.

Telcordia05243

Under operating leases the equipment Is recorded as property, plant and equipment and revenue as well as depreciation is recognized on a straight-line basis over the lease term.

Income taxes

Income taxes in the consolidated financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity or OCI. For those items, the related income tax is also reported directly in equity or OCI. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognized for temporary differences between the book values of assets and liabilities and their tax values and for tax loss carry forwards. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carry forwards can be utilized. In the recognition of income taxes, the Company offsets current tax receivables against current tax liabilities and deferred tax assets against deferred tax liabilities in the balance sheet, when the Company has a legal right to offset these items and the intention to do so. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and for differences related to investments in subsidiaries when it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognized in the income statement, unless it relates to a temporary difference earlier recognized directly in equity or OCI, in which case the adjustment is also recognized in equity or OCI.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization. The largest amounts of tax loss carry forwards relate to Sweden, with indefinite period of utilization.

In Note C2, “Critical Accounting Estimates and Judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Provisions and contingent liabilities

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to warranty commitments, restructuring, customer projects and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer finance guarantees.

Product warranty commitments consider probabilities of all material quality issues based on historical performance for established products and expected performance for new products, estimates of repair cost per unit, and volumes sold still under warranty up to the reporting date.

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Other provisions include provisions for unresolved tax issues, litigations, supplier claims, customer finance and other provisions. The Company provides for estimated future settlements related to patent infringements based on the probable outcome of each infringement. The actual outcome or actual cost of settling an individual infringement may vary from the Company’s estimate.

The Company estimates the outcome of any potential patent infringement made known to the Company through assertion and through the Company’s own monitoring of patent-related cases in the relevant legal systems. To the extent that the Company makes the judgment that an identified potential infringement will more likely than not result in an outflow of resources, the Company records a provision based on the Company’s best estimate of the expenditure required to settle with the counterpart.

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other unresolved claims, including proceedings under laws and government regulations and other matters. These matters are often resolved over a long period of time. The Company regularly assesses the likelihood of any adverse judgments in or outcomes of these matters, as well as potential ranges of possible losses. Provisions are recognized when it is probable that an obligation has arisen and the amount can be reasonably estimated based on a detailed analysis of each individual issue.

Certain present obligations are not recognized as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities. For further detailed information, see Note C24, “Contingent liabilities”.

In Note C2, “Critical Accounting Estimates and Judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Post-employment benefits

Pensions and other post-employment benefits are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company’s only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognized as expenses during the period when the employee provides service.
Under a defined benefit plan, it is the Company’s obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The discount rate for each country is determined by reference to market yields on high-quality corporate bonds that have maturity dates approximating the terms of the Company’s obligations. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The calculations are based upon actuarial assumptions, assessed on a quarterly basis, and are as a minimum prepared annually. Actuarial assumptions are the Company’s best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it is possible that the actual results will differ from the estimated results or that the actuarial assumptions will change from one period to another. These differences are reported as actuarial gains and losses. They are for example caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes, changes in the discount rate and differences between actual and expected return on plan assets. Actuarial gains and losses are recognized in OCI in the period in which they occur. The Company’s net liability for each defined benefit plan consists of the present value of pension commitments less the fair value of plan assets and is recognized net on the balance sheet. When the result is

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a net benefit to the Company, the recognized asset is limited to the total of any cumulative past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The net of return on plan assets and interest on pension liabilities is reported as financial income or expense, while the current service cost and any other items in the annual pension cost are reported as operating income or expense.

Payroll taxes related to actuarial gains and losses are included in determining actuarial gains and losses.

In Note C2, "Critical Accounting Estimates and Judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Share-based compensation to employees and the Board of Directors

Share-based compensation is related to remuneration to all employees, including key management personnel and the Board of Directors.

Under IFRS, a company shall recognize compensation costs for share-based compensation programs based on a measure of the value to the company of services received under the plans.

This value is based on the fair value of, for example free shares at grant date, measured as stock price as per each investment date. The value at grant date is charged to the income statement as any other remuneration over the service period. For example, value at grant date is 90. Given the normal service period of three years within Ericsson, 30 are charged per year during the service period.

The amount charged to the income statement is reversed in equity each time of the income statement charge.

The reason for this accounting principle of IFRS is that compensation cost is a cost with no direct cash flow impact. The purpose of share-based accounting according to IFRS (IFRS 2) is to present an impact of share-based programs, being part of the total remuneration, in the income statement.

COMPENSATION TO EMPLOYEES

Stock purchase plans

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the Ericsson share at the employee's investment date. The fair value is based upon the share price at investment date, adjusted for the fact that no dividends will be received on matching shares prior to matching and other features that are non-vesting conditions. The employee pays a price equal to the share price at investment date for the investment shares. The investment date is considered as the grant date. In the balance sheet, the corresponding amounts are accounted for as equity. Vesting conditions are non-market based and affect the number of shares that Ericsson will match. Other features of a share-based payment are non-vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services. In the period when an employee takes a refund of previously made contributions (and stops making further contributions) all remaining compensation expense is recognized. Non-vesting conditions would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. When calculating the compensation costs for shares under performance-based matching programs, the Company at each reporting date assesses the probability that the performance targets are met. Compensation expenses are based on estimates of the number of shares that will match at the end of the vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, estimated amounts for such social security charges are expensed and accrued.

COMPENSATION TO THE BOARD OF DIRECTORS

During 2008, the Parent Company introduced a share-based compensation program as a part of the remuneration to the Board of Directors. The program gives non-employed Directors elected by the General Meeting of Shareholders a right to receive part of their remuneration as a future payment of an amount which corresponds to the market value of a share of class B in the Parent Company at the time of payment, as further disclosed in Note C28, "Information Regarding Members of the Board of Directors, the Group Management and Employees". The cost for cash settlements is measured and recognized based on the estimated costs for the program on a pro rata basis during the service period, being one year. The estimated costs are remeasured during and at the end of the service period.

Segment reporting

An operating segment is a component of a company whose operating results are regularly reviewed by the Company's chief operating decision maker, (CODM), to make decisions about resources to be allocated to the segment and assess its performance. Within the Company, the Group Management Team is defined as the CODM function.

The segment presentation, as per each segment is based on the Company's accounting policies as disclosed in this note. The arm's length principle is applied in transactions between the segments.

The Company's segment disclosure about geographical areas is based on in which country transfer of risks and rewards occur.

New standards and interpretations not yet adopted

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements.

Below is a list of standards/interpretations that have been issued, except for amendments related to IFRS 1, 'First time adoption of International Financial Reporting Standards' and are effective for the periods starting as from January 1, 2012.

- **Amendment to IAS 12, 'Income taxes', on deferred tax.**
  IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.
  As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- **Amendments to IFRS 7,'Financial instruments: Disclosures on derecognition',** This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Earlier application subject to EU endorsement is permitted.

These amendments effective as from January 1, 2012, are not expected to have a significant impact on the Company's financial result or position.

Below is a list of standards/interpretations that have been issued, except for amendments related to IFRS 1, 'First time adoption of International Financial Reporting Standards' and are effective for the periods starting as from January 1, 2013 (except IFRS 9).

Telcordia05245

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- **Amendment to IAS 1, 'Financial statement presentation',** regarding other comprehensive income.
- **Amendment to IAS 19,'Employee benefits',** These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Company implemented the immediate recognition of remeasurements in the other comprehensive income in 2006, and therefore the transition to the revised IAS19 applicable starting January 1, 2013 will not have a significant effect on the present obligation. The main issues to address will be the implementation of the net interest cost/gain, which integrates the interest cost and expected return on assets to be based on a common discount rate. The Company will also need to address the taxes to be incorporated into the defined benefit obligation and plan assets, as well as the additional disclosure requirements on financial and demographic assumptions, sensitivity analysis, duration and multi-employer plans."
- **IFRS 9, 'Financial instruments',** IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.
- **IFRS 10, 'Consolidated financial statements',** Builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statement of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is estimated to have a limited impact on the Company. However, the accounting treatment in relation to any new future business or customer contract models might be impacted by IFRS 10.
- **IFRS 11, 'Joint arrangements'**, IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The Company does not use the proportionate consolidation method.
- **IFRS 12, 'Disclosures of interests in other entities',** IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- **IFRS 13, 'Fair value measurement',** IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.
- **IAS 27 (revised 2011), 'Separate financial statements',** IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. (see IFRS 10)
- **IAS 28 (revised 2011), 'Associates and joint ventures',** IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. (see IFRS 10).

These amendments effective as from January 1, 2013, are not expected to have a significant impact on the Company's financial result or position.

IFRS 9 is applicable as from January1, 2015. The EU has not endorsed IAS 12, IFRS 9, 10, 11, 12 or 13, IAS 19, IAS 27 (rev), IAS 28 (rev) or IAS 1 (amended).

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected.

Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

The information in this note is grouped as per:

- Key sources of estimation uncertainty.
- Judgments management has made in the process of applying the Company's accounting policies.

Revenue recognition

Key sources of estimation uncertainty

Examples of estimates of total contract revenue and cost that are necessary are the assessing of customer possibility to reach conditional purchase volumes triggering contractual discounts to be given to the customer, the impact on the Company revenue in relation to performance criteria and whether any loss provisions shall be made.

Judgments made in relation to accounting policies applied

Parts of the Company's sales are generated from large and complex customer contracts. Managerial judgment is applied regarding, among other aspects, conformance with acceptance criteria and if transfer of risks and rewards to the buyer has taken place to determine if revenue and costs should be recognized in the current period, degree of completion and the customer credit standing to assess whether payment is likely or not to justify revenue recognition.

Trade and customer finance receivables

Key sources of estimation uncertainty

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2011, were SEK 1.0 (1.1) billion or 1.4% (1.6%) of gross trade and customer finance receivables.

Credit risks for outstanding customer finance credits are regularly assessed as well, and allowances are recorded for estimated losses.

Inventory valuation

Key sources of estimation uncertainty

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2011, amounted to SEK 3.3 (3.1) billion or 9% (10%) of gross inventory.

Investments in joint ventures and associated companies

Key sources of estimation uncertainty

Impairment testing of total carrying value of each item of "Equity in joint ventures and associated companies" is performed after initial recognition, whenever there is an indication of impairment. Information regarding information used for impairment tests is provided by respective joint venture and associated company. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. An impairment in a JV or associated company may not always affect the Company in the same way depending on accounting standard used, initial recognition of assets and liabilities or other differences.

At December 31, 2011, the amount of joint ventures and associated companies amounted to SEK 6.0 (9.8) billion.

Telcordia05246

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Assets held for sale

Judgments made in relation to accounting policies applied

Whether an asset is held for sale requires management´s judgments. If an asset is held for sale it must also be evaluated as from which date.

On February 15, 2012 the sale of Sony Ericsson Mobile to Sony was closed. The sale was announced on October 27, 2011. This investment was accounted for under the equity method. Under this method the Company's share of the profit or loss of an investee is recognized by the Company. It has been determined that the use of the quarterly financial statements issued by Sony Ericsson Mobile results in the most relevant and reliable share of the profit or losses of the investee.

Subsequent to the date of the announcement Sony Ericsson Mobile issued financial statements as of Dec 31, 2011. Consequently, the equity method has been applied for the full year, including the period subsequent to the announcement. The Company's share of the losses of Sony Ericsson Mobile for the 12 months period ended December 31, 2011 amounts to SEK –1.1 billion. This has resulted in a carrying value of the investment amounting to SEK 1.4 billion as of December 31, 2011. The divestment has resulted in a gain of approximately SEK 7.5 billion, to be recognized in the first quarter of 2012 and reported under Other operating income and expenses.

Deferred taxes

Key sources of estimation uncertainty

Deferred tax assets and liabilities, are recognized for temporary differences and for tax loss carry-forwards. Deferred tax is recognized net of valuation allowances. The valuation of temporary differences and tax loss carry-forwards, is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized.

The largest amounts of tax loss carry-forwards are reported in Sweden, with an indefinite period of utilization (i.e. with no expiry date). For further detailed information, please refer to Note C8, "Taxes".

At December 31, 2011, the value of deferred tax assets amounted to SEK 13.0 (12.7) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

Accounting for income-, value added- and other taxes

Key sources of estimation uncertainty

Accounting for these items is based upon evaluation of income-, value added- and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgments regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

Acquired intellectual property rights and other intangible assets, including goodwill

Key sources of estimation uncertainty

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition, impairment testing is performed whenever there is an indication of impairment, except for goodwill for which impairment testing is performed at least once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. One source of uncertainty related to future cash flows is long-term movements in exchange rates.

For further discussion on goodwill, see Note C1, "Significant Accounting Policies" and Note C10, "Intangible Assets". Estimates related to acquired intangible assets are based on similar assumptions and risks as for goodwill.

At December 31, 2011, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 40.5 (43.8) billion, including goodwill of SEK 27.4 (27.2) billion. An impairment charge of SEK 0.0 (0.9) billion was recognized as a part of the restructuring program. Under this program decisions were taken to phase out certain products. The impairment charge relates to balances for these products. The Company has also recognized goodwill in ST-Ericsson of SEK 1.3 (1.3) billion, as disclosed in Note C12, "Financial Assets, Non-Current".

Judgments made in relation to accounting policies applied

At initial recognition and subsequent remeasurement, management judgments are made, both for key assumptions and regarding impairment indicators. In the purchase price allocation made for each acquisition, the purchase price shall be assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill. This allocation requires management judgment as well as the definition of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

Provisions

WARRANTY PROVISIONS

Key sources of estimation uncertainty

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2011, amounted to SEK 1.8 (2.5) billion.

PROVISIONS OTHER THAN WARRANTY PROVISIONS

Key sources of estimation uncertainty

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2011, provisions other than warranty commitments amounted to SEK 4.4 (7.3) billion. For further detailed information, see Note C18, "Provisions".

Judgments made in relation to accounting policies applied

Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and management's judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.

Contingent liabilities

Key sources of estimation uncertainty

As disclosed under 'Provisions other than warranty provisions' there are uncertainties in the estimated amounts. The same type of uncertainty exists for contingent liabilities.

Judgments made in relation to accounting policies

As disclosed under Note C1, "Significant Accounting Policies" a potential obligation that is not probable to result in an economic outflow is classified as a contingent liability, with no impact on the Company's financial statements. Should, however, an obligation in a later period be deemed to be probable, then a provision shall be recognized, impacting the financial statements.

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Pension and other post-employment benefits

Key sources of estimation uncertainty

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company's pension plans. Expected returns on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2011, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 36.4 (28.7) billion and fair value of plan assets to SEK 28.0 (25.4) billion. For more information on estimates and assumptions, see Note C17, "Post-Employment Benefits".

Financial instruments, hedge accounting and foreign exchange risks

Key sources of estimation uncertainty

Foreign exchange risk in highly probable sales and purchases in future periods are hedged using foreign exchange derivative instruments designated as cash-flow hedges. Forecasts are based on estimations of future transactions. A forecast is therefore per definition uncertain to some degree.

Judgments made in relation to accounting policies applied

Establishing highly probable sales and purchases volumes involve gathering and evaluating sales and purchases estimates for future periods as well as analyzing actual outcome versus estimates on a regular basis in order to fulfill effectiveness testing requirements for hedge accounting. Changes in estimates of sales and purchases might result in that hedge accounting is discontinued.

For further information regarding risks in financial instruments, see Note C20, "Financial Risk Management and Financial Instruments".

C3 SEGMENT INFORMATION

Operating segments

When determining Ericsson's operating segments, consideration has been given to which markets and what type of customers the products and services aim to attract as well as the distribution channels they are sold through. Commonality regarding technology, research and development has also been taken into account. To best reflect the business focus and to facilitate comparability with peers, five operating segments are reported:

- Networks
- Global Services
- Multimedia
- Sony Ericsson
- ST-Ericsson

Networks delivers products and solutions for mobile and fixed broadband access, core networks, and transmission. The offering includes:

- Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs, supporting all major standardized mobile technologies.
- Fixed access solutions for both fiber and copper, such as GPON and xDSL, increasing customers' ability to modernize fixed networks to enable IP-based services with high bandwidth.
- IP core network solutions (switching, routing and control) include softswitches, IP infrastructure for edge and core routing, IP Multimedia Subsystem (IMS) and media gateways.
- Transmission/backhaul: microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks.
- Operations Support Systems (OSS), supporting operators' management of existing networks as well as introduction of new network architectures, technologies and services. OSS includes tools for configuration, performance monitoring, security management, inventory management and software upgrades.

Global Services delivers managed services, consulting and systems integration, customer support and network rollout services. The offering includes:

- Managed services, comprising solutions for network design and planning, network operations (the management of day-to-day operations of customer networks), field operations and site maintenance, network sharing solutions as well as shared solutions such as hosting of platforms and applications.
- Consulting and Systems integration: technology and operational consulting, integration of multi-vendor equipment, design and integration of new solutions and handling of technology change and transformation programs, learning services and optimization services ensuring the best possible user experience. Industry-specific solutions for vertical industries are also included.
- Product-related Services: network rollout services, customer support and network optimization services (optimization for performance and energy).

Multimedia provides enablers and applications for operators. The offering includes:

- Operations Support Systems: provisioning, device management and mediation solutions.
- Business Support Systems: revenue management (prepaid, post-paid, convergent charging and billing) and customer care solutions.
- TV solutions: a suite of open, standards-based products that provide high-quality digital TV including IPTV, HDTV and interactive TV applications: the offering includes a complete IPTV network infrastructure solution optimized for multi-stream HD-IPTV: video compression, on-demand solutions, content management systems, advertising and interactive TV applications for operators, service providers, advertisers and content providers.
- Consumer and business applications: solutions include service exposure, messaging, social media connectivity and location-based services. Enterprise market solutions include converged business communication solutions such as the Ericsson Business Communication Suite (BCS).
- M-Commerce solutions: including brokering solutions that facilitate payment and distribution of content, and Ericsson Money Services for end-to-end mobile financial services.

Sony Ericsson, the joint venture delivers innovative and feature-rich mobile phones and accessories. In October 2011, Ericsson announced the divestment to Sony Corporation of its share in the 50/50 joint venture.

ST-Ericsson, the joint venture develops semiconductors and wireless platforms for GSM, EDGE, WCDMA, HSPA, TD-SCDMA and LTE to handset manufacturers, as well as to mobile operators and other device manufacturers.

Sony Ericsson and ST-Ericsson's results are reported according to the equity method under "Share in earnings of joint ventures and associated companies" in the income statement.

Unallocated

Some revenues, costs, assets and liabilities are not identified as part of any operating segment and are therefore not allocated. Examples of such items are costs for corporate staff, IT costs and general marketing costs.

Regions

The Regions are the Company's primary sales channel. The Company operates worldwide and reports its operations divided into ten regions.

Telcordia05248

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Other includes sales of for example embedded modules, cables, power modules as well as licensing and IPR.

- North America
- Latin America
- Northern Europe & Central Asia
- Western and Central Europe
- Mediterranean
- Middle East
- Sub-Saharan Africa
- India
- China & North East Asia
- South East Asia & Oceania
- Other

Major customers

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company's total revenues for the years 2011, 2010 or 2009.

We derive most of the sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of approximately 400, mainly network operators, the 10 largest customers account for 44% (46%) of net sales. The largest customer accounted for approximately 7% (8%) of sales in 2011. For more information, see Risk Factors, "Market, Technology and Business Risks".

OPERATING SEGMENTS

2011	Networks	Global Services	Multi-media	Sony Ericsson	ST-Ericsson	Total Segments	Unallo-cated	Elimi-nations [1]	Group
Segment sales	131,596	83,854	10,629	46,866	9,232	282,177	–	–56,098	226,079
Inter-segment sales	799	30	13	126	1,461	2,429	–	–1,587	842
Net sales	**132,395**	**83,884**	**10,642**	**46,992**	**10,693**	**284,606**	**–**	**–57,685**	**226,921**
Operating income	**17,295**	**5,544**	**–504**	**–1,854**	**–5,461**	**15,020**	**–501**	**3,381**	**17,900**
Operating margin (%)	13%	7%	–5%	–4%	–51%	5%			8%
Financial income									2,882
Financial expenses									–2,661
Income after financial items									**18,121**
Taxes									–5,552
Net income									**12,569**
Other segment items									
Share in earnings of joint ventures and associated companies	87	28	4	–1,199	–2,730	–3,810	32	–	–3,778
Amortization	–4,192	–481	–792	–1	–867	–6,333	–	868	–5,465
Depreciation	–2,783	–532	–184	–647	–823	–4,969	–	1,470	–3,499
Impairment losses	–50	–23	–12	–	–283	–368	–	283	–85
Reversals of impairment losses	12	–	1	–	–	13	–	–	13
Restructuring expenses	–1,600	–1,363	–143	–838	–280	–4,224	–78	1,118	–3,184
Gains/losses from divestments	–6	–	–	–	–	–6	164	–	158

[1] All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

OPERATING SEGMENTS

2010	Networks	Global Services	Multi-media	Sony Ericsson	ST-Ericsson	Total Segments	Unallo-cated	Elimi-nations [1]	Group
Segment sales	111,459	80,117	10,504	60,118	13,116	275,314	–	–73,234	202,080
Inter-segment sales	1,249	6	13	60	3,403	4,731	–	–3,463	1,268
Net sales	**112,708**	**80,123**	**10,517**	**60,178**	**16,519**	**280,045**	**–**	**–76,697**	**203,348**
Operating income	**12,481**	**6,513**	**–643**	**1,523**	**–3,527**	**16,347**	**–805**	**913**	**16,455**
Operating margin (%)	11%	8%	–6%	3%	–21%	6%	–	–	8%
Financial income									1,047
Financial expenses									–1,719
Income after financial items									**15,783**
Taxes									–4,548
Net income									**11,235**
Other segment items									
Share in earnings of joint ventures and associated companies	–64	–17	–2	664	–1,763	–1,182	10	–	–1,172
Amortization	–4,554	–303	–806	–25	–930	–6,618	–	955	–5,663
Depreciation	–2,600	–555	–144	–731	–1,022	–5,052	–	1,753	–3,299
Impairment losses	–675	–276	–52	–	–61	–1,064	–	61	–1,003
Reversals of impairment losses	9	2	1	–	–	12	–	–	12
Restructuring expenses	–3,915	–2,675	–207	–402	–536	–7,735	–17	938	–6,814
Gains/losses from divestments	154	53	92	–	–	299	59	–	358

[1] All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

Telcordia05249

OPERATING SEGMENTS

2009	Networks [1]	Global Services [1]	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Elimi-nations [2]	Group
Segment sales	113,339	79,038	12,996	71,984	13,535	290,892	–	–85,519	205,373
Inter-segment sales	746	82	276	164	5,731	6,999	–	–5,895	1,104
Net sales	**114,085**	**79,120**	**13,272**	**72,148**	**19,266**	**297,891**	**–**	**–91,414**	**206,477**
Operating income	**7,598** [3]	**6,271** [4]	**655**	**–10,820**	**–2,615**	**1,089**	**–855**	**5,684**	**5,918**
Operating margin (%)	7%	8%	5%	–15%	–14%	0%	–	–	3%
Financial income									1,874
Financial expenses									–1,549
Income after financial items									**6,243**
Taxes									–2,116
Net income									**4,127**
Other segment items									
Share in earnings of joint ventures and associated companies	37	33	–1	–5,693	–1,762	–7,386	–14	–	–7,400
Amortization	–2,673	–574	–910	–165	–828	–5,150	–	941	–4,209
Depreciation	–2,768	–627	–155	–1,124	–997	–5,671	–	2,121	–3,550
Impairment losses	–4,333 [3]	–	–80	–	–46	–4,459	–	46	–4,413
Reversals of impairment losses	38	9	2	–	–	49	–	–	49
Restructuring expenses	–8,358 [3]	–2,434	–385	–1,754	–890	–13,821	–82	2,644	–11,259
Gains/losses from divestments	10	777 [4]	41	–	47	875	–32	–	843

[1] Amounts for 2009 have been restated to be consistent with the segment allocation method applied as from 2010.
[2] All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.
[3] Including impairment losses related to restructuring activities of SEK 4.3 billion.
[4] In Q2 2009, the TEMS business was divested, resulting in a capital gain of SEK 0.8 billion.

REGIONS

	Net sales			Non-current assets [3]		
	2011	2010	2009	2011	2010	2009
North America	**48,785**	49,473	23,912	**6,296**	7,251	8,359
Of which the United States	***46,519***	*46,104*	*21,538*	***6,020***	*6,977*	*8,100*
Latin America	**21,982**	17,882	20,025	**2,268**	1,998	2,066
Northern Europe & Central Asia [1] [2]	**15,225**	12,171	11,981	**41,008**	42,112	44,091
Western & Central Europe [2]	**19,030**	19,868	22,459	**5,097**	8,629	11,713
Mediterranean	**23,807**	22,628	25,161	**1,395**	1,523	1,352
Middle East	**15,461**	15,099	18,250	**42**	84	115
Sub-Saharan Africa	**10,163**	9,194	15,341	**79**	51	49
India	**9,762**	8,626	15,262	**355**	262	225
China & North East Asia	**38,209**	25,965	25,960	**3,939**	3,795	988
Of which China	***17,546***	*14,633*	*18,455*	***1,496***	*1,013*	*903*
South East Asia & Oceania	**13,870**	14,902	20,849	**318**	351	417
Other [1] [2]	**10,627**	7,540	7,277	**–**	–	–
Total	**226,921**	**203,348**	**206,477**	**60,797**	**66,056**	**69,375**
[1] *Of which Sweden*	***3,882***	*4,237*	*4,096*	***40,415***	*41,683*	*43,574*
[2] *Of which EU*	***43,960***	*43,707*	*49,313*	***44,786***	*46,563*	*49,158*

[3] *Total non-current assets excluding financial instruments, deferred tax assets, and post-employment benefit assets.*

For employee information, see Note C28, “Information Regarding Members of the Board of Directors, the Group Management and Employees”.

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C4 NET SALES

NET SALES

	2011	2010	2009
Sales of products and network rollout services	**161,882**	140,222	145,873
Of which:			
Delivery-type contracts	***161,882***	*140,156*	*144,908*
Construction-type contracts	**–**	*66*	*965*
Professional Services sales	**58,834**	58,529	56,123
License revenues	**6,205**	4,597	4,481
Net sales	**226,921**	203,348	206,477
Export sales from Sweden	**116,507**	100,070	94,829

C5 EXPENSES BY NATURE

EXPENSES BY NATURE

	2011	2010	2009
Goods and services	**142,221**	130,725	124,627
Employee remuneration	**58,905**	57,183	54,877
Amortization and depreciation	**8,964**	8,962	7,759
Impairments and obsolescence allowances, net of reversals	**1,363**	966	5,637
Financial expenses	**2,661**	1,719	1,549
Taxes	**5,552**	4,548	2,116
Expenses incurred	**219,666**	204,103	196,565
Inventory changes [1]	**3,417**	8,465	–4,784
Additions to Capitalized development	**1,515**	1,647	1,443
Expenses charged to the Income Statement	**214,734**	193,991	199,906

[1] The inventory changes are based on changes of gross inventory values prior to obsolescence allowances.

Total restructuring charges in 2011 were SEK 3.2 (6.8) b.
Restructuring charges are included in the expenses presented above.

RESTRUCTURING CHARGES BY FUNCTION

	2011	2010	2009
Cost of sales	**1,231**	3,354	4,180
R&D expenses	**561**	1,682	6,045
Selling and administrative expenses	**1,392**	1,778	1,034
Total restructuring charges	**3,184**	6,814	11,259

C6 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME AND EXPENSES

	2011	2010	2009
Gains on sales of intangible assets and PP&E	**65**	301	193
Losses on sales of intangible assets and PP&E	**–64**	–422	–126
Gains on sales of investments and operations	**210**	577	962
Losses on sales of investments and operations	**–52**	–219	–119
Capital gains/losses, net	**159**	237	910
Other operating revenues	**1,119**	1,766	2,172
Total other operating income and expenses	**1,278**	2,003	3,082

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C7 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME AND EXPENSES

	2011 Financial income	2011 Financial expenses	2010 Financial income	2010 Financial expenses	2009 Financial income	2009 Financial expenses
Contractual interest on financial assets	1,940	–	811	–	1,287	–
Of which on financial assets at fair value through profit or loss	*1,381*	–	*304*	–	*814*	–
Contractual interest on financial liabilities	–	–1,706	–	–1,315	–	–1,616
Net gain/loss on:						
Instruments at fair value through profit or loss [1]	1,062	–591	295	–206	635	155
Of which included in fair value hedge relationships	–	*–175*	–	*151*	–	*155*
Loans and receivables	-132	–	–68	–	–53	–
Liabilities at amortized cost	–	–105	–	–4	–	–2
Other financial income and expenses	12	–259	9	–194	5	–86
Total	2,882	–2,661	1,047	–1,719	1,874	–1,549

[1] Excluding net gain from operating assets and liabilities, SEK 51 million (net gain of SEK 1,528 million in 2010, net gain of SEK 2,247 million in 2009), reported as Cost of Sales.

C8 TAXES

The Company's tax expense for 2011 was SEK 5,552 (4,548) million or 30.6% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographical mix. The effective tax rate excluding joint ventures and associated companies was 26.4% (25.7%) mainly due to lower statutory tax rates for the joint ventures and that they reported losses.

INCOME TAXES RECOGNIZED IN THE INCOME STATEMENT

	2011	2010	2009
Current income taxes for the year	–4,642	–4,635	–4,605
Current income taxes related to prior years	283	–35	441
Deferred tax income/expense (–)	–1,433	307	661
Sub total	*–5,792*	*–4,363*	*–3,503*
Share of taxes in joint ventures and associated companies	240	–185	1,387
Tax expense	–5,552	–4,548	–2,116

A reconciliation between reported tax expense for the year and the theoretical tax expense that would arise when applying statutory tax rate in Sweden, 26.3%, on the consolidated income before taxes, is shown in the table below.

RECONCILIATION OF SWEDISH INCOME TAX RATE WITH EFFECTIVE TAX RATE

	2011	2010	2009
Expected tax expense at Swedish tax rate 26.3%	–4,767	–4,150	–1,643
Effect of foreign tax rates	–1,126	–405	–812
Of which joint ventures and associated companies	*–754*	–467	*–550*
Current income taxes related to prior years	283	–35	441
Recognition/remeasurement of tax loss carry-forwards	224	–257	8
Recognition/remeasurement of deductible temporary differences	81	172	267
Tax effect of non-deductible expenses	–768	–830	–1,155
Tax effect of non-taxable income	521	880	630
Tax effect of changes in tax rates	–	77	148
Tax expense	–5,552	–4,548	–2,116
Effective tax rate	*30.6%*	*28.8%*	*33.9%*

Deferred tax balances

Deferred tax assets and liabilities are derived from the balance sheet items as shown in the table below.

TAX EFFECTS OF TEMPORARY DIFFERENCES AND TAX LOSS CARRY-FORWARDS

	Deferred tax assets	Deferred tax liabilities	Net balance
2011			
Intangible assets and property, plant and equipment	968	2,941	
Current assets	3,193	100	
Post-employment benefits	2,233	618	
Provisions	1,441	23	
Other	3,423	64	
Loss carry-forwards	3,258	–	
Deferred tax assets/liabilities	14,516	3,746	10,770
Netting of assets/liabilities	–1,496	–1,496	
Deferred tax balances, net	13,020	2,250	10,770
2010			
Intangible assets and property, plant and equipment	543	3,725	
Current assets	3,398	110	
Post-employment benefits	1,163	636	
Provisions	2,019	12	
Other	3,989	–	
Loss carry-forwards	3,537	–	
Deferred tax assets/liabilities	14,649	4,483	10,166
Netting of assets/liabilities	–1,912	–1,912	
Deferred tax balances, net	12,737	2,571	10,166

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CHANGES IN DEFERRED TAXES, NET

	2011	2010
Opening balance, net	**10,166**	12,057
Recognized in net income	**–1,433**	307
Recognized in other comprehensive income	**2,158**	–1,120
Acquisitions/disposals of subsidiaries	**53**	–606
Currency translation differences	**–174**	–472
Closing balance, net	**10,770**	10,166

Tax effects reported directly in Other Comprehensive Income amount to SEK 2,158 (–1,120) million, of which actuarial gains and losses related to pensions SEK 1,809 (–836) million, cash flow hedges SEK 350 (–183) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK –1 (–101) million.

Deferred tax assets are only recognized in countries where the Company expects to be able to generate corresponding taxable income in the future to benefit from tax reductions.

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly Sweden and Germany. Of the total SEK 3,258 million recognized deferred tax assets related to tax loss carry-forwards, SEK 2,218 million relates to Sweden with indefinite periods of utilization. Due to the Company's strong current financial position and taxable income during 2011, Ericsson has been able to utilize part of its tax loss carry-forwards during the year and in addition to this been able to recognize part of earlier not recognized loss carry-forwards. The assessment is that Ericsson will be able to generate sufficient income in the coming years to also utilize the remaining part of the recognized amounts.

INVESTMENTS IN SUBSIDIARIES

Due to losses in certain subsidiaries, the book value of certain investments in those subsidiaries are less than the tax value of these investments. Since deferred tax assets have been reported with respect also to losses in these companies, and due to the uncertainty as to which deductions can be realized in the future, no additional deferred tax assets are reported.

TAX LOSS CARRY-FORWARDS

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilized, as described below.

As of December 31, 2011, the recognized tax loss carry-forwards amounted to SEK 12,657 (13,030) million. The tax value of these tax loss carry-forwards is reported as an asset.

The final years in which the recognized loss carry-forwards can be utilized are shown in the following table.

TAX LOSS CARRY-FORWARDS YEAR OF EXPIRATION

Year of expiration	Tax loss carry-forwards	Tax value
2012	37	9
2013	239	67
2014	372	105
2015	233	66
2016	391	112
2017 or later	11,385	2,899
Total	**12,657**	**3,258**

Tax loss carry-forwards of Sony Ericsson and ST-Ericsson are not included, as they are recognized in accordance with the equity method.

In addition to the table above there are loss carry-forwards of SEK 7,375 million at a tax value of SEK 1,502 million that have not been recognized due to judgments of the possibility to be used against future taxable profits in the respective jurisdictions. These loss carry-forwards have an expiration date in excess of five years.

C9 EARNINGS PER SHARE

EARNINGS PER SHARE 2009–2011

	2011	2010	2009
Basic			
Net income attributable to stockholders of the Parent Company (SEK million)	**12,194**	11,146	3,672
Average number of shares outstanding, basic (millions)	**3,206**	3,197	3,190
Earnings per share, basic (SEK)	**3.80**	3.49	1.15
Diluted			
Net income attributable to stockholders of the Parent Company (SEK million)	**12,194**	11,146	3,672
Average number of shares outstanding, basic (millions)	**3,206**	3,197	3,190
Dilutive effect for stock purchase plans	**27**	29	22
Average number of shares outstanding, diluted (millions)	**3,233**	3,226	3,212
Earnings per share, diluted (SEK)	**3.77**	3.46	1.14

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C10 INTANGIBLE ASSETS

INTANGIBLE ASSETS 2011

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
		For internal use						
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Cost								
Opening balance	6,610	2,213	1,478	**10,301**	**27,151**	13,582	25,330	**38,912**
Acquisitions/capitalization	1,515	–	–	**1,515**	**–**	237	354	**591**
Balances regarding acquired businesses [1]	–	–	–	**–**	**260**	382	–	**382**
Sales/disposals	–	–	–	**–**	**–2**	–20	–20	**–40**
Translation difference	–	–	–	**–**	**46**	7	25	**32**
Closing balance	**8,125**	**2,213**	**1,478**	**11,816**	**27,455**	**14,188**	**25,689**	**39,877**
Accumulated amortization								
Opening balance	–2,526	–1,775	–1,184	**–5,485**	**–**	–3,937	–13,103	**–17,040**
Amortization	–661	–200	–134	**–995**	**–**	–1,538	–2,932	**–4,470**
Sales/disposals	–	–	–	**–**	**1**	15	13	**28**
Translation difference	–	–	–	**–**	**–**	–42	–56	**–98**
Closing balance	**–3,187**	**–1,975**	**–1,318**	**–6,480**	**1**	**–5,502**	**–16,078**	**–21,580**
Accumulated impairment losses								
Opening balance	–1,714	–55	–37	**–1,806**	**–**	–	–5,214	**–5,214**
Impairment losses	–7	–	–	**–7**	**–18**	–	–	**–**
Closing balance	**–1,721**	**–55**	**–37**	**–1,813**	**–18**	**–**	**–5,214**	**–5,214**
Net carrying value	**3,217**	**183**	**123**	**3,523**	**27,438**	**8,686**	**4,397**	**13,083**

[1] For more information on acquired businesses, see Note C26, "Business Combinations".

INTANGIBLE ASSETS 2010

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
		For internal use						
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Cost								
Opening balance	5,221	2,060	1,376	**8,657**	**27,375**	10,624	24,898	**35,522**
Acquisitions/capitalization	1,389	153	102	**1,644**	**–**	521	–	**521**
Balances regarding acquired businesses [1]	–	–	–	**–**	**1,256**	2,800	1,025	**3,825**
Sales/disposals	–	–	–	**–**	**–**	–	–55	**–55**
Translation difference	–	–	–	**–**	**–1,480**	–363	–538	**–901**
Closing balance	**6,610**	**2,213**	**1,478**	**10,301**	**27,151**	**13,582**	**25,330**	**38,912**
Accumulated amortization								
Opening balance	–2,104	–1,630	–1,087	**–4,821**	**–**	–2,639	–9,875	**–12,514**
Amortization	–422	–145	–97	**–664**	**–**	–1,450	–3,549	**–4,999**
Sales/disposals	–	–	–	**–**	**–**	–	27	**27**
Translation difference	–	–	–	**–**	**–**	152	294	**446**
Closing balance	**–2,526**	**–1,775**	**–1,184**	**–5,485**	**–**	**–3,937**	**–13,103**	**–17,040**
Accumulated impairment losses								
Opening balance	–1,665	–55	–37	**–1,757**	**–**	–	–4,269	**–4,269**
Impairment losses [2]	–49	–	–	**–49**	**–**	–	–945	**–945**
Closing balance	**–1,714**	**–55**	**–37**	**–1,806**	**–**	**–**	**–5,214**	**–5,214**
Net carrying value	**2,370**	**383**	**257**	**3,010**	**27,151**	**9,645**	**7,013**	**16,658**

[1] For more information on acquired businesses, see Note C26, "Business Combinations".
[2] The write-down (impairment charge) of SEK 0.9 billion is a consequence of the restructuring program decision to phase out certain products.

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The goodwill is allocated to the operating segments Networks SEK 16.7 (16.5) billion, Global Services SEK 4.1 (4.1) billion and Multimedia SEK 6.6 (6.6) billion.

The recoverable amounts for cash-generating units are established as the present value of expected future cash flows. Estimation of future cash flows includes assumptions mainly for the following key financial parameters:

- Sales growth
- Development of operating income (based on operating margin or cost of goods sold and operating expenses relative to sales)
- Development of working capital and capital expenditure requirements.

The assumptions regarding industry specific market drivers and market growth are approved by group management and each operating segment's management. These assumptions are based on industry sources as input to the projections made within the Company for the development 2012–2016 for key industry parameters:

- The number of global mobile subscriptions is estimated to grow from around 6.8 billion by the end of 2012 to around 8.4 billion by the end of 2016. Of these, almost 5 billion will be a mobile broadband subscriptions. Some hundred millions of these mobile broadband subscriptions (approximately 600 million 2016) will use mobile PC/tablets, but the vast majority, around 4.1 billion, will use mobile phones to access the internet.
- Fixed broadband subscriptions will grow from around 600 million by the end of 2012 to around 740 million in 2016. Fixed broadband includes Fiber, Cable and xDSL
- Mobile traffic volume is estimated to increase (around 10 times 2011–2016, around 6 times 2012–2016), while the fixed Internet traffic is estimated to increase (around 4 times 2011–2016, around 3 times 2012–2016), however from a much larger base.
- Mobile PC includes USB dongles and embedded modules for CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA and can also be used for fixed applications. Mobile Broadband includes CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA. It includes handsets, USB dongles and embedded modules. The vast majority is handsets.

The demand for multimedia solutions is driven by the opportunities for new types of service offerings enabled by IP technology and high-speed broadband. There is strong IPTV subscriber growth, rapid growth in digital viewing and on-demand services. The development and build out of Mobile Broadband networks and increasing number of mobile broadband subscriptions drives growth in service introduction and traffic. This puts high demand on implementation and systems integration services as well as charging and payment systems. The Business Support Systems' growth is driven by introduction of new services, new business models and price plans.

The demand for professional services is also driven by an increasing business and technology complexity. Therefore, operators review their business models and look for vendor partners that can take on a broader responsibility, including outsourcing of network operations.

The assumptions are also based upon information gathered in the Company's long-term strategy process, including assessments of new technology, the Company's competitive position and new types of business and customers, driven by the continued integration of telecom, data and media industries.

The impairment testing is based on specific estimates for the first five years and with a reduction of nominal annual growth rate to an average GDP growth of 3% (3%) per year thereafter. The impairment tests for goodwill did not result in any impairment.

A number of sensitivity tests have been made, for example applying lower levels of revenue and operating income. Also when applying these estimates no goodwill impairment is indicated.

An after-tax discount rate of 8% (8%) has for all cash generating units been applied for the discounting of projected after-tax cash flows. The assumptions for 2010 are disclosed in Note C10, "Intangible Assets" in the Annual Report of 2010.

The Company's discounting is based on after-tax future cash flows and after-tax discount rates. This discounting is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

In Note C1, "Significant Accounting Policies", and Note C2, "Critical Accounting Estimates and Judgments", further disclosures are given regarding goodwill impairment testing.

Telcordia05255

C11 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT 2011

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,238	5,004	18,576	814	28,632
Additions	265	400	1,910	2,419	4,994
Balances regarding divested/acquired businesses	146	37	75	–	258
Sales/disposals	–147	–354	–952	–524	–1,977
Reclassifications	142	169	1,116	–1,427	–
Translation difference	–3	–21	–62	20	–66
Closing balance	**4,641**	**5,235**	**20,663**	**1,302**	**31,841**
Accumulated depreciation					
Opening balance	–1,869	–3,377	–13,695	–	–18,941
Depreciation	–415	–571	–2,513	–	–3,499
Balances regarding divested businesses	–	–	1	–	1
Sales/disposals	74	435	1,085	–	1,594
Reclassifications	36	–4	–32	–	–
Translation difference	9	32	60	–	101
Closing balance	**–2,165**	**–3,485**	**–15,094**	**–**	**–20,744**
Accumulated impairment losses					
Opening balance	–43	–95	–119	–	–257
Impairment losses	–	–48	–12	–	–60
Reversals of impairment losses	–	–	13	–	13
Sales/disposals	–	–	1	–	1
Translation difference	–	–5	–1	–	–6
Closing balance	**–43**	**–148**	**–118**	**–**	**–309**
Net carrying value	**2,433**	**1,602**	**5,451**	**1,302**	**10,788**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2011, amounted to SEK 226 (303) million.
The reversal of impairment losses have been reported under Cost of sales.

PROPERTY, PLANT AND EQUIPMENT 2010

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,217	5,298	18,087	578	28,180
Additions	283	411	1,480	1,512	3,686
Balances regarding divested/acquired businesses	14	4	473	–5	486
Sales/disposals	–102	–543	–1,449	–148	–2,242
Reclassifications	87	190	817	–1,094	–
Translation difference	–261	–356	–832	–29	–1,478
Closing balance	**4,238**	**5,004**	**18,576**	**814**	**28,632**
Accumulated depreciation					
Opening balance	–1,692	–3,557	–13,058	–	–18,307
Depreciation	–361	–629	–2,309	–	–3,299
Balances regarding divested businesses	–2	–3	–297	–	–302
Sales/disposals	60	553	1,384	–	1,997
Reclassifications	4	9	–13	–	–
Translation difference	122	250	598	–	970
Closing balance	**–1,869**	**–3,377**	**–13,695**	**–**	**–18,941**
Accumulated impairment losses					
Opening balance	–45	–91	–131	–	–267
Impairment losses	–	–6	–3	–	–9
Reversals of impairment losses	–	–	12	–	12
Sales/disposals	–	–	–	–	–
Translation difference	2	2	3	–	7
Closing balance	**–43**	**–95**	**–119**	**–**	**–257**
Net carrying value	**2,326**	**1,532**	**4,762**	**814**	**9,434**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2010, amounted to SEK 303 (236) million.
The reversal of impairment losses have been reported under Cost of sales.

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C12 FINANCIAL ASSETS, NON-CURRENT

EQUITY IN JOINT VENTURES AND ASSOCIATED COMPANIES

	Joint ventures		Associated companies		Total	Total
	2011	2010	2011	2010	2011	2010
Opening balance	**8,648**	10,317	**1,155**	1,261	**9,803**	11,578
Share in earnings	**–3,929**	–1,099	**151**	–73	**–3,778**	–1,172
Taxes	**241**	–181	**–1**	–4	**240**	–185
Translation difference	**–126**	–391	**66**	–47	**–60**	–438
Change in hedge reserve	**4**	22	**–**	–	**4**	22
Pensions	**–175**	–20	**–**	–	**–175**	–20
Dividends	**–**	–	**–177**	–119	**–177**	–119
Contributions to joint ventures and associated companies	**–**	–	**109**	138	**109**	138
Reclassification	**–**	–	**–1**	–1	**–1**	–1
Closing balance	**4,663** [1]	8,648 [1]	**1,302** [2]	1,155 [2]	**5,965**	9,803

[1] Including goodwill for ST-Ericsson of SEK 1.3 (1.3) billion.
[2] Goodwill, net, amounts to SEK 13.5 (16.0) million.

ERICSSON'S SHARE OF ASSETS, LIABILITIES AND INCOME IN JOINT VENTURE SONY ERICSSON MOBILE COMMUNICATIONS AB

	2011	2010	2009
Non-current assets	**5,040**	3,622	4,003
Current assets	**8,745**	9,904	12,790
Non-current liabilities	**285**	592	130
Current liabilities	**12,172**	10,533	14,675
Net assets	**1,328**	2,401	1,988
Net sales	**23,496**	30,089	36,074
Income after financial items	**–1,095**	705	–5,540
Income taxes	**85**	–231	1,252
Net income	**–1,010**	474	–4,288
Net income attributable to:			
Stockholders of the Parent Company	**–1,114**	433	–4,441
Non-controlling interest	**104**	41	153
Assets pledged as collateral	**1**	–	182
Contingent liabilities	**37**	16	17

ERICSSON'S SHARE OF ASSETS, LIABILITIES AND INCOME IN JOINT VENTURE ST-ERICSSON

	2011	2010	2009
Non-current assets	**6,855**	6,673	7,238
Current assets	**1,514**	2,249	3,856
Non-current liabilities	**397**	214	129
Current liabilities	**4,695**	2,519	2,691
Net assets	**3,277**	6,189	8,274
Net sales	**5,346**	8,260	9,633
Income after financial items	**–2,730**	–1,762	–1,762
Income taxes	**156**	50	136
Net income	**–2,574**	–1,712	–1,626
Net income attributable to:			
Stockholders of the Parent Company	**–2,574**	–1,713	–1,626
Non-controlling interest	**–**	1	–
Assets pledged as collateral	**3**	3	–
Contingent liabilities	**–**	–	6

ERICSSON'S SHARE OF ASSETS, LIABILITIES AND INCOME IN ASSOCIATED COMPANY ERICSSON NIKOLA TESLA D.D. [1]

	2011	2010	2009
Non-current assets	**113**	92	311
Current assets	**574**	749	754
Non-current liabilities	**1**	2	3
Current liabilities	**197**	209	240
Net assets	**489**	630	822
Net sales	**693**	784	994
Income after financial items	**13**	17	90
Income taxes	**3**	–1	1
Net income	**16**	16	91
Net income attributable to:			
Stockholders of the Parent Company	**16**	16	91
Non-controlling interest	**–**	–	–
Assets pledged as collateral	**4**	4	5
Contingent liabilities	**80**	43	151

[1] Ericsson's share is 49.07%.

All three companies apply IFRS in the reporting to Ericsson as issued by IASB.

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OTHER FINANCIAL ASSETS, NON-CURRENT

	Other investments in shares and participations		Customer finance, non-current		Derivatives, non-current		Other financial assets, non-current	
	2011	2010	2011	2010	2011	2010	2011	2010
Cost								
Opening balance	1,607	1,660	1,474	1,232	–	843	4,382	3,197
Additions	1,930	114	1,875	3,562	–	–	422	683
Business combinations	–	–33	–	–	–	–	–	–
Disposals/repayments/deductions	–68	–	–1,699	–3,322	–	–	–97	–35
Change in value in funded pension plans [1]	–	–	–	–	–	–	42	726
Revaluation	–	–	–	–	816	–843	–	–
Translation difference	107	–134	11	2	–	–	–116	–189
Closing balance	3,576	1,607	1,661	1,474	816	–	4,633	4,382
Accumulated impairment losses/allowances								
Opening balance	–1,388	–1,404	–193	–402	–	–	–1,303	–1,463
Impairment losses/allowance	–54	–75	–91	2	–	–	–47	–7
Disposals/repayments/deductions	63	–26	19	206	–	–	–	–
Translation difference	2	117	4	1	–	–	18	167
Closing balance	–1,377	–1,388	–261	–193	–	–	–1,332	–1,303
Net carrying value	2,199	219	1,400	1,281	816	–	3,301	3,079

[1] This amount includes asset ceiling. For further information, see Note C17, "Post-employment benefits".

C13 INVENTORIES

INVENTORIES

	2011	2010
Raw materials, components, consumables and manufacturing work in progress	8,772	8,509
Finished products and goods for resale	13,525	11,894
Contract work in progress	10,773	9,494
Inventories, net	33,070	29,897

Contract work in progress includes amounts related to delivery-type contracts, service contracts and construction-type contracts with ongoing work in progress.

Reported amounts are net of obsolescence allowances of SEK 3,343 (3,090) million.

The increase in inventories during 2011 is related to increased sales and increased share of coverage projects.

MOVEMENTS IN OBSOLESCENCE ALLOWANCES

	2011	2010	2009
Opening balance	3,090	2,961	3,493
Additions, net	918	250	562
Utilization	–683	–165	–1,297
Translation difference	18	–46	2
Balances regarding acquired/ divested businesses	–	90	201
Closing balance	3,343	3,090	2,961

The amount of inventories recognized as expense and included in Cost of sales was SEK 60,544 (47,415) million.

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C14 TRADE RECEIVABLES AND CUSTOMER FINANCE

TRADE RECEIVABLES AND CUSTOMER FINANCE

	2011	2010
Trade receivables excluding associated companies and joint ventures	**64,740**	61,609
Allowances for impairment	**–567**	–766
Trade receivables, net	**64,173**	60,843
Trade receivables related to associated companies and joint ventures	**349**	284
Trade receivables, total	**64,522**	61,127
Customer finance	**4,671**	4,725
Allowances for impairment	**–426**	–321
Customer finance, net	**4,245**	4,404
Of which short term	***2,845***	*3,123*
Credit commitments for customer finance	**8,569**	3,282

Days Sales Outstanding (DSO) were 91 (88) in December 2011.

MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT

	Trade receivables			Customer finance		
	2011	2010	2009	2011	2010	2009
Opening balance	**766**	924	1,471	**321**	772	326
Additions	**198**	282	388	**162**	25	595
Utilization	**–266**	–285	–583	**–31**	–87	–67
Reversal of excess amounts	**–43**	–169	–312	**–27**	–359	–37
Reclassification	**–69**	33	10	**–**	–	–
Translation difference	**–19**	–19	–43	**1**	–30	–45
Balances regarding acquired/divested business	**–**	–	–7	**–**	–	–
Closing balance	**567**	766	924	**426**	321	772

AGING ANALYSIS AS PER DECEMBER 31

	Trade receivables excluding associated companies and joint ventures	Allowances for impairment of receivables	Customer finance	Allowances for impairment of customer finance
2011				
Neither impaired nor past due	56,480	–	3,369	–
Impaired, not past due	184	–16	763	–176
Past due in less than 90 days	4,126	–	238	–
Past due in 90 days or more	1,072	–	45	–
Past due in less than 90 days and impaired	850	–50	41	–35
Past due in 90 days or more and impaired	2,028	–501	215	–215
Total	**64,740**	**–567**	**4,671**	**–426**
2010				
Neither impaired nor past due	54,510	–	3,804	–
Impaired, not past due	52	–16	528	–75
Past due in less than 90 days	2,227	–	62	–
Past due in 90 days or more	1,500	–	85	–
Past due in less than 90 days and impaired	418	–90	18	–18
Past due in 90 days or more and impaired	2,902	–660	228	–228
Total	**61,609**	**–766**	**4,725**	**–321**

Credit risk

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk (see Note C20, “Financial Risk Management and Financial Instruments”).

Credit risk in trade receivables

Credit risk in trade receivables is governed by a policy applicable for all legal entities in the Company. The purpose of the policy is to:

- Avoid credit losses through establishing internal standard credit approval routines in all the Company’s legal entities
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers
- Ensure efficient credit management within the Company and thereby improve Days Sales Outstanding and Cash Flow
  - Ensure payment terms are commercially justifiable
- Define escalation path and approval process for payment terms and customer credit limits.

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The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to the Company are mitigated.

Trade receivables amounted to SEK 64,740 (61,609) million as of December 31, 2011. Provisions for expected losses are regularly assessed and amounted to SEK 567 (766) million as of December 31, 2011. The Company's nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of the Company's sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represent 30% (29%) of the total trade receivables.

Customer finance credit risk

All major commitments to finance customers are made only after the approval by the Finance Committee of the Board of Directors according to the established credit approval process.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating of each transaction (for political and commercial risk). The credit risk analysis is made by using an assessment tool, where the political risk rating is identical to the rating used by all Export Credit Agencies within the OECD. The commercial risk is assessed by analyzing a large number of parameters, which may affect the level of the future commercial credit risk exposure. The output from the assessment tool for the credit rating also include an internal pricing of the risk. This is expressed as a risk margin per annum over funding cost. The reference pricing for political and commercial risk, on which the tool is based, is reviewed using information from Export Credit Agencies and prevailing pricing in the bank loan market for structured financed deals. The objective is that the internally set risk margin shall reflect the assessed risk and that the pricing is as close as possible to the current market pricing. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

Risk provisions related to customer finance risk exposures are only made upon events which occur after the financing arrangement has become effective and which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. a borrower's deteriorated creditworthiness.

As of December 31, 2011, the Company's total outstanding exposure related to customer finance was SEK 4,671 (4,725) million. As of December 31, 2011, the Company also had unutilized customer finance commitments of SEK 8,569 (3,282) million. During 2011 the Company transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred is SEK 194 (3,808) million, the amount of the assets that the Company continues to recognize is SEK 10 (190) million, and the carrying amount of the associated liabilities is SEK 0 (190) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2011, there were a total of 80 (74) customer finance arrangements originated by or guaranteed by the Company. The five largest facilities represented 41% (44%) of the total credit exposure.

TOTAL OUTSTANDING CUSTOMER FINANCE EXPOSURE PER REGION AS OF DECEMBER 31

Percent	2011	2010
North America	1	2
Latin America	4	9
Northern Europe & Central Asia	8	3
Western & Central Europe	1	1
Mediterranean	11	5
Middle East	24	30
Sub-Saharan Africa	29	36
India	14	–
China & North East Asia	7	13
South East Asia and Oceania	1	1
Other	–	–
Total	100	100

The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net negative impact of SEK 114 million compared to a positive impact of SEK 331 million in 2010. Credit losses amounted to SEK 62 (87) million.

Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests. If available, third-party risk coverage is as a rule arranged. "Third-party risk coverage" means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk transfer under a sub participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover. A credit risk cover from a third party may also be issued by an insurance company. During 2011, the Company has not taken possession of any collateral it holds as security or called on any other credit enhancement.

Information about guarantees related to customer finance is included in Note C24, "Contingent Liabilities", and information about leasing is included in Note C27, "Leasing".

The table below summarizes the Company's outstanding customer finance as of December 31, 2011 and 2010.

OUTSTANDING CUSTOMER FINANCE

	2011	2010
Total customer finance	4,671	4,725
Accrued interest	68	69
Less third-party risk coverage	–480	–1,409
Ericsson's risk exposure	4,259	3,385

C15 OTHER CURRENT RECEIVABLES

OTHER CURRENT RECEIVABLES

	2011	2010
Prepaid expenses	2,056	2,369
Accrued revenues	2,486	1,850
Advance payments to suppliers	1,697	881
Derivatives with a positive value [1]	2,003	3,042
Taxes	5,633	5,439
Other	3,962	3,565
Total	17,837	17,146

[1] See also Note C20, "Financial Risk Management and Financial Instruments".

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C16 EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2011

Capital stock at December 31, 2011, consisted of the following:

CAPITAL STOCK

Parent Company	Number of shares	Capital stock (SEK million)
Class A shares	261,755,983	1,309
Class B shares	3,011,595,752	15,058
Total	**3,273,351,735**	**16,367**

The capital stock of the Parent Company is divided into two classes: Class A shares (quota value SEK 5.00) and Class B shares (quota value SEK 5.00). Both classes have the same rights of participation in the net assets and earnings. Class A shares, however, are entitled to one vote per share while Class B shares are entitled to one tenth of one vote per share.

At December 31, 2011, the total number of treasury shares was 62,846,503 (73,088,516 in 2010 and 78,978,533 in 2009) Class B shares. Ericsson did not repurchase shares in 2011 in relation to the Stock Purchase Plan.

RECONCILIATION OF NUMBER OF SHARES

	Number of shares	Capital stock (SEK million
Number of shares Jan 1, 2011	3,273,351,735	16,367
Number of shares Dec 31, 2011	3,273,351,735	16,367

For further information about number of shares, see chapter Share Information.

Dividend proposal

The Board of Directors will propose to the Annual General Meeting 2012 a dividend of SEK 2.50 per share (SEK 2.25 in 2011 and SEK 2.00 in 2010).

Additional paid in capital

Relates to payments made by owners and includes share premiums paid.

Retained earnings

Retained earnings, including net income for the year, comprise the earned profits of the Parent Company and its share of net income in subsidiaries, joint ventures and associated companies. Retained earnings are comprised of:

REMEASUREMENTS RELATED TO POST-EMPLOYMENT BENEFITS

Actuarial gains and losses resulting from experience-based events and changes in actuarial assumptions, fluctuations of the effect of the asset ceiling, and adjustments related to the Swedish special payroll taxes.

REVALUATION OF OTHER INVESTMENTS IN SHARES AND PARTICIPATIONS

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

CASH FLOW HEDGES

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

CUMULATIVE TRANSLATION ADJUSTMENTS

The cumulative translation adjustments comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and changes regarding revaluation of excess value in local currency as well as from the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

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EQUITY AND OTHER COMPREHENSIVE INCOME 2011

2011	Capital stock	Additional paid in capital	Retained earnings	Stockholders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2011	16,367	24,731	104,008	**145,106**	1,679	**146,785**
Net income						
Group	–	–	15,727	**15,727**	375	**16,102**
Joint ventures and associated companies	–	–	–3,533	**–3,533**	–	**–3,533**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	–6,963	**–6,963**	–	**–6,963**
Joint ventures and associated companies	–	–	–212	**–212**	–	**–212**
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	996	**996**	–	**996**
Joint ventures and associated companies	–	–	11	**11**	–	**11**
Reclassification adjustments for gains/losses included in profit or loss	–	–	–2,028 [1]	**–2,028**	–	**–2,028**
Changes in cumulative translation adjustments						
Group	–	–	–1,014 [2]	**–1,014**	50	**–964**
Joint ventures and associated companies	–	–	–61	**–61**	–	**–61**
Tax on items relating to components of OCI [3]	–	–	2,158 [4]	**2,158**	–	**2,158**
Total other comprehensive income	**–**	**–**	**–7,113**	**–7,113**	**50**	**–7,063**
Total comprehensive income	**–**	**–**	**5,081**	**5,081**	**425**	**5,506**
Transactions with owners						
Sale of own shares	–	–	92	**92**	–	**92**
Stock Purchase Plan						
Group	–	–	413	**413**	–	**413**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Dividends paid	–	–	–7,207	**–7,207** [5]	–248	**–7,455**
Transactions with non-controlling interest	–	–	–380	**–380**	309	**–71**
December 31, 2011	**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**

[1] SEK –1,663 million is recognized in Net Sales, SEK –742 million is recognized in Cost of Sales and SEK 376 million is recognized in R&D expenses.
[2] Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 46 million (SEK –1,480 million in 2010, SEK –1,015 million in 2009), gain/loss from hedging activities of foreign entities, SEK 9 million (SEK 385 in 2010, SEK 586 million in 2009), and realized gain/losses net from sold/liquidated companies SEK 192 million (SEK 140 million in 2010, SEK 10 million in 2009).
[3] For further disclosures, see Note C8, "Taxes".
[4] Deferred tax on gains/losses on hedges on investments in foreign entities and post-employment benefits.
[5] Dividends paid per share amounted to SEK 2.25 (SEK 2.00 in 2010 and SEK 1.85 in 2009).

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EQUITY AND OTHER COMPREHENSIVE INCOME 2010

2010	Capital stock	Additional paid in capital	Retained earnings	Stockholders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2010	16,367	24,731	98,772	**139,870**	1,157	**141,027**
Net income						
Group	–	–	12,503	**12,503**	89	**12,592**
Joint ventures and associated companies	–	–	–1,357	**–1,357**	–	**–1,357**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	3,892	**3,892**	–	**3,892**
Joint ventures and associated companies	–	–	–27	**–27**	–	**–27**
Revaluation of other investments in shares and participations						
Fair value remeasurement						
Group	–	–	7	**7**	–	**7**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	966	**966**	–	**966**
Joint ventures and associated companies	–	–	31	**31**	–	**31**
Reclassification adjustments for gains/losses included in profit or loss	–	–	-238	**–238**	–	**–238**
Adjustments for amounts transferred to initial carrying amount of hedged items	–	–	–136	**–136**	–	**–136**
Changes in cumulative translation adjustments						
Group	–	–	–3,269	**–3,269**	10	**–3,259**
Joint ventures and associated companies	–	–	–438	**–438**	–	**–438**
Tax on items relating to components of OCI	–	–	–1,120	**–1,120**	–	**–1,120**
Total other comprehensive income	**–**	**–**	**–332**	**–332**	**10**	**–322**
Total comprehensive income	**–**	**–**	**10,814**	**10,814**	**99**	**10,913**
Transactions with owners						
Sale of own shares	–	–	52	**52**	–	**52**
Stock Purchase Plan						
Group	–	–	762	**762**	–	**762**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Dividends paid	–	–	–6,391	**–6,391**	–286	**–6,677**
Transactions with non-controlling interest	–	–	–	**–**	708	**708**
December 31, 2010	**16,367**	**24,731**	**104,008**	**145,106**	**1,679**	**146,785**

Telcordia05263

EQUITY AND OTHER COMPREHENSIVE INCOME 2009

2009	Capital stock	Additional paid in capital	Retained earnings	Stockholders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2009	16,232	24,731	99,860	**140,823**	1,261	**142,084**
Net income						
Group	–	–	9,685	**9,685**	455	**10,140**
Joint ventures and associated companies	–	–	–6,013	**–6,013**	–	**–6,013**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	–633	**–633**	–	**–633**
Joint ventures and associated companies	–	–	28	**28**	–	**28**
Revaluation of other investments in shares and participations						
Fair value remeasurement						
Group	–	–	–2	**–2**	–	**–2**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	665	**665**	–	**665**
Joint ventures and associated companies	–	–	7	**7**	–	**7**
Reclassification adjustments for gains/losses included in profit or loss	–	–	3,850	**3,850**	–	**3,850**
Adjustments for amounts transferred to initial carrying amount of hedged items	–	–	–1,029	**–1,029**	–	**–1,029**
Changes in cumulative translation adjustments						
Group	–	–	–1,013	**–1,013**	–54	**–1,067**
Joint ventures and associated companies	–	–	–294	**–294**	–	**–294**
Tax on items relating to components of OCI	–	–	–1,040	**–1,040**	–	**–1,040**
Total other comprehensive income	**–**	**–**	**539**	**539**	**–54**	**485**
Total comprehensive income	**–**	**–**	**4,211**	**4,211**	**401**	**4,612**
Transactions with owners						
Stock issue	135	–	–	**135**	–	**135**
Sale of own shares	–	–	75	**75**	–	**75**
Repurchase of own shares	–	–	–135	**–135**	–	**–135**
Stock Purchase and Stock Option Plans						
Group	–	–	658	**658**	–	**658**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Dividends paid	–	–	–5,897	**–5,897**	–421	**–6,318**
Transactions with non-controlling interest	–	–	–	**–**	–84	**–84**
December 31, 2009	**16,367**	**24,731**	**98,772**	**139,870**	**1,157**	**141,027**

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C17 POST-EMPLOYMENT BENEFITS

Ericsson sponsors a number of post-employment benefit plans throughout the Company, which are in line with market practice in each country. The year 2011 was characterized by the overall decrease in discount rates and an increase in life expectancy. Consequently, the Company experienced an overall increase in the net pension liability, and an actuarial loss.

CONTENTS

AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET 76
TOTAL PENSION EXPENSES RECOGNIZED IN THE INCOME STATEMENT 77
CHANGE IN THE DEFINED BENEFIT OBLIGATION (DBO) 78
CHANGE IN THE PLAN ASSETS 79
ACTUARIAL GAINS AND LOSSES REPORTED DIRECTLY IN OTHER COMPREHENSIVE INCOME 80
ACTUARIAL ASSUMPTIONS 80
INFORMATION ON ISSUES AFFECTING THE NET PENSION LIABILITY FOR THE YEAR 80

Amount recognized in the consolidated balance sheet

AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Sweden	UK	Eurozone	US	Other	Total
2011						
Defined benefit obligation (DBO) [1]	20,643	6,307	3,687	3,133	2,605	**36,375**
Fair value of plan assets [2]	13,490	6,750	2,665	2,337	2,777	**28,019**
Deficit/Surplus (+/–)	7,153	–443	1,022	796	–172	**8,356**
Unrecognized past service costs	–	–	–	–	–47	**–47**
Closing balance	7,153	–443	1,022	796	–219	**8,309**
Plans with net surplus excluding asset ceiling [3]	–	584	369	–	754	**1,707**
Provision for post-employment benefits [4]	**7,153**	**141**	**1,391**	**796**	**535**	**10,016**
2010						
Defined benefit obligation (DBO) [1]	14,980	5,437	3,163	2,693	2,437	**28,710**
Fair value of plan assets [2]	12,389	5,691	2,514	2,048	2,793	**25,435**
Deficit/Surplus (+/–)	2,591	–254	649	645	–356	**3,275**
Unrecognized past service costs	–	–	5	–	–60	**–55**
Closing balance	2,591	–254	654	645	–416	**3,220**
Plans with net surplus excluding asset ceiling [3]	–	290	643	–	939	**1,872**
Provision for post-employment benefits [4]	**2,591**	**36**	**1,297**	**645**	**523**	**5,092**

[1] For details on DBO, please refer to section "Change in the Defined Benefit Obligation, DBO" of this note.
[2] For details on plan assets, please refer to section "Change in the Plan Assets" of this note.
[3] Plans with a net surplus, i.e. where plan assets exceed DBO, are reported as Other financial assets, non-current, see Note C12, "Financial Assets". Asset ceiling amounted to SEK 483 (691) million.
[4] Plans with net liabilities are reported in the balance sheet as Post-employment benefits, non-current.

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Total pension expenses recognized in the income statement

The expenses for post-employment benefits within Ericsson are distributed between defined contribution plans and defined benefit plans, with a trend toward defined contribution plans.

PENSION COSTS FOR DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS

	Sweden	UK	Eurozone	US	Other	Total
2011						
Pension cost for defined contribution plans	2,039	72	386	360	185	3,042
Pension cost for defined benefit plans [1]	621	–86	124	42	146	847
Total	**2,660**	**–14**	**510**	**402**	**331**	**3,889**
Total pension cost expressed as a percentage of wages and salaries						8.9%
2010						
Pension cost for defined contribution plans	1,037	95	433	244	192	2,001
Pension cost for defined benefit plans [1]	762	153	159	30	–14	1,090
Total	**1,799**	**248**	**592**	**274**	**178**	**3,091**
Total pension cost expressed as a percentage of wages and salaries						7.1%
2009						
Pension cost for defined contribution plans	1,686	73	385	124	185	2,453
Pension cost for defined benefit plans [1]	674	66	202	49	144	1,135
Total	**2,360**	**139**	**587**	**173**	**329**	**3,588**
Total pension cost expressed as a percentage of wages and salaries						8.7%

[1] See cost details in table below.

COST DETAILS FOR DEFINED BENEFIT PLANS RECOGNIZED IN THE INCOME STATEMENT

	Sweden	UK	Eurozone	US	Other	Total
2011						
Current service cost	547	114	113	26	157	957
Interest cost	714	293	168	151	169	1,495
Expected return on plan assets	–558	–339	–135	–135	–243	–1,410
Past service cost	6	4	6	–	9	25
Curtailments, settlements and other	–88	–158	–28	–	54	–220
Total	**621**	**–86**	**124**	**42**	**146**	**847**
2010						
Current service cost	631	161	129	32	140	1,093
Interest cost	643	314	182	159	172	1,470
Expected return on plan assets	–511	–322	–141	–130	–253	–1,357
Past service cost	–	–	33	–	9	42
Curtailments, settlements and other	–1	–	–44	–31	–82	–158
Total	**762**	**153**	**159**	**30**	**–14**	**1,090**
2009						
Current service cost	594	205	138	35	131	1,103
Interest cost	590	284	194	171	155	1,394
Expected return on plan assets	–366	–270	–125	–156	–208	–1,125
Past service cost	–	–	5	–	25	30
Curtailments, settlements and other	–144	–153	–10	–1	41	–267
Total	**674**	**66**	**202**	**49**	**144**	**1,135**

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The following sections focus on the defined benefit plans.

Change in the defined benefit obligation (DBO)

The DBO is the gross pension liability.

CHANGE IN THE DEFINED BENEFIT OBLIGATION

	Sweden	UK	Eurozone	US	Other	Total
2011						
Opening balance	14,980	5,437	3,163	2,693	2,437	**28,710**
Current service cost	547	114	113	26	157	**957**
Interest cost	714	293	168	151	169	**1,495**
Employee contributions	–	11	4	–	1	**16**
Pension payments	–220	–141	–87	–149	–144	**–741**
Actuarial gain/loss (–/+)	4,705	651	379	329	120	**6,184**
Curtailments	–88	–158	–25	–	–	**–271**
Business combinations	–	–	2	–	–	**2**
Other	5	–10	11	22	15	**43**
Translation difference	–	110	–41	61	–150	**–20**
Closing balance	**20,643**	**6,307**	**3,687**	**3,133**	**2,605**	**36,375**
Of which medical benefit schemes	–	–	–	*658*	–	***658***
2010						
Opening balance	16,150	5,688	3,840	2,781	2,258	**30,717**
Current service cost	631	161	129	32	140	**1,093**
Interest cost	643	314	182	159	172	**1,470**
Employee contributions	–	11	4	–	5	**20**
Pension payments	–159	–99	–82	–169	–194	**–703**
Actuarial gain/loss (–/+)	–2,285	–157	–569	46	104	**–2,861**
Settlements	–	–	–14	–	–104	**–118**
Curtailments	–1	–	–30	–38	–93	**–162**
Business combinations [1]	–	–	74	–	148	**222**
Other	1	–20	95	30	8	**114**
Translation difference	–	–461	–466	–148	–7	**–1,082**
Closing balance	**14,980**	**5,437**	**3,163**	**2,693**	**2,437**	**28,710**
Of which medical benefit schemes	–	–	–	*594*	–	***594***

[1] Business combinations in 2010 are related to the acquisition of LG-Nortel and Pride Spa.

FUNDED STATUS

The funded ratio, defined as total plan assets in relation to the total DBO, was 77.0% in 2011, compared to 88.6% in 2010.

The following table summarizes the value of the DBO per geographical area based on whether there are plan assets wholly or partially funding each pension plan.

VALUE OF THE DEFINED BENEFIT OBLIGATION

	Sweden	UK	Eurozone	US	Other	Total
2011						
DBO, closing balance	20,643	6,307	3,687	3,133	2,605	**36,375**
Of which partially or fully funded	*20,118*	*6,307*	*2,540*	*2,447*	*2,118*	***33,530***
Of which unfunded	*525*	–	*1,147*	*686*	*487*	***2,845***
2010						
DBO, closing balance	14,980	5,437	3,163	2,693	2,437	**28,710**
Of which partially or fully funded	*14,527*	*5,437*	*2,086*	*2,072*	*1,998*	***26,120***
Of which unfunded	*453*	–	*1,077*	*621*	*439*	***2,590***

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Change in the plan assets

A majority of pension plans have assets managed by local Pension Trust funds, whose sole purpose is to secure the future pension payments to the employees.

CHANGE IN THE PLAN ASSETS

	Sweden	UK	Eurozone	US	Other	Total
2011						
Opening balance	12,389	5,691	2,514	2,048	2,793	**25,435**
Expected return on plan assets	558	339	135	135	243	**1,410**
Actuarial gain/loss (+/–)	–358	473	–36	155	–84	**150**
Employer contributions	1,086	272	125	54	125	**1,662**
Employee contributions	–	11	4	–	1	**16**
Pension payments	–185	–141	–46	–98	–102	**–572**
Other	–	–14	–1	–	–4	**–19**
Translation difference	–	119	–30	43	–195	**–63**
Closing balance	**13,490**	**6,750**	**2,665**	**2,337**	**2,777**	**28,019**
2010						
Opening balance	10,927	5,336	2,406	1,974	2,563	**23,206**
Expected return on plan assets	511	322	141	130	253	**1,357**
Actuarial gain/loss (+/–)	222	265	105	103	–42	**653**
Employer contributions	729	343	173	58	93	**1,396**
Employee contributions	–	11	3	–	5	**19**
Pension payments	–	–119	–43	–103	–119	**–384**
Settlements	–	–	–	–	–104	**–104**
Business combinations [1]	–	–	–	–	164	**164**
Other	–	–	53	–	–4	**49**
Translation difference	–	–467	–324	–114	–16	**–921**
Closing balance	**12,389**	**5,691**	**2,514**	**2,048**	**2,793**	**25,435**

[1] Business combinations in 2010 are related to the acquisition of LG-Nortel.

Refunds from or reductions in future contributions to plan assets are recognized if they are available and firmly decided.

ACTUAL RETURN ON PLAN ASSETS

	Sweden	UK	Eurozone	US	Other	Total
2011	200	812	99	289	160	**1,560**
2010	733	587	246	233	211	**2,010**

ASSET ALLOCATION

	Sweden	UK	Eurozone	US	Other	Total
2011						
Equities	4,503	1,666	1,348	1,062	356	**8,935**
Interest-bearing securities	8,239	4,245	1,020	1,210	1,846	**16,560**
Other	748	839	297	65	575	**2,524**
Total	**13,490**	**6,750**	**2,665**	**2,337**	**2,777**	**28,019**
Of which Ericsson securities	–	–	–	–	–	**–**
2010						
Equities	4,326	2,028	1,277	1,134	458	**9,223**
Interest-bearing securities	7,508	3,207	970	870	1,837	**14,392**
Other	555	456	267	44	498	**1,820**
Total	**12,389**	**5,691**	**2,514**	**2,048**	**2,793**	**25,435**
Of which Ericsson securities	–	–	–	–	–	**–**

Equity instruments amount to 32% (36%) of the total assets, interest bearing instruments amount to 59% (57%) of the total assets, and other instruments amount to 9% (7%) of the total assets.

The contributions to the defined benefit plans for the upcoming year will be based on the development of the financial markets as well as on the growth of the pension liability, and how these developments affect the target funding ratio of the Company. On January 14, 2012, as per the trust's funding requirements, the Company made an employer contribution payment of SEK 900 million to the Swedish pension trust fund.

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Actuarial gains and losses reported directly in other comprehensive income

Since January 1, 2006, Ericsson applies immediate recognition of actuarial gains and losses directly in the statement of Other Comprehensive Income. Actuarial gains and losses may arise from either a change in actuarial assumptions or in deviations between estimated and actual outcome.

MULTI-YEAR SUMMARY

	2011	2010	2009	2008	2007
Plan assets	**28,019**	25,435	23,206	19,037	20,236
DBO	**36,375**	28,710	30,717	28,010	25,226
Deficit/Surplus (–/+)	**–8,356**	–3,275	–7,511	–8,973	–4,990
Actuarial gains and losses (–/+)					
Experience-based adjustments of pension obligations	**–463**	177	310	57	–76
Experience-based adjustments of plan assets	**–150**	–653	–1,191	2,952	59

ACTUARIAL GAINS AND LOSSES REPORTED DIRECTLY IN OTHER COMPREHENSIVE INCOME

	2011	2010
Cumulative gain/loss (–/+) at beginning of year	**1,849**	5,326
Recognized gain/loss (–/+) during the year	**6,034**	–3,514
Translation difference	**28**	37
Cumulative gain/loss (–/+) at end of year	**7,911**	1,849

TOTAL REMEASUREMENTS IN OTHER COMPREHENSIVE INCOME RELATED TO POST-EMPLOYMENT BENEFITS

	2011	2010
Actuarial gains and losses (+/–)	**–6,034**	3,514
The effect of asset ceiling	**208**	–29
Swedish special payroll taxes	**–1,137**	407
Total Group	**–6,963**	3,892
Actuarial gains and losses for joint ventures and associated companies	**–212**	–27

Actuarial assumptions

FINANCIAL AND DEMOGRAPHIC ACTUARIAL ASSUMPTIONS

	Sweden	UK	Eurozone [1]	US [1]	Other [1]
2011					
Discount rate	3.50%	4.70%	5.25%	5.23%	8.18%
Expected return on plan assets for the year	4.55%	5.90%	5.32%	7.00%	9.27%
Future salary increases	3.25%	4.10%	2.91%	4.50%	6.07%
Inflation	2.00%	3.10%	2.00%	2.50%	3.43%
Health care cost inflation, current year	n/a	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	22	22	22	19	19
Life expectancy after age 65 in years, females	24	25	24	21	22
2010					
Discount rate	4.80%	5.40%	5.59%	5.73%	8.55%
Expected return on plan assets for the year	4.55%	6.00%	6.27%	7.00%	9.91%
Future salary increases	3.25%	4.50%	2.91%	4.50%	5.70%
Inflation	2.00%	3.50%	2.00%	2.50%	3.50%
Health care cost inflation, current year	n/a	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	21	22	22	18	19
Life expectancy after age 65 in years, females	24	24	25	20	22

[1] Weighted average for disclosure purposes only. Land specific assumptions were used for each actuarial calculation.

- Actuarial assumptions are assessed on a quarterly basis.
- The discount rate for each country is determined by reference to market yields on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds are used.
- The overall expected long-term return on plan assets is a weighted average of each asset category's expected rate of return. The expected return on interest-bearing investments is set in line with each country's market yield. Expected return on equities is derived from each country's risk free rate with the addition of a risk premium.
- Salary increases are partially affected by fluctuations in inflation rate.
- The net periodic pension cost and the present value of the DBO for current and former employees are calculated using the Projected Unit Credit (PUC) actuarial cost method, where the objective is to spread the cost of each employee's benefits over the period that the employee works for the Company.

SENSITIVITY ANALYSIS FOR MEDICAL BENEFIT SCHEMES

The effect (in SEK million) of a one percent change in the assumed trend rate of medical cost would have the following effect:

SENSITIVITY ANALYSIS FOR MEDICAL BENEFIT SCHEMES

	1% increase	1% decrease
Net periodic post-employment medical cost	3	–3
Accumulated post-employment benefit obligation for medical costs	61	–53

Information on issues affecting the Net Pension Liability for the year

SWEDEN

The defined benefit obligation has been calculated using a discount rate based on yields of covered bonds, which is higher than a discount rate based on yields of government bonds. The Swedish covered bonds are considered high-quality bonds, mainly AAA-rated, as they are secured with assets, and the market for covered bonds is considered deep and liquid, thereby meeting IAS19 requirements.

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As before, Ericsson has secured the disability and survivors' pension part of the ITP Plan through an insurance solution with the insurance company Alecta. Although this part of the plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, and therefore, it has been accounted for as a defined contribution plan.

Alecta has a collective funding ratio which is a buffer for its insurance commitments to protect against fluctuations in investment return and insurance risks. Alecta's target ratio is 140% and reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions, which are different from those in IAS 19. Alecta's collective funding ratio was 113% (146%).

Contingent liabilities include the Company's mutual responsibility as a credit insured company of PRI Pensionsgaranti in Sweden. This mutual responsibility can only be imposed in case PRI Pensionsgaranti has consumed all of their assets, and it amounts to a maximum of 2% of the company's pension liability in Sweden.

C18 PROVISIONS

PROVISIONS

	Warranty	Restructuring	Project-related	Other	Total
2011					
Opening balance	2,469	3,230	1,105	2,940	9,744
Additions	1,433	1,806	563	1,005	4,807
Reversal of excess amounts	–440	–407	–164	–908	–1,919
Negative effect on Income Statement					*2,888*
Cash out/utilization	–1,527	–3,223	–662	–575	–5,987
Balances regarding divested/acquired businesses	21	–	–	2	23
Reclassification	–	–48	–111	–87	–246
Translation differences	–68	–31	–13	–45	–157
Closing balance	**1,888**	**1,327**	**718**	**2,332**	**6,265**
2010					
Opening balance	2,533	4,299	1,694	3,905	12,431
Additions	1,743	2,640	1,285	1,046	6,714
Reversal of excess amounts	–297	–335	–353	–869	–1,854
Negative effect on Income Statement					*4,860*
Cash out/utilization	–1,466	–3,261	–1,547	–880	–7,154
Balances regarding divested/acquired businesses	182	–	28	–	210
Reclassification	–182	176	62	–200	–144
Translation differences	–44	–289	–64	–62	–459
Closing balance	**2,469**	**3,230**	**1,105**	**2,940**	**9,744**

Provisions will fluctuate over time depending on business mix, market mix and technology shifts. Risk assessment in the ongoing business is performed monthly to identify the need for new additions and reversals. Management uses its best judgment to estimate provisions based on this assessment. In certain circumstances, provisions are no longer required due to more favorable outcomes than anticipated, which affect the provisions balance as a reversal. In other cases the outcome can be negative, and if so, a charge is recorded in the income statement.

For 2011, new or additional provisions amounting to SEK 4.8 billion were made, and SEK 1.9 billion were reversed. The actual cash outlays for 2011 was SEK 6.0 billion compared with the estimated SEK 8 billion. The main part of the total cash out for 2011 is restructuring provisions of SEK 3.2 billion. The expected total cash outlays in 2012 is approximately SEK 3.5 billion.

Of the total provisions, SEK 280 (353) million are classified as non-current. For more information, see Note C1, "Significant Accounting Policies" and Note C2, "Critical Accounting Estimates and Judgments".

Warranty provisions

Warranty provisions are based on historic quality rates for established products as well as estimates regarding quality rates for new products and costs to remedy the various types of faults predicted. The actual cash outlays for 2011 were SEK 1.5 billion and in line with the expected SEK 2 billion. Provisions amounting to SEK 1.4 billion were made and due to more favorable outcomes in certain cases reversals of SEK 0.4 billion were made. The cash outlays of warranty provisions during year 2012 are estimated to approximately SEK 1 billion.

Restructuring provisions

In 2011 SEK 1.8 billion (2.6) in provision were made. The cash outlays were 3.2 billion (3.3) for the full year and SEK 1.9 billion were related to restructuring programs before 2011. The cash outlay for 2012 are estimated to approximately SEK 1 billion.

Project related provisions

Project provisions relate to estimated losses on onerous contracts, including probable contractual penalties. The cash outlays of project related provisions were SEK 0.7 billion and in line with the estimated SEK 1 billion. Provisions amounting to SEK 0.6 billion were made and SEK 0.2 billion were reversed due to a more favorable outcome than expected. The cash outlays for 2012 are estimated to be approximately SEK 0.5 billion.

Other provisions

Other provisions include provisions for tax issues, litigations, supplier claims, and other. The cash outlays were SEK 0.6 billion in 2011 compared to the estimate of SEK 2 billion. During 2011, new provisions amounting to SEK 1.0 billion were made and SEK 0.9 billion were reversed during the year due to a more favorable outcome. For 2012, the estimated cash outlays are approximately SEK 1 billion.

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C19 INTEREST-BEARING LIABILITIES

As of December 31, 2011, Ericsson's outstanding interest-bearing liabilities were SEK 31.0 (30.8) billion.

INTEREST-BEARING LIABILITIES

	2011	2010
Borrowings, current		
Current part of non-current borrowings [1]	4,314	760
Other current borrowings	3,451	3,048
Total current borrowings	**7,765**	3,808
Borrowings, non-current		
Notes and bond loans	17,197	20,646
Other borrowings, non-current	6,059	6,309
Total non-current interest-bearing liabilities	**23,256**	26,955
Total interest-bearing liabilities	**31,021**	30,763

[1] Including notes and bond loans of SEK 3,461 (0) million.

All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium-Term Note (EMTN) program. Bonds issued at a fixed interest rate are normally swapped to a floating interest rate using interest rate swaps leaving a maximum of 50% of outstanding loans at fixed interest rates. It resulted in weighted average interest rate of 4.21% (2.65%). These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

In 2008 Ericsson signed a seven-year loan of SEK 4.0 billion with the European Investment Bank (EIB). The loan supports Ericsson's R&D activities to develop the next generation of mobile broadband technology at sites in Kista, Gothenburg and Linköping in Sweden.

NOTES AND BOND LOANS

Issued–maturing	Nominal amount	Coupon	Currency	Book value (SEK m.)	Maturity date	Unrealized hedge gain/loss (included in book value)
2004–2012	450	3.305%	SEK	450	December 7, 2012 [2]	–
2007–2012	1,000	5.100%	SEK	1,011	June 29, 2012	–11
2007–2012	2,000	2.885%	SEK	2,000	June 29, 2012 [3]	–
2007–2014	375	1.704%	EUR	3,345	June 14, 2014 [4]	–
2007–2017	500	5.380%	EUR	5,161 [1]	June 27, 2017	–719
2009–2013	600	5.000%	EUR	5,450 [1]	June 24, 2013	–109
2009–2016	300	3.62125%	USD	2,069	June 23, 2016 [5]	–
2010–2020	170	2.96125%	USD	1,172	December 23, 2020 [6]	–
Total				**20,658**		**–839**

[1] Interest rate swaps are designated as fair value hedges.
[2] Next contractual repricing date June 7, 2012 (semi-annual).
[3] Next contractual repricing date March 29, 2012 (quarterly).
[4] Next contractual repricing date March 27, 2012 (quarterly).
[5] Next contractual repricing date March 23, 2012 (quarterly).
[6] Next contractual repricing date March 23, 2012 (quarterly).

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C20 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Ericsson's financial risk management is governed by a policy approved by the Board of Directors. The Finance Committee of the Board of Directors is responsible for overseeing the capital structure and financial management of the Company and approving certain matters (such as investments, customer finance commitments, guarantees and borrowing) and is continuously monitoring the exposure to financial risks.

Ericsson defines its managed capital as the total Company equity. For Ericsson, a robust financial position with a strong equity ratio, investment grade rating, low leverage and ample liquidity is deemed important. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

Ericsson's overall capital structure should support the financial targets: to grow faster than the market, deliver best-in-class margins and generate a healthy cash flow. The capital structure is managed by balancing equity, debt financing and liquidity in such a way that the Company secure funding of operations at a reasonable cost of capital. Regular borrowings are complemented with committed credit facilities to give additional flexibility to manage unforeseen funding needs. Ericsson strive to finance growth, normal capital expenditures and dividends to shareholders by generating sufficient positive cash flows from operating activities.

Ericsson's capital objectives are:

- An equity ratio above 40%
- A cash conversion rate above 70%
- To maintain a positive net cash position
- To maintain a solid investment grade rating by Moody's and Standard & Poor's.

CAPITAL OBJECTIVES RELATED INFORMATION

	2011	2010
Capital (SEK billion)	**145**	147
Equity ratio (percent)	**52**	52
Cash conversion rate (percent)	**40**	112
Positive net cash (SEK billion)	**39.5**	51.3
Credit rating		
Moody's	**A3**	Baa1
Standard & Poor's	**BBB+**	BBB+

Ericsson has a treasury function with the principal role to ensure that appropriate financing is in place through loans and committed credit facilities, to actively manage the Company's liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures in a manner consistent with underlying business risks and financial policies. Hedging activities, cash management and insurance management are largely centralized to the treasury function in Stockholm.

Ericsson also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to Ericsson. To the extent customer loans are not provided directly by banks, the Parent Company provides or guarantees vendor credits. The customer finance function monitors the exposure from outstanding vendor credits and credit commitments.

Ericsson classifies financial risks as:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity and refinancing risk
- Market price risk in own and other equity instruments.

The Board of Directors has established risk limits for defined exposures to foreign exchange and interest rate risks as well as to political risks in certain countries.

For further information about accounting policies, see Note C1, "Significant Accounting Policies".

Foreign exchange risk

Ericsson is a global company with sales mainly outside Sweden. Revenues and costs are to a large extent in currencies other than SEK and therefore the financial results of the Company are impacted by currency fluctuations.

Ericsson reports the financial accounts in SEK and movements in exchange rates between currencies will affect:

- Specific line items such as Net sales and Operating income.
- The comparability of our results between periods.
- The carrying value of assets and liabilities.
- Reported cash flows.

Net sales and Operating Income are affected by changes in foreign exchange rates from two different kinds of exposures, translation exposure and transaction exposure. In the Operating Income we are primarily exposed to transaction exposure which is partially addressed by hedging.

CURRENCY EXPOSURE, SEK BILLION

Exposure currency	Translation exposure	Transaction exposure	Net exposure	Net exposure, percent of total
Net sales				
SEK	44.5	–42.7	1.8	1%
USD	46.8	39.8	86.6	38%
EUR	29.3	13.6	42.9	19%
CNY	17.3	–0.3	17.0	8%
JPY	13.7	0.7	14.4	6%
INR	9.4	–	9.4	4%
BRL	7.8	–0.2	7.6	3%
GBP	6.8	–2.0	4.8	2%
Other	49.6	–8.9	40.7	19%
Pre-hedge total			**225.2**	**100%**
Hedge			1.7	
Total Net sales			**226.9**	
Net cost				
SEK	–40.4	–29.2	–69.6	33%
USD	–47.4	–19.3	–66.7	32%
EUR	–27.5	–0.4	–27.9	13%
CNY	–15.9	1.7	–14.2	7%
JPY	–13.1	9.0	–4.1	2%
INR	–7.5	3.9	–3.6	2%
BRL	–7.4	1.3	–6.1	3%
GBP	–6.2	1.3	–4.9	2%
Other	–43.9	31.7	–12.2	6%
Pre-hedge total			**–209.3**	**100%**
Hedge			0.3	
Total Net cost			**–209.0**	
Operating income			**17.9**	

TRANSLATION EXPOSURE

Translation exposure relates to Sales and Cost of Sales in foreign entities when translated into SEK upon consolidation. These exposures can not be addressed by hedging, but as the Income Statement is translated using average rate (average rate gives a good approximation), the impact of volatility in foreign currency rates is reduced.

TRANSACTION EXPOSURE

Transaction exposure relates to Sales and Cost of sales in non-reporting currencies in individual group companies. Foreign exchange risk is as far as possible concentrated to Swedish group companies, primarily Ericsson AB. Sales to foreign subsidiaries are normally denominated in the functional currency of the customers and are normally denominated in USD or other foreign currency. In order to limit the exposure toward exchange rate

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fluctuations on future revenues and costs, committed and forecasted future sales and purchases in major currencies are hedged with 7% of 12 month forecast monthly. This corresponds to approximately 5–6 months of an average forecast.

According to Company policy, transaction exposure in subsidiaries' balance sheets (i.e. trade receivables and payables and customer finance receivables) should be fully hedged, except for non-tradable currencies.

Foreign exchange exposures in balance sheet items are hedged through offsetting balances or derivatives.

As of December 31, 2011, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of SEK –0.5 (0.6) billion. The market value is partly deferred in the hedge reserve in OCI to offset the gains/losses on hedged future sales in foreign currency.

Cash flow hedges

The purpose of hedging forecasted revenues and costs is to reduce volatility in the income statement. Hedging is done by selling or buying foreign currencies against the functional currency of the hedging entity using FX forwards.

Hedging is done based on a rolling 12-month exposure forecast. Ericsson uses a layered hedging approach, where the closest quarters are hedged to a higher degree than later quarters. Each consecutive quarter is hereby hedged on several occasions and is covered by an aggregate of hedging contracts initiated at various points in time, which supports the objective of reducing volatility in the income statement from changes in foreign exchange rates.

TRANSLATION EXPOSURE IN NET ASSETS

Ericsson has many subsidiaries operating outside Sweden with other functional currencies than SEK. The results and net assets of such companies are exposed to exchange rate fluctuations, which affect the consolidated income statement and balance sheet when translated to SEK. Translation risk related to forecasted results from foreign operations can not be hedged, but net assets can be addressed by hedging.

Translation exposure in foreign subsidiaries is hedged according to the following policy established by the Board of Directors:

Translation risk related to net assets in foreign subsidiaries is hedged up to 20% in selected companies. The translation differences reported in OCI during 2011 were negative, SEK 1.0 billion, including hedging loss of SEK 0.0 billion.

Interest rate risk

Ericsson is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position was SEK 39.5 (51.3) billion at the end of 2011, consisting of cash, cash equivalents and short-term investments of SEK 80.5 (87.2) billion and interest-bearing liabilities and post-employment benefits of SEK 41.0 (35.9) billion.

Ericsson manages the interest rate risk by (i) matching fixed and floating interest rates in interest-bearing balance sheet items and (ii) avoiding significant fixed interest rate exposure in Ericsson's net cash position. The policy is that interest-bearing assets shall have an average interest duration between 10 and 14 months, taking derivative instruments into consideration. Interest-bearing liabilities do not have a duration target as the duration of the fixed rate portion will be determined by markets conditions when liabilities are issued, Group Treasury has a mandate to deviate from the asset management benchmark given by the Board and take FX positions up to an aggregated risk of VaR SEK 45 million given a confidence level of 99% and a 1-day horizon. Previously this was divided into two mandates, one 20, to leave selected transaction exposures in subsidiaries' balance sheets unhedged, and another 30, to deviate from asset management benchmark and take FX positions.

As of December 31, 2011, 86% (97%) of Ericsson's interest-bearing liabilities and 77% (90%) of Ericsson's interest-bearing assets had floating interest rates, i.e. interest periods of less than 12 months.

When managing the interest rate exposure, Ericsson uses derivative instruments, such as interest rate swaps. Derivative instruments used for converting fixed rate debt into floating rate debt are designated as fair value hedges.

FAIR VALUE HEDGES

The purpose of fair value hedges is to hedge the variability in the fair value of fixed-rate debt (issued bonds) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk/spread is not hedged.

The fixed leg of the IRS is matched against the cash flows of the hedged bond. Hereby the fixed-rate bond/debt is converted into a floating-rate debt in accordance with the policy.

OUTSTANDING DERIVATIVES [1]

	2011		2010	
Fair value	Asset	Liability	Asset	Liability
Currency derivatives				
Maturity within 3 months	557	881	581	1,086
Maturity between 3 and 12 months	364	393	945	505
Maturity 1 to 3 years	–	–	2	21
Total currency derivatives	921	1,274	1,528	1,613 [2]
Of which designated in cash flow hedge relations	*333*	*638*	*662*	–
Of which designated in net investment hedge relations	–	–	–	*3*
Interest rate derivatives				
Maturity within 3 months	–	5	6	28
Maturity between 3 and 12 months	324	367	76	61
Maturity 1 to 3 years	380	618	544	118
Maturity 3 to 5 years	416	815	184	34
Maturity more than 5 years	778	161	705	87
Total interest rate derivatives	1,898 [3]	1,966	1,515	329 [2]
Of which designated in fair value hedge relations	*1,002*	–	*862*	–

[1] Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current derivatives due to hedge accounting.
[2] Of which SEK 902 million is reported as non-current liabilities.
[3] Of which SEK 816 million is reported as non-current assets.

Sensitivity analysis

Ericsson uses the VaR methodology to measure foreign exchange and interest rate risks in portfolios managed by Treasury. This statistical method expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time. For the VaR measurement, Ericsson has chosen a probability level of 99% and a 1-day time horizon. The daily VaR measurement uses market volatilities and correlations based on historical daily data (one year).

The average VaR calculated for 2011 was SEK 20.6 million for the combined mandates. For 2010, the interest rate mandate was SEK 20.3 million and the transaction exposure mandate was SEK 9.8 million. No VaR-limits were exceeded during 2011.

Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. This exposure arises in the investments in cash, cash equivalents, short-term Investments and from derivative positions with positive unrealized results against banks and other counterparties.

Ericsson mitigates these risks by investing cash primarily in well-rated securities such as treasury bills, government bonds, commercial papers, and mortgage covered bonds with short-term ratings of at least A-1/P-1 and long-term ratings of AAA. Separate credit limits are assigned to each

Telcordia05273

counterpart in order to minimize risk concentration. We have had no sub-prime exposure in our investments. All derivative transactions are covered by ISDA netting agreements to reduce the credit risk. No credit losses were incurred during 2011, neither on external investments nor on derivative positions.

At December 31, 2011, the credit risk in financial cash instruments was equal to the instruments' carrying value. Credit exposure in derivative instruments was SEK 2.8 (3.0) billion.

Liquidity risk

Liquidity risk is that Ericsson is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves.

Ericsson minimizes the liquidity risk by maintaining a sufficient net cash position. This is managed through centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. For information about contractual obligations, please see Note C31, "Contractual obligations". The current cash position is deemed to satisfy all short-term liquidity requirements.

During 2011, cash and bank and short-term investments decreased by SEK 6.7 billion to SEK 80.5 billion.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	Remaining time to maturity				
(SEK billion)	< 3 months	< 1 year	1–5 years	>5 years	Total
Bank Deposits	33.7	0.2	–	–	33.9
Type of issuer/ counterpart					
Governments	6.3	3.8	13.2	1.7	25.0
Corporations [1]	4.7	–	–	–	4.7
Mortgage institutes	–	–	16.6	0.3	16.9
2011	44.7	4.0	29.8	2.0	80.5
2010	30.9	9.4	42.8	4.1	87.2

[1] Of which SEK 2.8 billion relates to ST-Ericsson.

The instruments are either classified as held for trading or as assets available for sale with maturity less than one year and therefore short-term investments. Cash, Cash Equivalents and short-term investments are mainly held in SEK unless off-set by EUR-funding.

REFINANCING RISK

Refinancing risk is the risk that Ericsson is unable to refinance outstanding debt at reasonable terms and conditions, or at all, at a given point in time.

REPAYMENT SCHEDULE OF NON-CURRENT BORROWINGS [1]

Nominal amount (SEK billion)	Current maturities of long- term debt	Notes and bonds (non-current)	Liabilities to financial institutions (non-current)	Total
2012	3.4	–	–	3.4
2013	–	5.4	–	5.4
2014	–	3.3	–	3.3
2015	–	–	4.0	4.0
2016	–	2.1	–	2.1
2017	–	4.4	–	4.4
2018	–	–	–	–
2019	–	–	–	–
2020	–	1.2	–	1.2
Total	3.4	16.4	4.0	23.8

[1] Excluding finance leases reported in Note C27, "Leasing".

Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

Bank financing is used for certain subsidiary funding and to obtain committed credit facilities.

FUNDING PROGRAMS [1]

	Amount	Utilized	Unutilized
Euro Medium-Term Note program (USD million)	5,000	2,878	2,122
Long-term Committed Credit facility (USD million)	2,000	–	2,000
Indian Commercial Paper program (INR million)	5,000	–	5,000

[1] There are no financial covenants related to these programs.

In June 2011 Ericsson was upgraded by Moody's from Baa1 to A3 (stable). Standard & Poor's kept the BBB+ credit rating with stable outlook. Both credit ratings are considered to be solid investment grade.

Financial instruments carried at other than fair value

The fair value of the majority of the Company's financial instruments are determined based on quoted market prices or rates. In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit or loss showed a net gain of SEK 0.7 billion. For further information about valuation principles, please see Note C1, "Significant accounting policies".

FINANCIAL INSTRUMENTS CARRIED AT OTHER THAN FAIR VALUE [1]

	Book value		Fair value	
SEK billion	2011	2010	2011	2010
Current part of non-current borrowings	4.3	0.8	4.3	0.8
Notes and bonds	17.2	20.6	17.1	20.5
Other borrowings non-current	4.9	5.1	4.9	5.0
Total	26.4	26.5	26.3	26.3

[1] Excluding finance leases reported in Note C27, "Leasing".

Financial instruments excluded from the tables, such as trade receivables and payables, are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the carrying value is considered to represent a reasonable estimate of fair value.

Market price risk in own shares and other listed equity investments

RISK RELATED TO OUR OWN SHARE PRICE

Ericsson is exposed to the development of its own share price through stock purchase plans for employees and synthetic share-based compensations to the Board of Directors.

Stock purchase plans for employees

The obligation to deliver shares under the stock purchase plan is covered by holding Ericsson Class B shares as treasury stock. A change in the share price will result in a change in social security charges, which represents a risk to the income statement. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares as treasury stock to be sold to generate funds to cover also social security payments.

Synthetic share-based compensations to the Board of Directors

For these plans, the Company is exposed to risks in relation to own share price, both in relation to compensation expenses and social security charges. The obligation to pay compensation amounts under the synthetic share-based compensations to the Board of Directors is covered by a liability in the balance sheet.

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For further information about the stock purchase plan and the synthetic share-based compensations to the Board of Directors, please see note C28, “Information Regarding Members of the Board of Directors, the Group Management and Employees”.

FINANCIAL INSTRUMENTS, BOOK VALUE

SEK billion	Customer finance	Trade receiv-ables	Short-term invest-ments	Cash equiva-lents	Borrow-ings	Trade payables	Other financial assets	Other current receiv-ables	Other current liabilities	Other non-current liabilities	2011	2010
Note	C14	C14			C19	C22	C12	C15	C21			
Assets at fair value through profit or loss	–	–	38.8	5.0	–	–	0.8	2.0	–3.2	–	**43.4**	58.9
Loans and receivables	4.2	64.5	3.1	4.1	–	–	3.3	–	–	–	**79.2**	70.3
Available for sale assets	–	–	–	–	–	–	–	–	–	–	**–**	–
Financial liabilities at amortized cost	–	–	–	–	–31.0	–25.3	–	–	–	–	**–56.3**	–55.8
Total	**4.2**	**64.5**	**41.9**	**9.1**	**–31.0**	**–25.3**	**4.1**	**2.0**	**–3.2**	**–**	**66.3**	**73.4**

C21 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

	2011	2010
Income tax liabilities	**2,691**	2,228
Advances from customers	**3,942**	5,946
Liabilities to associated companies and joint ventures	**119**	115
Accrued interest	**351**	349
Accrued expenses, of which	**32,652**	31,463
Employee related	***11,314***	*10,063*
Supplier related	***11,621***	*12,273*
Other [1]	***9,717***	*9,127*
Deferred revenues	**8,722**	11,415
Derivatives with a negative value [2]	**3,240**	1,039
Other [3]	**6,253**	6,050
Total	**57,970**	58,605

[1] Major balance relates to accrued expenses for customer projects.
[2] See Note C20, “Financial Risk Management and Financial Instruments”.
[3] Includes items such as VAT and withholding tax payables and other payroll deductions, and liabilities for goods received where invoice is not yet received.

C22 TRADE PAYABLES

TRADE PAYABLES

	2011	2010
Payables to associated companies and joint ventures	**102**	157
Other	**25,207**	24,802
Total	**25,309**	24,959

C23 ASSETS PLEDGED AS COLLATERAL

ASSETS PLEDGED AS COLLATERAL

	2011	2010
Chattel mortgages	**185**	191
Bank deposits	**267**	467
Total	**452**	658

C24 CONTINGENT LIABILITIES

CONTINGENT LIABILITIES

	2011	2010
Contingent liabilities	**609**	875
Total	**609**	875

Contingent liabilities assumed by Ericsson include guarantees of loans to other companies of SEK 25 (25) million. Ericsson has SEK 111 (413) million issued to guarantee the performance of a third party. All ongoing legal and tax proceedings have been evaluated, their potential economic outflows and probability estimated and necessary provisions made. In Note C2, “Critical Accounting Estimates and Judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Financial guarantees for third party amounted to SEK 449 (191) million as of December 31, 2011. Maturity date for major part of the issued guarantees occurs in 2021 at latest.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. As of the date of the sale, Ericsson is no longer a guarantor of term loans or credit facilities related to Sony Ericsson, see Note C29, “Related Party Transactions”.

ST-Ericsson has been granted a revolving credit facility which is equally shared by Ericsson and STMicroelectronics. For additional information, see Note C29, “Related Party Transactions”.

Telcordia05275

C25 STATEMENT OF CASH FLOWS

Interest paid in 2011 was SEK 1,422 million (SEK 977 in 2010, SEK 772 million in 2009) and interest received was SEK 2,632 million (SEK 1,083 in 2010, SEK 1,900 million in 2009). Taxes paid, including withholding tax, were SEK 4,393 million (SEK 4,808 in 2010, SEK 4,427 million in 2009).

Cash and cash equivalents includes cash of SEK 29,471 (27,231) million and temporary investments of SEK 9,205 (3,633) million. For more information regarding the disposition of cash and cash equivalents and unutilized credit commitments, see Note C20, "Financial Risk Management and Financial Instruments".

Cash restricted due to currency regulations or other legal restrictions in certain countries amounted to SEK 13,907 million (SEK 10,836 in 2010, SEK 8,907 million in 2009).

ADJUSTMENTS TO RECONCILE NET INCOME TO CASH

	2011	2010	2009
Property, plant and equipment			
Depreciation	3,499	3,299	3,550
Impairment losses/reversals of impairments	47	–3	–48
Total	3,546	3,296	3,502
Intangible assets			
Amortization			
Capitalized development expenses	995	664	647
Intellectual Property Rights, brands and other intangible assets	4,470	4,999	3,562
Total amortization	5,465	5,663	4,209
Impairments			
Capitalized development expenses	7	49	157
Intellectual Property Rights, brands and other intangible assets	18	945	4,255
Total	5,490	6,657	8,621
Total depreciation, amortization and impairment losses on property, plant and equipment and intangible assets	9,036	9,953	12,123
Taxes	1,994	351	–1,011
Dividends from joint ventures/ associated companies [1]	177	119	70
Undistributed earnings in joint ventures/associated companies [1]	3,533	1,357	6,013
Gains/losses on sales of investments and operations, intangible assets and PP&E, net [2]	–159	–237	–910
Other non-cash items [2] [3]	–1,968	947	571
Total adjustments to reconcile net income to cash	12,613	12,490	16,856

[1] See Note C12, "Financial Assets, Non-Current".
[2] See Note C26, "Business Combinations".
[3] Refers mainly to unrealized foreign exchange, gains/losses on financial instruments.

ACQUISITIONS/DIVESTMENTS OF SUBSIDIARIES AND OTHER OPERATIONS

	Acquisitions	Divestments
2011		
Cash flow from business combinations [1]	–1,232	–28
Acquisitions/divestments of other investments	–1,949	81
Total	**–3,181**	**53**
2010		
Cash flow from business combinations [1]	–3,286	454
Total	**–3,286**	**454**
2009		
Cash flow from business combinations [1]	–9,633	1,239
Capital contribution to joint venture	–9,688	–
Total	**–19,321**	**1,239**

[1] See also Note C26, "Business Combinations".

C26 BUSINESS COMBINATIONS

Acquisitions and divestments

ACQUISITIONS

ACQUISITIONS 2009–2011

	2011	2010	2009
Cash	1,162	3,789	9,633
Total consideration	1,162	3,789	9,633
Acquisition-related costs	77 [1]	67 [1]	–
Net asset acquired			
Cash and cash equivalents	7	570	5
Property, plant and equipment	259	205	297
Intangible assets	382	3,825	5,832
Investments in associates	120	138	–
Other assets	140	2,506	1,235
Provision, including post-employment benefits	–23	–390	–
Other liabilities	–37	–3,573	–1,270
Total identifiable net assets	848	3,281	6,099
Non-controlling interest	54	–748	–
Goodwill	260	1,256	3,534
	1,162	3,789	9,633

[1] Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.

In 2011, Ericsson made acquisitions with a negative cash flow effect amounting to SEK 1,232 (3,286) million, primarily:

- **GDNT:** On December 1, 2010 the Company announced it acquired certain assets of the Guangdong Nortel Telecommunication Equipment Company Ltd (GDNT). The asset deal was completed on May 12. The acquisition reaffirms our strong commitment to the China market, enhancing the Company's existing R&D, manufacturing and services capabilities in the region. Approximately 1,000 employees, including 550 R&D engineers, were integrated into the Company. The purchase price was RMB 357 million on a cash and debt free basis. Balances to facilitate the Purchase Price Allocation are preliminary.
- **Nortel Multiservice Switch business (MSS):** On September 25, 2010, the Company announced that it was entering an purchase agreement to acquire certain assets of Nortel's MSS. The asset deal was completed on March 11, 2011. The purchase price was USD 53 million on a cash and debt free basis. The acquisition has given the Company access to

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a strong product portfolio and installed base in the data segment while ensuring the supply of the platform for the recently acquired CDMA and GSM units. Approximately 160 employees were transferred to the Company. Balances to facilitate the Purchase Price Allocation are preliminary.

The preliminary purchase price allocations related to acquired businesses disclosed in 2010 were finalized in 2011 with the following effects:

- **Optimi**: Decreased goodwill by SEK 184 million, increased intangible assets by SEK 249 million, decreased deferred tax assets with SEK 77 million and increased other assets by SEK 12 million.
- **LG-Nortel**: Increased goodwill by SEK 64 million, decreased intangible assets by SEK 109 million, decreased deferred tax liabilities by SEK 24 million and decreased non-controlling interest by SEK 21 million.

DIVESTMENTS

DIVESTMENTS 2009–2011

	2011	2010	2009
Cash	**–28**	454	1,239
Net assets disposed of			
Property, plant and equipment	**1**	21	5
Investments in associates	**10**	–	–
Other assets	**38**	372	586
Other liabilities	**–224**	–183	–38
	–175	210	553
Net gains from divestments	**158**	357	780
Less Cash and cash equivalents	**–11**	–113	–94
Cash flow effect	**–28**	454	1,239

In 2011, the Company made divestments with a cash flow effect amounting to SEK –28 (454) million.

Divestments in 2010 mainly refer to Ericsson Federal Inc. (EFI) with a gain amounting to SEK 216 million and a positive cash flow effect of SEK 360 million. Divestments in 2009 refer mainly to TEMS with a gain amounting to SEK 777 million and a positive cash flow effect of SEK 926 million.

ACQUISITIONS 2009–2011

Company	Description	Transaction date
GDNT	An asset purchase agreement of certain assets with around 1,000 employees. Enhances the Company's existing R&D, manufacturing and services capabilities in the China region.	May, 2011
Nortel Multiservice Switch business (MSS)	An asset purchase agreement to acquire certain assets of Nortel's MSS.	Mar, 2011
Optimi	A US-Spanish telecommunications vendor providing products and services within the networks optimization and management sector with around 200 employees.	Dec, 2010
inCode	An asset purchase agreement of certain assets with around 45 employees. A premier professional services firm providing strategic business and consulting services.	Sep, 2010
LG-Nortel	Nortel's majority shareholding (50% + 1 share) in LG-Nortel with around 1,300 employees.	Jun, 2010
Nortel GSM	An asset purchase agreement of the Carrier Networks division of Nortel relating to GSM business.	Mar, 2010
Pride	Italian consulting and systems integration company with around 1,000 employees.	Jan, 2010
Nortel	An asset purchase agreement of the Carrier networks division of Nortel relating to CDMA and LTE technology.	Nov, 2009
Elcoteq	Estonian electronics manufacturing service company with around 1,200 employees.	Jul, 2009
Bizitek	Turkish systems integrator of business support systems with around 116 employees.	May, 2009

DIVESTMENTS 2009–2011

Company	Description	Transaction date
EFI	Sale of Ericsson Federal Inc. (EFI).	Dec, 2010
TEMS	Tools for air interface monitoring and radio network planning.	Jun, 2009

Telcordia05277

C27 LEASING

Leasing with the Company as lessee

Assets under finance leases, recorded as property, plant and equipment, consist of:

FINANCE LEASES

	2011	2010
Cost		
Real estate	1,856	1,846
Machinery	3	3
	1,859	1,849
Accumulated depreciation		
Real estate	–725	–687
Machinery	–3	–3
	–728	–690
Accumulated impairment losses		
Real estate	–42	–54
Net carrying value	**1,089**	1,105

As of December 31, 2011, future minimum lease payment obligations for leases were distributed as follows:

FUTURE MINIMUM LEASE PAYMENT OBLIGATIONS FOR LEASES

	Finance leases	Operating leases
2012	158	3,143
2013	155	2,222
2014	235	1,506
2015	133	1,065
2016	90	784
2017 and later	920	2,308
Total	**1,691**	**11,028**
Future finance charges [1]	–498	n/a
Present value of finance lease liabilities	**1,193**	**11,028**

[1] Average effective interest rate on lease payables is 5.66%.

Expenses in 2011 for leasing of assets were SEK 3,362 (3,675) million, of which variable expenses were SEK 7 (51) million. The leasing contracts vary in length from 1 to 19 years.

The Company's lease agreements normally do not include any contingent rents. In the few cases they occur, they relate to charges for heating linked to the oil price index. Most of the leases of real estate contain terms of renewal, giving the company the right to prolong the agreement in question for a predefined period of time. All of the finance leases of facilities contain purchase options. Only a very limited number of the Company's lease agreements contain restrictions on stockholders' equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders' equity of at least SEK 25 billion.

Leases with the Company as lessor

Leasing income relates to subleasing of real estate as well as equipment provided to customers under leasing arrangements. These leasing contracts vary in length from 1 to 11 years.

At December 31, 2011, future minimum payment receivables were distributed as follows:

FUTURE MINIMUM PAYMENT RECEIVABLES

	Finance leases	Operating leases
2012	36	178
2013	18	204
2014	21	210
2015	23	173
2016	18	14
2017 and later	–	25
Total	**116**	**804**
Unearned financial income	n/a	n/a
Uncollectible lease payments	n/a	n/a
Net investments in financial leases	n/a	n/a

Leasing income in 2011 was SEK 76 (94) million.

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C28 INFORMATION REGARDING MEMBERS OF THE BOARD OF DIRECTORS, THE GROUP MANAGEMENT AND EMPLOYEES

CONTENTS

REMUNERATION TO THE BOARD OF DIRECTORS 90
REMUNERATION TO THE GROUP MANAGEMENT 91
LONG-TERM VARIABLE REMUNERATION 92
EMPLOYEE NUMBERS, WAGES AND SALARIES 94

Remuneration to the Board of Directors

REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

	Board fees	Number of synthetic shares/portion of Board fee	Value at grant date of synthetic shares allocated 2011	Number of previously allocated synthetic shares	Net change in value of allocated synthetic shares [1]	Committee fees	Total fees paid in cash [2]	Total remuneration 2011
			A		B		C	(A+B+C)
Board member								
Leif Johansson	3,750,000	0/0%	–	–	–	400,000	5,453,930 [3]	5,453,930
Sverker Martin-Löf	825,000	0/0%	–	–	–	250,000	1,075,000	1,075,000
Jacob Wallenberg	825,000	2,262/25%	206,174	–	–46,929	175,000	793,750	952,995
Roxanne S. Austin	825,000	6,788/75%	618,705	22,384.60	–218,139	250,000	456,250	856,816
Sir Peter L. Bonfield	825,000	2,262/25%	206,174	7,460.80	–72,696	250,000	868,750	1,002,228
Börje Ekholm	825,000	6,788/75%	618,705	22,384.60	–218,139	175,000	381,250	781,816
Ulf J. Johansson	825,000	0/0%	–	22,384.60	–77,309	350,000	1,294,968 [3]	1,217,659
Nancy McKinstry	825,000	4,525/50%	412,440	17,477.60	–149,632	175,000	587,500	850,308
Anders Nyrén	825,000	0/0%	–	–	–	175,000	1,000,000	1,000,000
Carl-Henric Svanberg	825,000	4,525/50%	412,440	4,380.00	–117,970	–	412,500	706,970
Hans Vestberg	–	–	–	–	–	–	–	–
Michelangelo Volpi	825,000	0/0%	–	4,380.00	–24,090	–	825,000	800,910
Employee Representatives								
Pehr Claesson	18,000	–	–	–	–	–	18,000	18,000
Anna Guldstrand [4]	6,000	–	–	–	–	–	6,000	6,000
Jan Hedlund	16,500	–	–	–	–	–	16,500	16,500
Karin Åberg	18,000	–	–	–	–	–	18,000	18,000
Kristina Davidsson	18,000	–	–	–	–	–	18,000	18,000
Karin Lennartsson	18,000	–	–	–	–	–	18,000	18,000
Roger Svensson	12,000	–	–	–	–	–	12,000	12,000
Total	**12,106,500**	**27,150**	**2,474,638**	**100,852.20**	**–924,904**	**2,200,000**	**13,255,398**	**14,805,132** [5]
Total [6]	12,106,500	27,150	2,474,638	220,239.80	–1,337,226	**2,200,000**	13,255,398	14,392,810 [5]

[1] The difference in value as of December 31, 2011, compared to December 31, 2010 (for synthetic shares allocated 2008, 2009 and 2010), and compared to grant date 2011 (for synthetic shares allocated 2011). The value of synthetic shares allocated in 2008, 2009 and 2010 includes respectively SEK 1.85, SEK 2.00 and SEK 2.25 per share in compensation for dividends resolved by the Annual General Meetings 2009, 2010 and 2011.
[2] Committee fee and cash portion of the Board fee.
[3] Including an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a limited liability company.
[4] Resigned as employee representative as of April 13, 2011.
[5] Excluding social security charges in the amount of SEK 2,059,523.
[6] Including synthetic shares previously allocated to the former Directors Michael Treschow and Marcus Wallenberg.

Comments to the table

- The Chairman of the Board was entitled to a Board fee of SEK 3,750,000 and a fee of SEK 200,000 for each Board Committee on which he served as Chairman.
- The other Directors appointed by the Annual General Meeting were entitled to a fee of SEK 825,000 each. In addition, the Chairman of the Audit Committee was entitled to a fee of SEK 350,000 and the other non-employed members of the Audit Committee were entitled to a fee of SEK 250,000 each. The Chairmen of the Finance and Remuneration Committees were entitled to a fee of SEK 200,000 each and the other non-employed members of the Finance and the Remuneration Committees were entitled to a fee of SEK 175,000 each.
- Members of the Board, who are not employees of the Company, have not received any remuneration other than the fees and synthetic shares as above. None of the directors have entered into a service contract with the Parent Company or any of its subsidiaries, providing for termination benefits.
- Members and Deputy Members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees. However, a fee of SEK 1,500 per attended Board meeting was paid to each employee representative on the Board and their deputies.

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- Board members invoicing the amount of the Board and Committee fee through a limited liability company may add to the invoice an amount corresponding to social charges. The social charges thus included in the invoiced amount are not higher than the general payroll tax that would otherwise have been paid by the Company. The entire amount, e.g. the cash portion of the Board fee and the committee fee, including social charges, constitutes the invoiced Board fee
- The Annual General Meeting 2011 resolved that non-employed Directors may choose to receive the Board fee (i.e. exclusive of committee fee) as follows: i) 25% of the Board fee in cash and 75% in the form of synthetic shares, with a value corresponding to 75% of the Board fee at the time of allocation, ii) 50% in cash and 50% in the form of synthetic shares, or iii) 75% in cash and 25% in the form of synthetic shares. Directors may also choose not to participate in the synthetic share program and receive 100% of the Board fee in cash. Committee fees are always paid in cash.

  The number of synthetic shares is based on a volume-weighed average of the market price of Ericsson Class B shares on the NASDAQ OMX Stockholm exchange during the five trading days immediately following the publication of Ericsson's interim report for the first quarter of 2011: SEK 91.1469. The number of synthetic shares is rounded down to the nearest whole number of shares.

  The synthetic shares are vested during the Directors' term of office and the right to receive payment with regard to the allocated synthetic shares occurs after the publication of the Company's year-end financial statement during the fifth year following the Annual General Meeting which resolved on the synthetic share program, i.e. in 2016.

  The amount payable shall be determined based on the volume-weighed average price for shares of Class B during the five trading days immediately following the publication of the year-end financial statement.

  Synthetic shares were allocated to members of the Board for the first time in 2008, on equal terms and conditions as resolved in 2009, 2010 and 2011. Payment based on synthetic shares may thus, under the main rule, occur for the first time in 2013 with respect to the synthetic shares allocated in 2008. The value of all outstanding synthetic shares fluctuates in line with the market value of Ericsson's Class B share and may differ from year to year compared to the original value on their respective grant dates. The change in value of the outstanding synthetic shares is established each year and affects the total recognized costs that year. As per December 31, 2011, the total number of synthetic shares under the programs is 247,389.80, and the total accounted debt is SEK 18,349,153 (including synthetic shares previously allocated to the former Directors Michael Treschow and Marcus Wallenberg). In accordance with the terms and conditions for the synthetic shares, the time for payment to the former Directors Michael Treschow and Marcus Wallenberg has been advanced, to occur after the publication of the year-end financial statement 2012.

Remuneration to the Group management

The Company's costs for remuneration to the Group management are the costs recognized in the Income Statement during the fiscal year. These costs are disclosed under "Remuneration Costs" below.

Costs recognized during a fiscal year in the Income Statement are not fully paid by the Company at the end of the fiscal year. Such liabilities (unpaid amounts) that the Company has in relation to the Group Management are disclosed under "Outstanding Balances".

REMUNERATION COSTS

The total remuneration to the President and CEO and to other members of the Group management, consisting of the Executive Leadership Team (ELT) includes fixed salary, short-term and long-term variable remuneration, pension and other benefits. These remuneration elements are based on the guidelines for remuneration and other employment conditions for the ELT as approved at AGM 2011, see the approved guidelines in section "2011 Remuneration Policy".

REMUNERATION COSTS FOR THE PRESIDENT AND CEO AND OTHER MEMBERS OF EXECUTIVE LEADERSHIP TEAM (ELT)

SEK	The President and CEO 2011	The President and CEO 2010	Other members of ELT 2011	Other members of ELT 2010	Total 2011	Total 2010
Salary	**11,739,341**	12,573,789	**76,031,733**	84,697,698	**87,771,074**	97,271,487
Costs for annual variable remuneration earned 2011 to be paid 2012	**2,771,134**	6,737,556	**18,460,645**	26,592,809	**21,231,779**	33,330,365
Long-term variable remuneration provision	**5,636,050**	1,253,262	**8,916,556**	6,467,584	**14,552,606**	7,720,846
Pension costs	**5,960,566**	5,586,760	**22,154,413**	24,994,073	**28,114,979**	30,580,833
Other benefits	**78,594**	80,962	**4,944,762**	4,142,484	**5,023,356**	4,223,446
Social charges and taxes	**7,800,766**	7,842,186	**23,529,200**	30,246,918	**31,329,966**	38,089,103
Total	**33,986,451**	**34,074,515**	**154,037,309**	**177,141,565**	**188,023,760**	**211,216,080**

Comments to the table

- During 2011, there were three Executive Vice Presidents appointed by the Board of Directors. None of them has acted as deputy to the President and CEO during the year. The Executive Vice Presidents are included in the group "Other members of ELT".
- The group "Other members of ELT" comprises the following persons: Cesare Avenia (up to December 21), Per Borgklint (from June 7), Bina Chaurasia, Håkan Eriksson, Jan Frykhammar, Douglas L. Gilstrap, Nina Macpherson, Magnus Mandersson, Helena Norrman (from May 23), Mats H. Olsson, Rima Qureshi, Angel Ruiz, Henry Sténson (up to May 23), Johan Wibergh and Jan Wäreby.
- The salary stated in the table for the President and CEO and other members of the ELT includes vacation pay paid during 2011 as well as other contracted compensation which were paid during 2011 or provisioned for 2011.
- "Long-term variable remuneration provision" refers to the compensation costs during 2011 for all outstanding share-based plans.
- For a description of compensation cost, including accounting treatment, see Note C1, "Significant Accounting Policies", section Share-based compensation to employees and the Board of Directors.
- For the President and CEO and other members of ELT employed in Sweden before 2011 a supplementary plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP) with pension from 60 years. These pension plans are not conditional upon future employment at Ericsson.

OUTSTANDING BALANCES

The Company has recognized the following liabilities in the Balance Sheet:

- Ericsson's commitments for benefit based pensions per December 31, 2011 under IAS 19 amounted to SEK 5,083,343 for the President and CEO which includes ITP plan and temporary disability and survivor's pension. For other members of ELT the Company's commitments amounted to SEK 32,773,100 of which SEK 26,363,042 refers to the ITP plan and the remaining SEK 6,410,058 to temporary disability and survivor's pensions.
- For previous Presidents and CEOs, the Company has made provisions for defined benefit pension plans in connection with their active service periods within the Company.

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- Deferred salary, earned 2011 or earlier, to be paid 12 months after period end or later, amounts to SEK 10,868,040.

OUTSTANDING MATCHING RIGHTS

As per December 31, 2011 Number of Class B shares	The President and CEO	Other members of the ELT
Stock Purchase Plans 2008, 2009, 2010 and 2011 and Executive Performance Stock Plans 2009, 2010 and 2011	324,106	492,645

Comments to the table

- For the definition of matching rights, see the description in section "Long-term variable remuneration".
- The number of matching rights for members in ELT 2011 is based on performance matching under Executive Performance Stock Plans as follows;
  - For 2008, only the matching under the Stock Purchase Plan is included in outstanding matching rights. The performance matching lapsed.
  - For 2009 and 2010, maximum performance matching is included.
  - For 2011, 89% performance matching is included (cash conversion target for 2011 was not met).
- During 2011, the President and CEO received 5,108 matching shares and other members of ELT 25,720 matching shares.

2011 REMUNERATION POLICY

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. These principles and good practice in Sweden guide our policy to:

- Attract and retain highly competent, performing and motivated people that have the ability, experience and skill to deliver on the Ericsson strategy.
- Encourage behavior consistent with Ericsson's culture and core values of professionalism, respect and perseverance.
- Ensure fairness in reward by delivering total remuneration that is appropriate but not excessive.
- Ensure a total compensation mix of fixed and variable remuneration and benefits that reflects the Company's principles and is competitive where Ericsson competes for talent.
- Encourage variable remuneration which, first, aligns employees with clear and relevant targets, second, reinforces performance and, third, enables flexible remuneration costs.
- Ensure that all variable remuneration plans have maximum award and vesting limits.
- Encourage employees to deliver sustained performance and build up a personal shareholding in Ericsson, aligning the interests of shareholders and employees.
- Communicate clearly to both employees and shareholders how Ericsson translates remuneration principles and policy into practice.

Group Management

For Group Management consisting of the Executive Leadership Team, including the President and CEO, in the following referred to as the "Group Management", total remuneration consists of fixed salary, short and long-term variable remuneration, pension and other benefits. Furthermore, the following guidelines apply for Group Management:

- Variable remuneration is through cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either corporate or unit level, operational targets, employee motivation targets and customer satisfaction targets.
- With the current composition of Group Management, the Company's cost during 2011 for the variable remuneration of Group Management can, at a constant share price, amount to between 0 and 150% of the aggregate fixed salary cost, all excluding social security costs.
- All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account. The retirement age is normally 60 to 65 years of age.
- By way of exception, additional arrangements can be made when deemed required. Such additional arrangement shall be limited in time and shall not exceed a period of 36 months and two times the remuneration that the individual concerned would have received had no additional arrangement been made.
- The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months' fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

Long-Term Variable remuneration

THE STOCK PURCHASE PLAN

The Stock Purchase Plan is designed to offer an incentive for all employees to participate in the Company where practicable, which is consistent with industry practice and with our ways of working. For the 2011 plan employees are able to save up to 7.5% (President and CEO 10%) of gross fixed salary (President and CEO gross fixed salary and annual variable remuneration) for purchase of Class B contribution shares at market price on the NASDAQ OMX Stockholm or American Depositary Shares (ADSs) at NASDAQ New York (contribution shares) during a twelve-month period (contribution period). If the contribution shares are retained by the employee for three years after the investment and the employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs free of consideration. Employees in 96 countries participate in the plans.

The table below shows the contribution periods and participation details for ongoing plans as of December 31, 2011.

STOCK PURCHASE PLANS

Plan	Contribution period	Number of participants at launch	Take-up rate – percent of eligible employees
Stock Purchase plan 2008	August 2008 – July 2009	19,000	25%
Stock Purchase plan 2009	August 2009 – July 2010	18,000	25%
Stock Purchase plan 2010	August 2010 – July 2011	22,000	27%
Stock Purchase plan 2011	August 2011 – July 2012	24,000	30%

Participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment, subject to continued employment, and hence the matching spans over two financial years and two tax years.

THE KEY CONTRIBUTOR RETENTION PLAN

The Key Contributor Retention Plan is part of Ericsson's talent management strategy and is designed to give recognition for performance, critical skills and potential as well as encourage retention of key employees. Under the program, up to 10% of employees (2011: 7,900 employees) are selected through a nomination process that identifies individuals according to performance, critical skills and potential. Participants selected obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period.

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THE EXECUTIVE PERFORMANCE STOCK PLAN

The Executive Performance Stock Plan is designed to focus management on driving earnings and provide competitive remuneration. Senior executives, including ELT, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan. Up to 0.5% of employees (2011: 314 executives) are offered to participate in the plan. The President and CEO is allowed to invest up to 10% of fixed salary and Short-Term Variable Remuneration in contribution shares and may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching for the 2008 to 2010 plans is subject to the fulfillment of a performance target of average annual Earnings per Share (EPS) growth.

The performance targets changed from Earnings Per Share (EPS) targets to operational targets linked to the business strategy.

The tables to the right shows all Executive Performance Stock Plans as per December 31, 2011.

EXECUTIVE PERFORMANCE STOCK PLANS

	Executive Performance Stock Plan			
	2011 [1]	2010	2009	2008
Base year EPS [2]		1.14	2.90	4.43
Target average annual EPS growth range [3]		5% to 15%	5% to 15%	5% to 15%
Matching share vesting range [4]	0.67 to 4 1 to 6 1.5 to 9	0.67 to 4 1 to 6 1.5 to 9	0.67 to 4 1 to 6 1.33 to 8	0.67 to 4 1 to 6 1.33 to 8
Maximum opportunity as percentage of fixed salary [5]	30% 45% 162%	30% 45% 162%	30% 45% 72%	30% 45% 72%

[1] Targets for Executive Performance Stock Plan 2011 are described in the table below.
[2] Sum of four quarters up to June 30 of plan years, up to and including 2009. For 2010 plan the sum of 4 quarters up to December 31, 2010.
[3] EPS range found from three-year average EPS of the twelve quarters to the end of the performance period and corresponding growth targets.
[4] Corresponding to EPS range (no Performance Share Plan matching below this range). Matching shares per contribution share invested in addition to Stock Purchase Plan matching according to program of up to 4, 6 or 9 matching shares.
[5] At full investment, full vesting and constant share price. Excludes Stock Purchase Plan matching.

2011 EXECUTIVE PERFORMANCE STOCK PLAN TARGETS

	Base year value SEK billion	Year 1	Year 2	Year 3
Growth (Net Sales Growth)	203.3	Compound annual growth of 4–10%		
Margin (Operating Income Growth) [1]	23.74	Compound annual growth of 5–15%		
Cash Flow (Cash Conversion)	–	70%	70%	70%

[1] Consolidated operating margin excluding restructuring for 2010.

SHARES FOR ALL PLANS

		Stock Purchase Plan, Key Contributor Retention Plan and Executive Performance Stock Plans					
Plan (million shares)		2011	2010	2009	2008	2007	Total
Originally designated [1]	A	19.4	19.4	22.4	16.5	9.7	**87.4**
Outstanding beginning of 2011	B	–	3.0	9.9	11.0	7.1	**31.0**
Awarded during 2011	C	3.4	8.0	–	–	–	**11.4**
Exercised/matched during 2011	D	–	0.1	0.2	2.6	5.3	**8.2**
Forfeited/expired during 2011	E	–	0.3	0.6	2.3	1.8	**5.0**
Outstanding end of 2011 [2]	F=B+C–D–E	3.4	10.6	9.1	6.1	–	**29.2**
Compensation costs charged during 2011 (MSEK)	G	9 [3]	115 [3]	145 [3]	116 [3]	28 [3]	**413** [4]

[1] Adjusted for rights offering and reverse split when applicable.
[2] Presuming maximum performance matching under the Executive Performance Stock Plans. The 2007 and 2008 plans have lapsed.
[3] Fair value is calculated as the share price on the investment date, reduced by the net present value of the dividend expectations during the three-year vesting period. Net present value calculations are based on data from external party. Fair value is also adjusted for participants failing to keep hold of their contribution shares during the vesting period. For shares under the Executive Performance Stock Plans, the Company presumes maximum performance matching for all ongoing plans when calculating the compensation cost. The 2007 and 2008 plans have lapsed. Fair value of the Class B share at each investment date during 2011 was: February 15 SEK 73.88, May 15 SEK 87.47, August 15 SEK 65.64 and November 15 SEK 60.76.
[4] Total compensation costs charged during 2010: SEK 757 million, 2009: SEK 529 million.

SHARES FOR ALL PLANS

All plans are funded with treasury stock and are equity settled. Treasury stock for all plans has been issued in directed cash issues of Class C shares at the quotient value and purchased under a public offering at the subscription price plus a premium corresponding to the subscribers' financing costs, and then converted to Class B shares.

For all plans, additional shares have been allocated for financing of social security expenses. Treasury stock is sold on the NASDAQ OMX Stockholm to cover social security payments when arising due to matching of shares. During 2011, 1,240,600 shares were sold at an average price of SEK 73.96. Sale of shares is recognized directly in equity.

If, as of December 31, 2011, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 49 million Class B shares would be transferred, corresponding to 1.5% of the total number of shares outstanding, 3,211 million. As of December 31, 2011, 63 million Class B shares were held as treasury stock.

The table above shows how shares (representing matching rights but excluding shares for social security expenses) are being used for all outstanding plans. From up to down the table includes (A) the number of shares originally approved by the Annual General Meeting, adjusted for reverse split where applicable; (B) the number of originally designated shares that were outstanding at the beginning of 2011; (C) the number of shares awards that were granted during 2011; (D) the number of shares matched during 2011; (E) the number of shares forfeited by participants or expired under the plan rules during 2011; and (F) the balance left as outstanding at the end of 2011, having added new awards to the shares outstanding at the beginning of the year and deducted the shares related to awards matched, forfeited and expired. The final column (G) shows the compensation costs charged to the accounts during 2011 for each plan, calculated as fair value in SEK.

For a description of compensation cost, including accounting treatment, see Note C1, "Significant Accounting Policies", section Share-based compensation to employees and the Board of Directors.

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Employee numbers, wages and salaries

EMPLOYEE NUMBERS

AVERAGE NUMBER OF EMPLOYEES

	2011			2010		
	Women	Men	Total	Women	Men	Total
North America	2,876	12,106	14,982	2,770	11,005	13,775
Latin America	1,913	7,837	9,750	1,328	5,326	6,654
Northern Europe & Central Asia [1) 2)]	5,656	14,927	20,583	5,821	15,227	21,048
Western & Central Europe [2)]	1,663	8,968	10,631	1,817	9,338	11,155
Mediterranean [2)]	2,743	9,077	11,820	2,670	9,034	11,704
Middle East	634	4,343	4,977	468	3,544	4,012
Sub-Saharan Africa	661	1,290	1,951	359	1,331	1,690
India	1,613	9,912	11,525	835	5,783	6,618
China & North East Asia	3,480	8,839	12,319	2,948	6,867	9,815
South East Asia & Oceania	1,155	3,437	4,592	1,378	3,976	5,354
Total	22,394	80,736	103,130	20,394	71,431	91,825
[1)] *Of which Sweden*	*4,188*	*12,881*	*17,069*	*4,355*	*13,066*	*17,421*
[2)] *Of which EU*	*9,575*	*31,667*	*41,242*	*9,843*	*32,045*	*41,888*

NUMBER OF EMPLOYEES AT YEAR-END

	2011	2010
Employees by region		
North America	14,801	13,498
Latin America	11,191	7,181
Northern Europe & Central Asia [1) 2)]	20,987	21,425
Western & Central Europe [2)]	10,806	10,818
Mediterranean [2)]	11,645	10,795
Middle East	4,336	3,982
Sub-Saharan Africa	2,283	1,626
India	11,535	6,710
China & North East Asia	12,567	9,807
South East Asia & Oceania	4,374	4,419
Total	104,525	90,261
[1)] *Of which Sweden*	*17,500*	*17,848*
[2)] *Of which EU*	*41,596*	*40,743*

EMPLOYEES BY GENDER AND AGE AT YEAR-END 2011

	Women	Men	Percent of total
Under 25 years old	2,162	5,942	8%
25–35 years old	8,417	29,691	37%
36–45 years old	7,754	28,306	34%
46–55 years old	3,553	14,127	17%
Over 55 years old	919	3,654	4%
Percent of total	22%	78%	100%

NUMBER OF EMPLOYEES RELATED TO COST OF SALES AND OPERATING EXPENSES

	2011	2010	2009
Cost of sales	58,800	45,628	41,521
Operating expenses	45,725	44,633	40,972
Total	104,525	90,261	82,493

EMPLOYEE MOVEMENTS

	2011	2010
Head count at year-end	104,525	90,261
Employees who have left the Company	10,571	10,066
Employees who have joined the Company	24,835	17,834
Temporary employees	901	978

EMPLOYEE WAGES AND SALARIES

WAGES AND SALARIES AND SOCIAL SECURITY EXPENSES

	2011	2010
Wages and salaries	43,707	43,390
Social security expenses	15,198	13,793
Of which pension costs	*3,888*	*3,091*

Amounts related to the President and CEO and the Executive Leadership Team are included.

REMUNERATION TO BOARD MEMBERS AND PRESIDENTS IN SUBSIDIARIES

	2011	2010
Salary and other remuneration	223	289
Of which annual variable remuneration	*22*	*43*
Pension costs	20	29

BOARD MEMBERS, PRESIDENTS AND GROUP MANAGEMENT BY GENDER AT YEAR END

	2011		2010	
	Women	Men	Women	Men
Parent Company				
Board members and President	20%	80%	33%	67%
Group Management	29%	71%	14%	86%
Subsidiaries				
Board members and Presidents	11%	89%	10%	90%

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C29 RELATED PARTY TRANSACTIONS

During 2011, various related party transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis. For information regarding equity and Ericsson's share of assets, liabilities and income in joint ventures and associated companies, see Note C12, "Financial Assets, Non-Current". For information regarding transactions with senior management, see Note C28, "Information Regarding Members of the Board of Directors, the Group Management and Employees".

Sony Ericsson Mobile Communications AB

In October 2001, Sony Ericsson Mobile Communications AB was established as a joint venture between Sony Corporation and Ericsson, and a substantial portion of Ericsson's handset operations was sold to Sony Ericsson Mobile Communications AB. The joint venture is headquartered in Lund, Sweden.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB including the broad IP cross-licensing agreement. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. This makes Sony Ericsson a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

As part of the formation of the joint venture, contracts were entered into between Ericsson and Sony Ericsson.

Major transactions are as follows:

- **License revenues:** Both owners of Sony Ericsson, Sony Corporation and Ericsson, receive license revenues for Sony Ericsson's usage of trademarks and intellectual property rights.
- **Purchases:** Ericsson purchases mobile phones from Sony Ericsson to support contracts with a number of customers for mobile systems which also include limited quantities of phones.
- **Dividends:** Both owners of Sony Ericsson receive dividends, when so decided by the board of directors. During 2011 Ericsson received no dividends from Sony Ericsson.

SONY ERICSSON MOBILE COMMUNICATIONS AB

	2011	2010	2009
Related party transactions			
License revenues	**855**	1,255	1,746
Purchases	**126**	61	164
Related party balances			
Receivables	**27**	258	369
Liabilities	**2**	8	14

Sony Ericsson has been granted term loans and credit facilities of SEK 4,014 million, of which SEK 4,014 million were utilized as of December 31, 2011. The parent companies of Ericsson and Sony Corporation have issued guarantees for these term loans and credit facilities on a 50/50 basis, without joint responsibility. Thus Ericsson's guaranteed amount is maximum SEK 2,007 million excluding interest. As of December 31, 2011, Ericsson's part of the outstanding amount is SEK 2,017 million including accrued interest of SEK 10 million. Maturity dates for the issued guarantees occurs in 2012. As of the date of the sale, Ericsson is no longer a guarantor of term loans or credit facilities related to Sony Ericsson. See also Note C24, "Contingent Liabilities".

ST-Ericsson

ST-Ericsson, the joint venture between Ericsson and STMicroelectronics, was formed on February 2, 2009, by merging Ericsson Mobile Platforms with ST-NXP Wireless. The joint venture is equally owned by Ericsson and STMicroelectronics. ST-Ericsson is an industry leader in the design, development and the creation of cutting-edge mobile platforms and wireless semiconductors. ST-Ericsson is a key supplier to four of the industry's top five handset manufacturers, who together represent about 80% of global handset shipments, as well as to other leading companies in the industry. The joint venture is headquartered in Geneva, Switzerland, and employs approximately 5,800 people.

Major transactions are as follows:

- **Sales:** Ericsson provides ST-Ericsson with services in the areas of R&D, HR, IT and facilities.
- **Purchases:** A major part of Ericsson's purchases from ST-Ericsson consists of chipsets and R&D services.
- **Dividends:** Both owners of ST-Ericsson receive dividends, when so decided by the board of directors. During 2011 Ericsson received no dividends from ST-Ericsson.

ST-ERICSSON

	2011	2010	2009
Related party transactions			
Sales	**182**	403	740
Purchases	**781**	629	624
Related party balances			
Receivables	**51**	53	244
Liabilities	**24**	48	365

Parents extend internal financing to ST-Ericsson on an ongoing basis to bridge their needs until a return to profitability and positive cash flow, based on a 50/50 basis. As of December 31, 2011, the amount drawn was USD 800 million (SEK 5,518 million). Each parent lent USD 400 million (SEK 2,759 million).

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla d.d. is a joint stock company for design, sales and service of telecommunication systems and equipment, and an associated member of the Ericsson Group. Ericsson Nikola Tesla d.d. is located in Zagreb, Croatia. Ericsson holds 49.07% of the shares.

Major transactions are as follows:

- **Sales:** Ericsson sells telecommunication equipment to Ericsson Nikola Tesla d.d.
- **License revenues:** Ericsson receives license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks.
- **Purchases:** Ericsson purchases development resources from Ericsson Nikola Tesla d.d.
- **Dividends:** Ericsson received dividends from Ericsson Nikola Tesla d.d. during 2011.

ERICSSON NIKOLA TESLA D.D.

	2011	2010	2009
Related party transactions			
Sales	**465**	563	654
License revenues	**4**	2	7
Purchases	**595**	566	569
Ericsson's share of dividends	**154**	104	66
Related party balances			
Receivables	**59**	120	93
Liabilities	**76**	75	70

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees toward Ericsson Nikola Tesla d.d.

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C30 FEES TO AUDITORS

FEES TO AUDITORS

	PwC	Others	Total
2011			
Audit fees	77	9	86
Audit related fees	10	–	10
Tax services fees	20	3	23
Other fees	16	–	16
Total	123	12	135
2010			
Audit fees	79	5	84
Audit related fees	17	1	18
Tax services fees	16	2	18
Other fees	7	2	9
Total	119	10	129
2009			
Audit fees [1]	88	3	91
Audit related fees [1]	18	–	18
Tax services fees	16	2	18
Other fees [1]	3	2	5
Total	125	7	132

[1] Allocation of fees to auditors is based on the requirements in the Swedish Annual Accounts Act. 2009 figures are restated for comparability.

During the period 2009–2011, in addition to audit services, PwC provided certain audit related services, tax and other services to the Company. The audit related services include quarterly reviews, ISO audits, SSAE16 reviews and services in connection with issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

Audit fees to other auditors largely consist of local statutory audits for minor companies.

C31 CONTRACTUAL OBLIGATIONS

CONTRACTUAL OBLIGATIONS 2011

	Payment due by period				
SEK billion	<1 year	1–3 years	3–5 years	>5 years	Total
Long-term debt [1] [2]	5.4	10.0	6.7	6.0	28.1
Finance lease obligations [3]	0.2	0.4	0.2	0.9	1.7
Operating leases [3]	3.1	3.7	1.8	2.3	10.9
Other non-current liabilities	0.1	0.2	0.1	1.8	2.2
Purchase obligations [4]	7.1	–	–	–	7.1
Trade payables	25.3	–	–	–	25.3
Commitments for customer financing [5]	3.0	–	–	–	3.0
Total	44.2	14.3	8.8	11.0	78.3

[1] Including interest payments.
[2] See Note C20, “Financial Risk Management and Financial Instruments”.
[3] See Note C27, “Leasing”.
[4] The amounts of purchase obligations are gross, before deduction of any related provisions.
[5] See also Note C14, “Trade Receivables and Customer Financing”.

For information about financial guarantees, see Note C24, “Contingent Liabilities”.

Except for those transactions described in this report, Ericsson has not been a party to any material contracts over the past three years other than those entered into during the ordinary course of business.

C32 EVENTS AFTER THE BALANCE SHEET DATE

On January 12, 2012 Ericsson announced the closing of the acquisition of all the shares in Telcordia, a global leader in the development of software and services for OSS/BSS, for USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. Balances to facilitate a Purchase Price Allocation have not yet been established. Approximately 2,600 skilled employees have joined Ericsson. This acquisition consolidates Ericsson’s position as a leading player in the operations support systems/business support systems (OSS/BSS) market with a key position in service fulfillment, assurance, network optimization and real-time charging.

On January 14, 2012, as per the trust’s funding requirements, the Company made an employer contribution payment of SEK 900 million to the Swedish pension trust fund.

In February 2012, Airvana Networks Solutions Inc., a State of Delaware, U.S.A. corporation (“Airvana”), filed a complaint against Ericsson Inc. and Ericsson AB in the Supreme Court of the State of New York, U.S.A., alleging that Ericsson has violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Airvana is seeking damages of USD 330 million and to enjoin Ericsson from developing, deploying or commercializing Ericsson products allegedly based on Airvana’s proprietary technology.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. The deal includes a broad IP cross-licensing agreement. Sony Ericsson is now a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

The divestment has resulted in a gain of approximately SEK 7.5 billion, to be recognized in the first quarter of 2012 and reported under Other operating income and expenses.

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PARENT COMPANY FINANCIAL STATEMENTS AND NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTENTS

Parent Company Financial Statements

Parent Company Income Statement and Statement of Comprehensive Income 98
Parent Company Balance Sheet 99
Parent Company Statement of Cash Flows 101
Parent Company Statement of Changes in Stockholders' Equity 102

Notes to the Parent Company Financial Statements

P1 Significant Accounting Policies 103
P2 Segment Information 103
P3 Other Operating Income and Expenses 103
P4 Financial Income and Expenses 104
P5 Taxes 104
P6 Intangible Assets 104
P7 Property, Plant and Equipment 105
P8 Financial Assets 106
P9 Investments 107
P10 Inventories 108
P11 Trade Receivables and Customer Finance 108
P12 Receivables and Liabilities – Subsidiary Companies 109
P13 Other Current Receivables 110
P14 Equity and Other Comprehensive Income 110
P15 Untaxed Reserves 111
P16 Post-Employment Benefits 111
P17 Other Provisions 112
P18 Interest-Bearing Liabilities 112
P19 Financial Risk Management and Financial Instruments 113
P20 Other Current Liabilities 114
P21 Trade Payables 114
P22 Assets Pledged as Collateral 114
P23 Contingent Liabilities 114
P24 Statement of Cash Flows 114
P25 Leasing 115
P26 Information Regarding Employees 115
P27 Related Party Transactions 115
P28 Fees to Auditors 116
P29 Events after the Balance Sheet Date 116

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PARENT COMPANY INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

PARENT COMPANY INCOME STATEMENT

Years ended December 31, SEK million	Notes	2011	2010 [1]	2009 [1]
Net sales	P2	–	33	300
Cost of sales		–	–29	–21
Gross income		–	4	279
Selling expenses		**–609**	–1,370	–1,399
Administrative expenses		**–1,512**	–1,586	–1,738
Operating expenses		**– 2,121**	–2,956	–3,137
Other operating income and expenses	P3	**3,184**	3,118	2,977
Operating income		**1,063**	166	119
Financial income	P4	**8,101**	9,432	10,032
Financial expenses	P4	**–4,773**	–1,758	–4,473
Income after financial items		**4,391**	7,840	5,678
Transfers to (–)/from untaxed reserves				
Changes in depreciation in excess of plan	P15	**339**	–100	417
Changes in other untaxed reserves	P15	**–**	–	485
		339	–100	902
Taxes	P5	**–103**	–388	–194
Net income		**4,627**	7,352	6,386

[1] Restated for contributions to/from subsidiaries.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31, SEK million	Notes	2011	2010	2009
Net income		**4,627**	7,352	6,386
Other comprehensive income				
Cash Flow hedges				
Gains/losses arising during the period		**203**	136	612
Adjustments for amounts transferred to initial carrying amount of hedged items		**–**	–136	–1,385
Tax on items relating to components of Other comprehensive income		**–**	–	204
Total other comprehensive income		**203**	–	–569
Total comprehensive income		**4,830**	7,352	5,817

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PARENT COMPANY BALANCE SHEET

December 31, SEK million	Notes	2011	2010
ASSETS			
Fixed assets			
Intangible assets	P6	**1,088**	1,046
Tangible assets	P7	**491**	527
Financial assets			
Investments			
Subsidiaries	P8, P9	**79,511**	77,566
Joint ventures and associated companies	P8, P9	**13,066**	13,066
Other investments	P8	**279**	84
Receivables from subsidiaries	P8, P12	**8,017**	6,666
Customer finance, non-current	P8, P11	**1,337**	1,027
Deferred tax assets	P5	**250**	302
Other financial assets, non-current	P8	**1,203**	302
		105,242	100,586
Current assets			
Inventories	P10	**61**	57
Receivables			
Trade receivables	P11	**51**	36
Customer finance, current	P11	**883**	1,479
Receivables from subsidiaries	P12	**16,733**	15,385
Current income taxes		**313**	355
Other current receivables	P13	**2,588**	4,299
Loans to joint ventures and associated companies	P19, P27	**2,759**	1,030
Short-term investments	P19	**38,852**	55,118
Cash and cash equivalents	P19	**17,288**	15,439
		79,528	93,198
TOTAL ASSETS		**184,770**	193,784

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PARENT COMPANY BALANCE SHEET (CONTINUED)

December 31, SEK million	Notes	2011	2010
STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Stockholders' equity	P14		
Capital stock		16,367	16,367
Revaluation reserve		20	20
Statutory reserve		31,472	31,472
Restricted equity		47,859	47,859
Retained earnings		35,890	35,622 [1]
Net income		4,627	7,352 [1]
Other comprehensive income		203	–
Non-restricted equity		40,720	42,974
		88,579	90,833
Untaxed reserves	P15	676	1,015
Provisions			
Post-employment benefits	P16	376	389
Other provisions	P17	275	571
		651	960
Non-current liabilities			
Notes and bond loans	P18	17,197	20,646
Liabilities to credit institutions	P18	4,000	4,000
Liabilities to subsidiaries	P12	26,896	26,862
Other non-current liabilities		280	1,334
		48,373	52,842
Current liabilities			
Borrowings, current	P18	3,461	–
Trade payables	P21	706	399
Liabilities to subsidiaries	P12	38,139	45,956
Other current liabilities	P20	4,185	1,779
		46,491	48,134
TOTAL STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES		184,770	193,784
Assets pledged as collateral	P22	452	658
Contingent liabilities	P23	18,518	13,783

[1] Restated for contributions to/from subsidiaries.

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PARENT COMPANY STATEMENT OF CASH FLOWS

Years ended December 31, SEK million	Notes	2011	2010	2009
Operating activities				
Net income		4,627	7,352 [1]	6,386 [1]
Adjustments to reconcile net income to cash	P24	3,163	530 [1]	–2,038 [1]
		7,790	7,882	4,348
Changes in operating net assets				
Inventories		–4	4	20
Customer finance, current and non-current		286	–1,070	193
Trade receivables		35	283	261
Trade payables		–133	331	–132
Provisions and post-employment benefits		–309	–109	–4
Other operating assets and liabilities, net		2,379	1,954	–685
		2,254	1,393	–347
Cash flow from operating activities		10,044	9,275	4,001
Investing activities				
Investments in property, plant and equipment		–148	–160	–124
Sales of property, plant and equipment		16	9	109
Investments in shares and other investments		–3,718	–2,178	–11,015
Divestments of shares and other investments		7	42	1,134
Lending, net		–3,074	8,973	6,663
Other investing activities		–1,730	–1,317	–9
Short-term investments		16,357	–1,910	–14,436
Cash flow from investing activities		7,710	3,459	–17,678
Cash flow before financing activities		17,754	12,734	–13,677
Financing activities				
Changes in current liabilities to subsidiaries		–9,361	3,503	4,755
Proceeds from issuance of borrowings		–	–	11,532
Repayment of borrowings		–	–1,055	–8,910
Sale of own shares		92	–	68
Dividends paid		–7,207	–6,391	–5,897
Settled contributions from/to (–) subsidiaries		409	–209	–1,363
Other financing activities		288	–310	–
Cash flow from financing activities		–15,779	–4,462	185
Effect from remeasurement in cash		–126	–1,310	–79
Net change in cash		1,849	6,962	–13,571
Cash and cash equivalents, beginning of period		15,439	8,477	22,048
Cash and cash equivalents, end of period	P19	17,288	15,439	8,477

[1] Restated for contributions to/from subsidiaries.

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PARENT COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2011	16,367	20	31,472	47,859	100	–	42,874	42,974	**90,833**
Total comprehensive income	–	–	–	–	–	203	4,627	4,830	**4,830**
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	92	92	**92**
Stock Purchase Plans	–	–	–	–	–	–	31	31	**31**
Dividends paid	–	–	–	–	–	–	–7,207	–7,207	**–7,207**
December 31, 2011	**16,367**	**20**	**31,472**	**47,859**	**100**	**203**	**40,417**	**40,720**	**88,579**
January 1, 2010	16,367	20	31,472	47,859	100	–	41,853	41,953	**89,812**
Total comprehensive income	–	–	–	–	–	–	7,352	7,352	**7,352** [1]
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	52	52	**52**
Stock Purchase Plans	–	–	–	–	–	–	8	8	**8**
Dividends paid	–	–	–	–	–	–	–6,391	–6,391	**–6,391**
December 31, 2010	**16,367**	**20**	**31,472**	**47,859**	**100**	**–**	**42,874**	**42,974**	**90,833**

[1] Restated for contributions to/from subsidiaries.

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P1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent Company, Telefonaktiebolaget LM Ericsson, have been prepared in accordance with the Annual Accounts Act and RFR 2 "Reporting in separate financial statements". RFR 2 requires the Parent Company to use the same accounting principles as for the Group, i.e. IFRS, to the extent allowed by RFR 2.

The main deviations between accounting policies adopted for the Group and accounting policies for the Parent Company are:

Subsidiaries, associated companies and joint ventures

The investments are accounted for according to the acquisition cost method. Investments are carried at cost and only dividends are accounted for in the income statement. An impairment test is performed annually and write-downs are made when permanent decline in value is established.

UFR 2 has been withdrawn by the Swedish Financial Reporting Board. Contributions to/from subsidiaries and shareholders' contributions are accounted for according to RFR 2. Contributions from/to Swedish subsidiaries are reported as financial income/expense in the income statement. Comparison years have been restated accordingly.

Shareholders' contributions increase the Parent Company's investments.

Classification and measurement of financial instruments

IAS 39 Financial Instruments: Recognition and Measurement is adopted, except regarding financial guarantees where the exception allowed in RFR 2 is chosen. Financial guarantees are included in Contingent liabilities.

Leasing

The Parent Company has one rental agreement which is accounted for as a finance lease in the consolidated statements and as an operating lease in the Parent Company financial statements.

Deferred taxes

The accounting of untaxed reserves in the balance sheet results in different accounting of deferred taxes as compared to the principles applied in the consolidated statements. Swedish GAAP and tax regulations require a company to report certain differences between the tax basis and book value as an untaxed reserve in the balance sheet of the stand-alone financial statements. Changes to these reserves are reported as an addition to, or withdrawal from, untaxed reserves in the income statement.

Pensions

Pensions are accounted for in accordance with the recommendation FAR SRS RedR 4 "Accounting for pension liability and pension cost" from the Institute for the Accountancy Profession in Sweden. According to RFR 2, IAS 19 shall be adopted regarding supplementary disclosures when applicable.

Segment information

Segment information is reported according to requirements in the Swedish Annual Accounts Act regarding net sales for business segments and geographical areas.

Borrowing costs

All borrowing costs in relation to qualifying assets are expensed as incurred.

Business combinations

Transaction costs attributable to the acquisition are included in the cost of acquisition in the parent company statements compared to Group Statements where these costs are expenses as incurred.

Critical accounting estimates and judgments

See Notes to the Consolidated Financial Statements – Note C2, "Critical Accounting Estimates and Judgments". Major critical accounting estimates and judgments applicable to the Parent Company include "Trade and customer finance receivables" and "Acquired intellectual property rights and other intangible assets, excluding goodwill".

P2 SEGMENT INFORMATION

NET SALES

	2011	2010	2009
North America	–	–	99
Of which the United States	–	–	*–7*
Latin America	–	33	47
Northern Europe & Central Asia [1) 2)]	–	–	–56
Western & Central Europe [2)]	–	–	12
Mediterranean [2)]	–	–	31
Middle East	–	–	–
Sub-Saharan Africa	–	–	–
India	–	–	–
China & North East Asia	–	–	167
Of which China	–	–	*38*
South East Asia & Oceania	–	–	–
Other	–	–	–
Total	–	33	300
[1)] *Of which Sweden*	–	–	*–56*
[2)] *Of which EU*	–	–	*–13*

There were no Parent Company net sales during 2011. Parent Company net sales in 2010 related to business segment Networks and 2009 in Sweden were mainly related to business segment Multimedia and the remaining part of net sales were related to business segment Networks.

P3 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME AND EXPENSES

	2011	2010	2009
License revenues and other operating revenues			
Subsidiary companies	**2,704**	2,305	2,433
Other	**479**	815	532
Net gains/losses (–) on sales of tangible assets	**1**	–2	12
Total	**3,184**	3,118	2,977

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P4 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME AND EXPENSES

	2011	2010	2009
Financial Income			
Result from participations in subsidiary companies			
Dividends	**5,198**	6,369	5,732
Net gains on sales	**6**	8	1,087
Group contributions			
Group contributions to Parent Company	**29**	1,958	674
Result from participations in joint ventures and associated companies			
Dividends	**154**	104	66
Net gains on sales	**–**	–	1
Result from other securities and receivables accounted for as fixed assets			
Net gains on sales	**1**	26	–
Other interest income and similar profit/loss items			
Subsidiary companies	**280**	221	386
Other	**2,433**	746	2,086
Total	**8,101**	9,432	10,032
Financial Expenses			
Losses on sales of participations in subsidiary companies	**–1**	–	–27
Write-down of investments in subsidiary companies	**–1,330**	–82	–551
Write-down of participations in other companies	**–**	–	–1
Group contributions			
Group contributions from Parent Company	**–2,008**	–929	–3,077
Interest expenses and similar profit/loss items			
Subsidiary companies	**–304**	–95	–150
Other	**–1,109**	–612	–630
Other financial expenses	**–21**	–40	–37
Total	**–4,773**	–1,758	–4,473
Financial net	**3,328**	7,674	5,559

Interest expenses on pension liabilities are included in the interest expenses shown above.

P5 TAXES

Income taxes recognized in the income statement

The following items are included in Taxes:

TAXES

	2011	2010	2009
Other current income taxes for the year	**–125**	–288	–250
Current income taxes related to prior years	**74**	–15	–47
Deferred tax income/expense (–) related to temporary differences	**–52**	–85	103
Taxes	**–103**	–388	–194

A reconciliation between actual tax expense for the year and the theoretical tax expense that would arise when applying the statutory tax rate in Sweden, 26.3% (starting from January 1, 2009), on income before taxes is shown in the the table below.

RECONCILIATION OF ACTUAL INCOME TAX RATE TO THE ACTUAL INCOME TAX RATE

	2011	2010	2009
Tax rate in Sweden (26.3%)	**–1,244**	–2,036	–1,753
Current income taxes related to prior years	**74**	–15	–47
Tax effect of non-deductible expenses	**–14**	–91	–77
Tax effect of non-taxable income	**1,429**	1,776	1,828
Tax effect related to write-downs of investments in subsidiary companies	**–348**	–22	–145
Actual tax cost (–)	**–103**	–388	–194

Deferred tax balances

Tax effects of temporary differences have resulted in deferred tax assets as follows:

DEFERRED TAX ASSETS

	2011	2010
Deferred tax assets	**250**	302

Deferred tax assets refer mainly to costs related to customer finance and provisions for restructuring costs.

P6 INTANGIBLE ASSETS

PATENTS, LICENSES, TRADEMARKS AND SIMILAR RIGHTS

	2011	2010
Accumulated acquisition costs		
Opening balance	**3,888**	3,888
Acquisitions	**279**	–
Sales/disposals	**–**	–
Closing balance	**4,167**	3,888
Accumulated amortization		
Opening balance	**–1,897**	–1,669
Amortization	**–237**	–228
Sales/disposals	**–**	–
Closing balance	**–2,134**	–1,897
Accumulated impairment losses		
Opening balance	**–945**	–
Impairment losses	**–**	–945
Closing balance	**–945**	–945
Net carrying value	**1,088**	1,046

The balances relate mainly to Marconi and Redback trademarks acquired during 2006 and 2007. During the year there has been an acquisition of intangible assets related to the Nortel license of SEK 279 million. The useful life and amortization period for these trademarks has been set to 10 years.

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P7 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other equipment and installations	Construction in process and advance payments	Total
2011				
Accumulated acquisition costs				
Opening balance	13	1,102	126	1,241
Additions	–	32	116	148
Sales/disposals	–13	–71	–	–84
Reclassifications	–	162	–162	–
Closing balance	–	1,225	80	1,305
Accumulated depreciation				
Opening balance	–	–714	–	–714
Depreciation	–	–168	–	–168
Sales/disposals	–	68	–	68
Closing balance	–	–814	–	–814
Net carrying value	–	411	80	491
2010				
Accumulated acquisition costs				
Opening balance	13	1,050	67	1,130
Additions	–	26	135	161
Sales/disposals	–	–50	–	–50
Reclassifications	–	76	–76	–
Closing balance	13	1,102	126	1,241
Accumulated depreciation				
Opening balance	–	–603	–	–603
Depreciation	–	–149	–	–149
Sales/disposals	–	38	–	38
Closing balance	–	–714	–	–714
Net carrying value	13	388	126	527

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P8 FINANCIAL ASSETS

INVESTMENTS IN SUBSIDIARY COMPANIES, JOINT VENTURES AND ASSOCIATED COMPANIES

	Subsidiary companies		Joint ventures		Associated companies	
	2011	2010	2011	2010	2011	2010
Opening balance	**77,566**	75,540	**12,736**	12,736	**330**	330
Acquisitions and stock issues	**3,344**	2,083	**–**	–	**–**	–
Shareholders' contribution	**88**	25	**–**	–	**–**	–
Repayment of shareholders' contribution	**–156**	–	**–**	–	**–**	–
Write-downs	**–1,330**	–82	**–**	–	**–**	–
Disposals	**–1**	–	**–**	–	**–**	–
Closing balance	**79,511**	77,566	**12,736**	12,736	**330**	330

OTHER FINANCIAL ASSETS

	Other investments in shares and participations		Receivables from subsidiaries, non-current		Customer finance, non-current		Other financial assets, non-current	
	2011	2010	2011	2010	2011	2010	2011	2010
Accumulated acquisition costs								
Opening balance	**93**	19	**6,666**	10,316	**1,073**	1,093	**302**	1,179
Additions	**195**	81	**93**	651	**830**	406	**101**	4
Disposals/repayments/deductions	**–**	–7	**–**	–55	**–216**	–136	**–17**	–38
Reclassifications	**–**	–	**1,253**	–4,212	**–311**	–241	**817**	–843
Translation difference	**–**	–	**5**	–34	**3**	–49	**–**	–
Closing balance	**288**	93	**8,017**	6,666	**1,379**	1,073	**1,203**	302
Accumulated write-downs/allowances								
Opening balance	**–9**	–9	**–**	–	**–46**	–247	**–**	–
Write-downs/allowances	**–**	–	**–**	–	**–**	–	**–**	–
Disposals/repayments/deductions	**–**	–	**–**	–	**4**	197	**–**	–
Translation difference	**–**	–	**–**	–	**–**	4	**–**	–
Closing balance	**–9**	–9	**–**	–	**–42**	–46	**–**	–
Net carrying value	**279**	84	**8,017**	6,666	**1,337**	1,027	**1,203**	302

Telcordia05295

P9 INVESTMENTS

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2011. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External Reporting, SE-164 83 Stockholm, Sweden.

SHARES OWNED DIRECTLY BY THE PARENT COMPANY

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK million
Subsidiary companies						
I	Ericsson AB	556056-6258	Sweden	100	50	20,731
I	Ericsson Shared Services AB	556251-3266	Sweden	100	361	2,216
I	Netwise AB	556404-4286	Sweden	100	2	306
II	AB Aulis	556030-9899	Sweden	100	14	6
III	Ericsson Credit AB	556326-0552	Sweden	100	5	5
	Other (Sweden)			–	–	2,160
I	Ericsson Austria GmbH		Austria	100	4	65
I	Ericsson Danmark A/S		Denmark	100	90	216
I	Oy LM Ericsson Ab		Finland	100	13	196
II	Ericsson Participations France SAS		France	100	26	524
I	Ericsson Germany GmbH		Germany	100	–	4,232
I	Ericsson Hungary Ltd.		Hungary	100	1,301	120
II	LM Ericsson Holdings Ltd.		Ireland	100	2	15
I	Ericsson Telecomunicazioni S.p.A.		Italy	100	44	5,857
II	Ericsson Holding International B.V.		The Netherlands	100	222	3,200
I	Ericsson A/S		Norway	100	75	114
II	Ericsson Television AS		Norway	100	161	1,788
I	Ericsson Corporatia AO		Russia	100	5	5
I	Ericsson AG		Switzerland	100	–	–
II	Ericsson Holding Ltd.		United Kingdom	100	328	4,094
	Other (Europe, excluding Sweden)			–	–	272
II	Ericsson Holding II Inc.		United States	100	–	29,006
I	Cía Ericsson S.A.C.I.		Argentina	95 [1]	41	178
I	Ericsson Canada Inc.		Canada	100	–	51
I	Ericsson Telecom S.A. de C.V.		Mexico	100	n/a	1,050
	Other (United States, Latin America)			–	–	66
II	Teleric Pty Ltd.		Australia	100	20	100
I	Ericsson Ltd.		China	100	2	2
I	Ericsson (China) Company Ltd.		China	100	65	475
I	Ericsson India Private Ltd.		India	100	725	147
I	Ericsson India Global Services PVT. Ltd		India	100	389	65
I	LG-Ericsson Ltd.		Korea	50	100	1,944
I	Ericsson (Malaysia) Sdn. Bhd.		Malaysia	70	2	4
I	Ericsson Telecommunications Pte. Ltd.		Singapore	100	2	1
I	Ericsson South Africa PTY. Ltd		South Africa	100	–	108
I	Ericsson Taiwan Ltd.		Taiwan	80	240	20
I	Ericsson (Thailand) Ltd.		Thailand	49 [2]	90	17
	Other countries (the rest of the world)			–	–	155
	Total				**–**	**79,511**
Joint ventures and associated companies						
I	Sony Ericsson Mobile Communications AB	556615-6658	Sweden	50	50	4,136
II	ST-Ericsson SA		Switzerland	50	137	8,325
III	ST-Ericsson AT SA		Switzerland	51	–	275
I	Ericsson Nikola Tesla d.d.		Croatia	49	65	330
	Total				**–**	**13,066**

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies
III Finance companies

[1] Through subsidiary holdings, total holdings amount to 100% of Cia Ericsson S.A.C.I.
[2] Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.

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SHARES OWNED BY SUBSIDIARY COMPANIES

Type	Company	Reg. No.	Domicile	Percentage of ownership
Subsidiary companies				
II	Ericsson Cables Holding AB	556044-9489	Sweden	100
I	Ericsson France SAS		France	100
I	Ericsson Telekommunikation GmbH & Co. KG [1]		Germany	100
I	LM Ericsson Ltd.		Ireland	100
II	Ericsson Nederland B.V.		The Netherlands	100
I	Ericsson Telecommunicatie B.V.		The Netherlands	100
I	Ericsson España S.A.		Spain	100
I	Ericsson Telekomunikasyon A.S.		Turkey	100
I	Ericsson Ltd.		United Kingdom	100
I	Ericsson Inc.		United States	100
I	Ericsson IP Infrastructure Inc.		United States	100
I	Drutt Corporation Inc.		United States	100
I	Optimi Corporation		United States	100
I	Redback Networks Inc.		United States	100
I	Ericsson Telecommunicações S.A.		Brazil	100
I	Ericsson Australia Pty. Ltd.		Australia	100
I	Ericsson (China) Communications Co. Ltd.		China	100
I	Nanjing Ericsson Panda Communication Co. Ltd.		China	51
I	Ericsson Japan K.K.		Japan	100
I	Ericsson Communication Solutions Pte Ltd.		Singapore	100

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies

[1] **Disclosures Pursuant to Section 264b of the German Commercial Code (Handelsgesetzbuch – HGB)**
Applying Section 264b HGB, LHS Holding GmbH & Co. KG, LHS Communication GmbH & Co. KG and LHS Telekommunikation GmbH & Co. KG, all located in Frankfurt am Main/Germany, are exempted from the obligation to prepare, have audited and disclose financial statements and a management report in accordance with the legal requirements being applicable for German corporations.

P10 INVENTORIES

	2011	2010
Finished products and goods for resale	**61**	57
Inventories	**61**	57

P11 TRADE RECEIVABLES AND CUSTOMER FINANCE

Credit risk management is governed on a Group level.

For further information, see Notes to the Consolidated Financial Statements – Note C14, “Trade Receivables and Customer Finance” and Note C20, “Financial Risk Management and Financial Instruments”.

TRADE RECEIVABLES AND CUSTOMER FINANCE

	2011	2010
Trade receivables excluding associated companies and joint ventures	**71**	57
Allowances for impairment	**–23**	–24
Trade receivables, net	**48**	33
Trade receivables related to associated companies and joint ventures	**3**	3
Trade receivables, total	**51**	36
Customer finance	**2,285**	2,599
Allowances for impairment	**–65**	–93
Customer finance, net	**2,220**	2,506

MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT

	Trade receivables		Customer finance	
	2011	2010	2011	2010
Opening balance	**24**	37	**93**	393
Additions	**1**	–	**14**	–
Utilization	**–2**	–	**–31**	–87
Reversal of excess amounts	**–**	–10	**–11**	–206
Translation difference	**–**	–3	**–**	–7
Closing balance	**23**	24	**65**	93

Telcordia05297

AGING ANALYSIS AS PER DECEMBER 31

	Trade receivables excluding associated companies and joint ventures	Allowances for impairment of receivables	Trade receivables related to associated companies and joint ventures	Customer finance	Allowances for impairment of customer finance
2011					
Neither impaired nor past due	44	–	3	1,758	-
Impaired, not past due	–	–	–	238	-27
Past due in less than 90 days	2	–	–	238	–
Past due in 90 days or more	1	–	–	10	–
Past due and impaired in less than 90 days	–	–	–	37	–34
Past due and impaired in 90 days or more	24	–23	–	4	–4
Total	**71**	**–23**	**3**	**2,285**	**–65**
2010					
Neither impaired nor past due	16	–	3	2,020	–
Impaired, not past due	–	–	–	516	–54
Past due in less than 90 days	4	–	–	24	–
Past due in 90 days or more	13	–	–	–	–
Past due and impaired in less than 90 days	1	–1	–	18	–18
Past due and impaired in 90 days or more	23	–23	–	21	–21
Total	**57**	**–24**	**3**	**2,599**	**–93**

OUTSTANDING CUSTOMER FINANCE

	2011	2010
On-balance sheet customer finance	**2,285**	2,599
Financial guarantees for third parties	**422**	212
Total customer finance	**2,707**	2,811
Accrued interest	**26**	34
Less third-party risk coverage	**–469**	–1,353
Parent Company's risk exposure	**2,264**	1,492
On-balance sheet credits, net carrying value	**2,220**	2,506
Of which short term	***883***	*1,479*
Credit commitments for customer finance	**669**	1,104

During 2011 the Parent Company transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred is SEK 194 million, the amount of the assets that the Parent Company continues to recognize is SEK 10 million, and the carrying amount of the associated liabilities is SEK 0 million. Maturity date for major part of the issued guarantees occurs in 2021 at the latest.

P12 RECEIVABLES AND LIABILITIES – SUBSIDIARY COMPANIES

RECEIVABLES AND LIABILITIES – SUBSIDIARY COMPANIES

	Payment due by period				
	< 1 year	1–5 years	>5 years	Total 2011	Total 2010
Non-current receivables [1]					
Financial receivables	5	710	7,302	**8,017**	6,666
Current receivables					
Trade receivables	816	–	–	**816**	882
Financial receivables	15,917	–	–	**15,917**	14,503
Total	16,733	–	–	**16,733**	15,385
Non-current liabilities [1]					
Financial liabilities	–	–	26,896	**26,896**	26,862
Current liabilities					
Trade payables	387	–	–	**387**	828
Financial liabilities	37,752	–	–	**37,752**	45,128
Total	38,139	–	–	**38,139**	45,956

[1] Including non interest-bearing receivables and liabilities, net, amounting to SEK –19,595 million in 2011 (SEK –20,196 million in 2010).

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P13 OTHER CURRENT RECEIVABLES

OTHER CURRENT RECEIVABLES

	2011	2010
Receivables from associated companies and joint ventures	–	69
Prepaid expenses	425	590
Accrued revenues	405	246
Derivatives with a positive value	1,517	3,038
Other	241	356
Total	**2,588**	4,299

P14 EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2011

Capital stock at December 31, 2011, consisted of the following:

CAPITAL STOCK

	Number of shares	Capital stock
Class A shares [1]	261,755,983	1,309
Class B shares [1]	3,011,595,752	15,058
Total	**3,273,351,735**	**16,367**

[1] Class A shares (quotient value SEK 5.00) and Class B shares (quotient value SEK 5.00).

EQUITY AND OTHER COMPREHENSIVE INCOME 2011

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2011	16,367	20	31,472	47,859	100	–	42,874	42,974	90,833
Net income	–	–	–	–	–	–	4,627	4,627	4,627
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	203	–	203	203
Total other comprehensive income	–	–	–	–	–	203	–	203	203
Total comprehensive income	–	–	–	–	–	203	4,627	4,830	4,830
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	92	92	92
Stock Purchase Plans	–	–	–	–	–	–	31	31	31
Dividends paid	–	–	–	–	–	–	–7,207	–7,207	–7,207
December 31, 2011	**16,367**	**20**	**31,472**	**47,859**	**100**	**203**	**40,417**	**40,720**	**88,579**

EQUITY AND OTHER COMPREHENSIVE INCOME 2010

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2010	16,367	20	31,472	47,859	100	–	41,853	41,953	89,812
Net income	–	–	–	–	–	–	7,352	7,352	7,352
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	136	–	136	136
Amounts transferred to initial carrying amount of hedged items	–	–	–	–	–	–136	–	–136	–136
Total other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	7,352	7,352	7,352
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	52	52	52
Stock Purchase Plans	–	–	–	–	–	–	8	8	8
Dividends paid	–	–	–	–	–	–	–6,391	–6,391	–6,391
December 31, 2010	**16,367**	**20**	**31,472**	**47,859**	**100**	**–**	**42,874**	**42,974**	**90,833**

Telcordia05299

P15 UNTAXED RESERVES

UNTAXED RESERVES

2011	Jan 1	Additions/ withdrawals (–)	Dec 31
Accumulated depreciation in excess of plan			
Intangible assets	931	–262	669
Tangible assets	84	–77	7
Total accumulated depreciation in excess of plan	1,015	–339	676
Total untaxed reserves	**1,015**	**–339**	**676**

Change in depreciation in excess of plan of intangible assets relates mainly to Marconi and Redback trademarks. Deferred tax liability on untaxed reserves, not accounted for in deferred taxes, amounts to SEK 178 million (SEK 267 million in 2010).

P16 POST-EMPLOYMENT BENEFITS

The Parent Company has two types of pension plans:

- Defined contribution plans: post-employment benefit plans where the Parent Company pays fixed contributions into separate entities and has no legal or constructive obligation to pay further contributions if the entities do not hold sufficient assets to pay all employee benefits relating to employee service. The expenses for defined contribution plans are recognized during the period when the employee provides service.
- Defined benefit plans: post-employment benefit plans where the Parent Company's undertaking is to provide predetermined benefits that the employee will receive on or after retirement. The FPG/PRI plan for the Parent Company is partly funded. FPG is a Swedish credit insurance company for pension obligations and PRI is a pension registration institute. Pension obligations are calculated annually, on the balance sheet date, based on actuarial assumptions.

DEFINED BENEFIT OBLIGATION – AMOUNT RECOGNIZED IN THE BALANCE SHEET

	2011	2010
Present value of wholly or partially funded pension plans [1]	679	618
Fair value of plan assets	–756	–714
Unfunded/net surplus(–) of funded pension plans	–77	–96
Present value of unfunded pension plans	376	389
Excess from plan assets not accounted for	77	96
Closing balance provision for pensions	376	389

[1] This FPG/PRI obligation is covered by the Swedish law on safeguarding of pension commitments.

The defined benefit obligations are calculated based on the actual salary levels at year-end and based on a discount rate of 3.8%.

Weighted average life expectancy after the age of 65 is 25 years for women and 23 years for men.

In 2005, SEK 524 million was transferred into the Swedish pension trust. From 2009–2011 additional transfers of SEK 94 million have been made.

The Parent Company utilizes no assets held by the pension trust. Return on plan assets for 2011 was 0.9% (17.4 %).

PLAN ASSETS ALLOCATION

	2011	2010
Equities	167	249
Interest-bearing securities	461	433
Other	128	32
Total	**756**	714

CHANGE IN THE DEFINED BENEFIT OBLIGATION

	2011	2010
Opening balance	389	372
Payment to pension trust	–36	–31
Pension costs, excluding taxes, related to defined benefit obligations accounted for in the income statement	98	98
Pension payments	–50	–44
Return on plan assets	–25	–44
Return on plan assets not accounted for	–	38
Closing balance provision for pensions	**376**	389

Estimated pension payments for 2012 are SEK 55 million.

TOTAL PENSION COST AND INCOME RECOGNIZED IN THE INCOME STATEMENT

	2011	2010
Defined benefit obligations		
Costs excluding interest and taxes	55	54
Interest cost	43	44
Credit insurance premium	–1	–2
Total cost defined benefit plans excluding taxes	97	96
Defined contribution plans		
Pension insurance premium	123	96
Total cost defined contribution plans excluding taxes	123	96
Return on plan assets	–25	–5
Total pension cost, net excluding taxes	195	187

Of the total pension cost, SEK 177 million (SEK 149 million in 2010) is included in operating expenses and SEK 18 million (SEK 38 million in 2010) in the financial net.

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P17 OTHER PROVISIONS

OTHER PROVISIONS

	Restructuring	Customer finance	Other	Total other provisions [1]
2011				
Opening balance	318	91	162	571
Additions	72	1	–	73
Reversal of excess amounts	–12	–	–134	–146
Cash out/utilization	–218	–2	–	–220
Reclassifications	–	–3	–	–3
Closing balance	**160**	**87**	**28**	**275**
2010				
Opening balance	349	95	253	697
Additions	70	2	–	72
Reversal of excess amounts	–9	–6	–13	–28
Cash out/utilization	–92	–	–78	–170
Closing balance	**318**	**91**	**162**	**571**

[1] Of which SEK 113 million (SEK 203 million in 2010) is expected to be utilized within one year.

P18 INTEREST-BEARING LIABILITIES

As per December 31, 2011, the Parent Company's outstanding interest-bearing liabilities, excluding liabilities to subsidiaries, were SEK 24.7 billion.

INTEREST-BEARING LIABILITIES

	2011	2010
Borrowings, current		
Current part of non-current borrowings [1]	3,461	–
Total current borrowings	**3,461**	**–**
Borrowings, non-current		
Notes and bond loans	17,197	20,646
Liabilities to credit institutions	4,000	4,000
Total non-current interest-bearing liabilities	**21,197**	**24,646**
Total interest-bearing liabilities	**24,658**	**24,646**

[1] Including notes and bond loans of SEK 3.461 (0) million.

NOTES AND BOND LOANS

Issued-maturing	Nominal amount	Coupon	Currency	Book value (SEK million)	Maturity date (yy-mm-dd)	Unrealized hedge gain/loss (incl. in book value)
2004–2012	450	3.305%	SEK	450	December 7, 2012 [2]	
2007–2012	1,000	5.100%	SEK	1,011	June 29, 2012	–11
2007–2012	2,000	2.885%	SEK	2,000	June 29, 2012 [3]	
2007–2014	375	1.704%	EUR	3,345	June 27, 2014 [4]	
2007–2017	500	5.380%	EUR	5,161 [1]	June 27, 2017	–719
2009–2013	600	5.000%	EUR	5,450 [1]	June 24, 2013	–109
2009–2016	300	3.62125%	USD	2,069	June 23, 2016 [5]	
2010–2020	170	2.96125%	USD	1,172	December 23, 2020 [6]	
Total				**20,658**		**–839**

[1] Interest rate swaps are designated as fair value hedges.
[2] Next contractual repricing date 2012-06-07 (semi-annual).
[3] Next contractual repricing date 2012-03-29 (quarterly).
[4] Next contractual repricing date 2012-03-27 (quarterly).
[5] Next contractual repricing date 2012-03-23 (quarterly).
[6] Next contractual repricing date 2012-03-23 (quarterly).

All outstanding notes and bond loans are issued under the Euro Medium-Term Note (EMTN) program. Bonds issued at a fixed interest rate are normally swapped to a floating interest rate using interest rate swaps leaving a maximum of 50% of outstanding loans at fixed interest rates. It resulted in weighted average interest rate of 4.21% (2.65%). These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

In 2008 Ericsson signed a seven-year loan of SEK 4.0 billion with the European Investment Bank. The loan supports Ericsson's R&D activities to develop the next generation of mobile broadband technology at sites in Kista, Gothenburg and Linköping in Sweden.

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P19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk management

Ericsson's financial risk management is governed on a Group level. For further information see Notes to the Consolidated Financial Statements – Note C20, "Financial Risk Management and Financial Instruments".

OUTSTANDING DERIVATIVES [1]

Fair value	Asset	2011 Liability	Asset	2010 Liability
Currency derivatives				
Maturity within 3 months	779	879	600	1,031
Maturity between 3 and 12 months	427	391	945	1,291
Maturity 1 to 3 years	1	–	10	27
Total currency derivatives	1,207	1,270	1,556	2,350 [2]
Of which internal	*773*	*19*	*33*	*643*
Of which designated in cash flow hedge relations	*203*	–	–	–
Interest rate derivatives				
Maturity within 3 months	–	5	6	28
Maturity between 3 and 12 months	324	367	76	61
Maturity 1 to 3 years	381	617	544	118
Maturity 3 to 5 years	416	815	184	34
Maturity more than 5 years	778	161	705	87
Total interest rate derivatives	1,899 [3]	1,966	1,515	329 [2]
Of which designated in fair value hedge relations	*1,002*	–	*862*	–

[1] Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current due to hedge accounting.
[2] Of which SEK 902 million is reported as non-current liabilities for 2010.
[3] Of which SEK 816 million is reported as non-current assets.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

SEK billion	Remaining time to maturity < 3 months	< 1 year	1–5 years	> 5 years	2011
Bank deposits	12.3	–	–	–	12.3
Type of issuer/counterpart					
Governments	6.3	3.8	13.2	1.7	25.0
Corporations	1.9	–	–	–	1.9
Mortgage institutes	–	–	16.6	0.3	16.9
Total	20.5	3.8	29.8	2.0	56.1

The instruments are classified as held for trading and are therefore short-term investments.

During 2011, cash, cash equivalents and short-term investments decreased by SEK 14.5 billion to SEK 56.1 billion.

REPAYMENT SCHEDULE OF NON-CURRENT BORROWINGS

Nominal amount SEK billion	Current maturities of long-term debt	Borrowings (non-current)	Total
2012	3.4	–	3.4
2013	–	5.4	5.4
2014	–	3.3	3.3
2015	–	4.0	4.0
2016	–	2.1	2.1
2017 and later	–	5.6	5.6
Total	3.4	20.4	23.8

Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

FUNDING PROGRAMS [1]

	Amount	Utilized	Unused
Euro Medium-Term Note program (USD million)	5,000	2,878	2,122
Long-Term Committed Credit facility (USD million)	2,000	–	2,000

[1] There are no financial covenants related to these programs.

In June 2011 Ericsson was upgraded by Moody's from Baa1 to A3. Standard & Poor's kept the BBB+ credit rating with stable outlook. Both credit ratings are considered to be solid investment grade.

Financial instruments carried at other than fair value

In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit and loss had a net gain of SEK 0.7 billion. For further information about valuation principles, see Notes to the Consolidated Financial Statements – Note C1, "Significant Accounting Policies".

FINANCIAL INSTRUMENTS, BOOK VALUE

SEK billion	Trade receivables P11	Short-term investments	Receivables and liabilities subsidiaries P12	Borrowings P18	Trade payables P21	Cash Equivalents	Other current receivables P13	Other current liabilities P20	Other non-current assets	2011	2010
Assets at fair value through profit or loss	–	38.9	–	–	–	5.0	1.5	–3.2	0.8	43.0	58.0
Loans and receivables	2.2		24.8	–	–	1.9	–	–	–	28.9	24.6
Available for sale assets	–	–	–	–	–	–	–	–	–	–	–
Financial liabilities at amortized cost	–	–	–65.0	–24.7	–0.7	–	–	–	–	–90.4	–97.0
Total	2.2	38.9	–40.2	–24.7	–0.7	6.9	1.5	–3.2	0.8	–18.5	–14.5

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FINANCIAL INSTRUMENTS CARRIED AT OTHER THAN FAIR VALUE

	Book value		Fair value	
SEK billion	2011	2010	2011	2010
Current part of non-current borrowings	3.5	–	3.5	–
Borrowings non-current	21.2	24.6	21.1	24.5
Total	**24.7**	24.6	**24.6**	24.5

Financial instruments excluded from the tables, such as trade receivables and payables, are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the book value is considered to represent a reasonable estimate of a fair value.

P20 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

	2011	2010
Accrued interest	329	320
Accrued expenses, of which	416	362
Employee related	*307*	*294*
Other	*109*	*68*
Deferred revenues	10	12
Derivatives with a negative value	3,216	960
Other current liabilities	214	125
Total	**4,185**	1,779

P21 TRADE PAYABLES

TRADE PAYABLES

	2011	2010
Trade payables excluding associated companies and joint ventures	706	399
Total	**706**	399

All trade payables fall due within 90 days.

P22 ASSETS PLEDGED AS COLLATERAL

ASSETS PLEDGED AS COLLATERAL

	2011	2010
Bank deposits	452	658
Total	**452**	658

The major item in bank deposits is the internal bank's clearing and settlement commitments of SEK 267 million (SEK 467 million in 2010).

P23 CONTINGENT LIABILITIES

CONTINGENT LIABILITIES

	2011	2010
Total contingent liabilities	18,518	13,783

Contingent liabilities include pension commitments of SEK 14,355 million (SEK 11,004 million in 2010) and guarantees for Sony Ericsson Mobile Communications AB's borrowing from financial institutions of SEK 2,017 million (SEK 1,053 million in 2010). On February 16, 2012, Ericsson announced that the company on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. As of the date of the sale, Ericsson is no longer a guarantor of term loans or credit facilities related to SEMC, see Note P27, "Related Party Transactions".

In accordance with standard industry practice, Ericsson enters into commercial contract guarantees related to contracts for the supply of telecommunication equipment and services. Total amount for 2011 was SEK 20,249 million (SEK 19,691 million in 2010). Potential payments due under these bonds are related to Ericsson's performance under applicable contracts.

For information about financial guarantees, see Note P11, "Trade Receivables and Customer Finance".

P24 STATEMENT OF CASH FLOWS

Interest paid in 2011 was SEK 1,258 million (SEK 657 in 2010 and SEK 508 million in 2009) and interest received was SEK 2,532 million (SEK 816 in 2010 and SEK 2,083 million in 2009). Income taxes received were SEK 147 million (income taxes paid were SEK 269 in 2010 and SEK 341 million in 2009).

ADJUSTMENTS TO RECONCILE NET INCOME TO CASH

	2011	2010	2009
Property, plant and equipment			
Depreciation	168	149	193
Total	**168**	149	193
Intangible assets			
Amortization	237	228	385
Impairment losses	–	945	–
Total	**237**	1,173	385
Total depreciation and amortization on tangible and intangible assets	**405**	1,322	578
Taxes	250	119	–147
Write-downs and capital gains (–)/ losses on sale of fixed assets, excluding customer finance, net	1,326	50	–521
Additions to/withdrawals from (–) untaxed reserves	–339	100	–902
Unsettled group contributions	1,979	–1,029	2,403
Unsettled dividends	–70	–	–1,254
Other non-cash items	–388	–32	–2,195
Total adjustments to reconcile net income to cash	**3,163**	530	–2,038

Telcordia05303

P25 LEASING

Leasing with the Parent Company as lessee

At December 31, 2011, future payment obligations for leases were distributed as follows:

FUTURE PAYMENT OBLIGATIONS FOR LEASES

	Operating leases
2012	1,047
2013	804
2014	754
2015	430
2016	272
2017 and later	901
Total	**4,208**

Leasing with the Parent Company as lessor

At December 31, 2011, future minimum payment receivables were distributed as follows:

FUTURE MINIMUM PAYMENT RECEIVABLES

	Operating leases
2012	19
2013	2
2014	1
2015	1
2016	1
2017 and later	1
Total	**25**

The operating lease income is mainly income from sublease of real estate. See Notes to the Consolidated Financial Statements – Note C27, “Leasing”.

P26 INFORMATION REGARDING EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES

	2011			2010		
	Men	Women	Total	Men	Women	Total
Northern Europe & Central Asia [1) 2)]	**197**	**162**	**359**	198	148	346
Middle East	**202**	**31**	**233**	121	14	135
Total	**399**	**193**	**592**	319	162	481
[1)] *Of which Sweden*	***197***	***162***	***359***	*198*	*148*	*346*
[2)] *Of which EU*	***197***	***162***	***359***	*198*	*148*	*346*

Remuneration

WAGES AND SALARIES AND SOCIAL SECURITY EXPENSES

	2011	2010
Wages and salaries	**580**	518
Social security expenses	**403**	384
Of which pension costs	**246**	*210*

WAGES AND SALARIES PER GEOGRAPHICAL AREA

	2011	2010
Northern Europe & Central Asia [1) 2)]	**417**	409
Middle East	**163**	109
Total	**580**	518
[1)] *Of which Sweden*	***417***	*409*
[2)] *Of which EU*	***417***	*409*

Remuneration in foreign currency has been translated to SEK at average exchange rates for the year.

Remuneration policy and remuneration to the Board of Directors and the President and CEO

See Notes to the Consolidated Financial Statements – Note C28, “Information Regarding Members of the Board of Directors, the Group Management and Employees”.

Long-term variable remuneration

THE STOCK PURCHASE PLAN

Compensation costs for all employees of the Parent Company amounted to SEK 25.1 million in 2011 (SEK 8.0 million in 2010).

P27 RELATED PARTY TRANSACTIONS

During 2011, various transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm’s length basis.

Sony Ericsson Mobile Communications AB

In October 2001, Sony Ericsson Mobile Communications AB was organized as a joint venture between Sony Corporation and Ericsson and a substantial portion of Ericsson’s handset operations was sold to Sony Ericsson Mobile Communications AB.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. This

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makes Sony Ericsson a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

As part of the formation of the joint venture, contracts were entered into between the Parent Company and Sony Ericsson Mobile Communications AB. For the Parent Company, the major transactions are license revenues for Sony Ericsson Mobile Communications AB's usage of trademarks and patents and received dividends.

Sony Ericsson Mobile Communications AB has been granted a long-term loan with a maximum amount of SEK 4,014 million. The Parent Company and Sony Corporation have issued guarantees for this loan on a 50/50 basis, without joint responsibility. As of December 31, 2011, the Parent Company´s share of the outstanding principle and accrued interest, in the total amount of SEK 2,017 million, has been reported as a contingent liability in the Parent Company. As of the date of the sale, Ericsson is no longer a guarantor of term loans or credit facilities related to Sony Ericsson. See also Note P23 "Contingent liabilities".

SONY ERICSSON MOBILE COMMUNICATIONS

	2011	2010
Related party transactions		
License revenues	179	296
Dividends	–	–
Related party balances		
Receivables	1	69

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla d.d. is a joint stock company for design, sales and service of telecommunications systems and equipment and an associated member of the Ericsson Group. The Parent Company holds 49.07% of the shares.

For the Parent Company, the major transactions are license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks and received dividends.

ERICSSON NIKOLA TESLA D.D.

	2011	2010
Related party transactions		
License revenues	4	2
Dividends	154	104
Related party balances		
Receivables	1	–

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees toward Ericsson Nikola Tesla d.d.

ST-Ericsson

ST-Ericsson was formed on February 2, 2009 by merging Ericsson Mobile Platforms with STMicroelectronics' wireless business. It is an industry leader in design, development and the creation of cutting-edge mobile platforms and wireless semiconductors.

The Parent Company holds 49.99% of shares in ST-Ericsson SA and 51% in ST-Ericsson AT SA, both in Switzerland.

ST-Ericsson has been granted a revolving credit facility of USD 800 million which is equally shared by LME and STMicroelectronics. As per December, 2011, the amount drawn on the facility was SEK 5,518 million, SEK 2,759 million lent per parent. The Parent Company's accrued interest towards ST-Ericsson amounted to SEK 7.5 million.

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

ST-ERICSSON

	2011	2010
Related party transactions		
License revenues	–	–
Dividends	–	–
Related party balances		
Receivables	1	3
Loan	2,759	1,030

Other related parties

For information regarding the remuneration of management, see Notes to the Consolidated Financial Statements – Note C28, "Information Regarding Members of the Board of Directors, the Group Management and Employees".

P28 FEES TO AUDITORS

FEES TO AUDITORS

	PwC
2011	
Audit fees	18
Audit-related fees	8
Tax services fees	–
Other fees	12
Total	**38**
2010	
Audit fees	19
Audit-related fees	12
Tax services fees	1
Other fees	3
Total	**35**
2009	
Audit fees	23
Audit-related fees	12
Tax services fees	2
Other fees	1
Total	**38**

Allocation of fees to auditors is based on the requirements in the Swedish Annual Accounts Act. 2009 figures are restated for comparability.

During the period 2009–2011, in addition to audit services, PwC provided certain audit-related services, tax and other services to the Parent Company. The audit-related services include quarterly reviews, SSAE 16 reviews and services in connection with the issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

P29 EVENTS AFTER THE BALANCE SHEET DATE

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB including the broad IP cross-licensing agreement. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. This makes Sony Ericsson a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

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RISK FACTORS

You should carefully consider all the information in this Annual Report and in particular the risks and uncertainties outlined below. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our business. Any of the factors described below, or any other risk factors discussed elsewhere in this report, could have a material negative effect on our business, operational and after-tax results, financial position, cash flow, liquidity, credit rating, brand and/or our share price. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially adversely affect our business. Furthermore, our operational results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also "Forward-Looking Statements".

CONTENTS

MARKET, TECHNOLOGY AND BUSINESS RISKS 117
REGULATORY, COMPLIANCE AND CORPORATE GOVERNANCE RISKS 122
RISKS ASSOCIATED WITH OWNING ERICSSON SHARES 123

MARKET, TECHNOLOGY AND BUSINESS RISKS

Challenging global economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow.

Challenging global economic conditions could have adverse, wide-ranging effects on demand for our products and for the products of our customers. Adverse global economic conditions could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. If demand for our products and services were to fall in the future, we could experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we could incur operating losses. Furthermore, if demand is significantly weaker or more volatile than expected, our credit rating, borrowing opportunities and costs as well as the trading price of our shares could be adversely impacted. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

Should global economic conditions fail to improve, or worsen, other business risks we face could intensify and could also negatively impact the business prospects of operators. Some operators, in particular in markets with weak currencies, may incur borrowing difficulties and slower traffic development, which may negatively affect their investment plans and cause them to purchase less of our products and services.

The potential adverse effects of an economic downturn include:

- reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not fully compensated through reduced costs;
- risks of excess and obsolete inventories and excess manufacturing capacity;
- risk of financial difficulties or failures among our suppliers;
- increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures;
- risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products;
- increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results;
- a decline in the value of the assets in our pension plans and/or increased pension liabilities due to discount rate changes;
- end user demand could also be adversely affected by reduced consumer spending on technology, changed operator pricing, security breaches and trust issues.

The telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by operators and other customers regarding their deployment of technology and their timing of purchases.

The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Moreover, market conditions are subject to substantial fluctuation, and could vary geographically and across technologies. Even if global conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected.

If capital expenditures by service providers and other customers is weaker than we anticipate, our revenues and profitability may be adversely affected. The level of demand by service providers and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results, and cash flow remains difficult.

Sales volumes and gross margin levels are affected by the variation and short order time of our products and services.

Our sales to network operators represent a mix of equipment, software and services, which normally generate different gross margins. We sell our own products as well as third party products, which normally have

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lower margins than our own products. As a consequence, our reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Further, network expansions and upgrades have much shorter lead times for delivery than initial network build outs. Orders for such network expansions and upgrades are normally placed with short notice by customers, often with less than a month's notice, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix and the short order time for certain of our products may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus. Short-term variation could have a material adverse effect on our business, operating results and financial condition.

We may not be able to properly respond to market trends in the telecommunications industry, including the ongoing convergence of the telecom, data and media industries, which may harm our market position relative to our competitors.

We are affected by market conditions and trends within the telecommunications industry, including the convergence of the telecom, data and media industries. Convergence is largely driven by technological development related to IP-based communications. This has changed the competitive landscape and affects our objective setting, risk assessment and strategies. Competitors new to our business may enter this new business context and negatively impact our market share in selected areas. If we fail to understand the market development, or fail to acquire the necessary competences to develop and market products, services and solutions that are competitive in this changing market, our business, operating results and financial condition will suffer.

Our business depends upon the continued growth of mobile communications and the acceptance of new services. If growth slows or new services do not succeed, operators' investment in networks may slow or stop, harming our business.

A substantial portion of our business depends on the continued growth of mobile communications in terms of both the number of subscriptions and usage per subscriber, which in turn drives the continued deployment and expansion of network systems by our customers. If operators fail to increase the number of subscribers and/or stimulate increased usage, our business and operational results could be materially adversely affected. Also, if operators fail to monetize new services, fail to introduce new business models or experience a decline in operator revenues or profitability, their willingness to further invest in their network systems may decrease which will reduce their demand for our products and services and have an adverse effect on our business, operational results and financial condition.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon market acceptance of such services and the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization, regulation, or market acceptance occur, this could adversely affect our business, operational results and financial condition.

We face intense competition from our existing competitors as well as new entrants, including IT companies entering the telecommunications market, and this could materially adversely affect our results.

The markets in which we operate are highly competitive in terms of price, functionality, service quality, customization, timing of development, and the introduction of new products and services. We face intense competition from significant competitors many of which are very large, with substantial technological and financial resources and established relationships with operators. Further, certain competitors, Chinese companies in particular, have become relatively stronger in recent years. We may also encounter increased competition from new market entrants, alternative technologies or due to evolving industry standards. In particular, we may face competition from large IT companies entering the telecommunications market who benefit from economies of scale from being active in several industries. We cannot assure that we will be able to compete successfully with these companies. Our competitors may implement new technologies before we do, offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that we do not provide. Some of our competitors may also have greater resources in certain business segments or geographic markets than we do. Increased competition could result in reduced profit margins, loss of market share, increased research and development costs as well as increased sales and marketing expenses. Traffic development on cellular networks could be affected if more traffic is off-loaded to Wi-Fi networks. Further, alternative services provided over-the-top have profound effects on operator voice/ SMS revenues with possible reduced capital expenses consequences.

Additionally, we operate in markets characterized by rapidly changing technology. This results in continuous price erosion and increased price competition for our products and services. If our counter measures, including enhanced products and business models or cost reductions cannot be achieved or do not occur in a timely manner, there could be adverse impacts on our operating results and market share.

Vendor consolidation may lead to stronger competitors who are able to benefit from integration, scale and greater resources.

Industry convergence and consolidation among equipment and services suppliers could potentially result in stronger competitors that are competing as end-to-end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources than we have or in reduction of our current scale advantages. This could have a materially adverse effect on our business, operating results, and financial condition.

A significant portion of our revenue is currently generated from a limited number of key customers, and operator consolidation may increase our dependence on key customers.

We derive most of our business from large, multi-year frame agreements with a limited number of significant customers. Many of these agreements are opened up on a yearly basis to re-negotiate the price for our products and services and do not contain committed purchase volumes. Although no single customer represents more than 7% of our sales in 2011, our ten largest customers accounted for 44% of our sales in 2011. A loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in a fewer number of operators with activities in

Telcordia05307

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several countries. This trend is expected to continue, and intra-country consolidation is likely to accelerate as a result of competitive pressure. A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services may be required. Network investments could be delayed by the consolidation process, which may include, among others, actions relating to merger or acquisition agreements, securing necessary regulatory approvals, or integration of their businesses. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment. Accordingly, operator consolidation may have a material adverse effect on our business, operating results and financial condition.

We enter into long-term frame agreements with our customers which include commitments to future price reductions, requiring us to make constant cost reductions to maintain our gross margin.

Long-term frame agreements with our customers are typically awarded on a competitive bidding basis. In some cases, such agreements also include a commitment to future price reductions. In order to maintain our gross margin with such price reductions, we continuously strive to reduce the costs of our products through design improvements, negotiation of better purchase prices from our suppliers, allocation of more production to low-cost countries and increased productivity in our own production. However, there can be no assurance that our actions to reduce costs will be sufficient or quick enough to maintain our gross margin in such contracts, which may have a material adverse effect on our operating results.

Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.

Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth and profitability.

We depend upon the development of new products and enhancements to our existing products, and the success of our substantial research and development investments is uncertain.

Rapid technological and market changes in our industry require us to make significant investments in technological innovation. We invest significantly in new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. There can be no assurance that our research and development efforts will be technically or commercially successful. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, or are not successful in the marketplace our sales and earnings may materially suffer. Additionally, it is common for research and development projects to encounter delays due to unforeseen problems. Delays in production may increase the cost of research and development efforts and put us at a disadvantage against our competition.

We engage in acquisitions and divestments which may be disruptive and require us to incur significant expenses.

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits such as reduced time-to-market, access to technology and competence, increased scale or to broaden our product portfolio or customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect upon our business, financial condition and results of operations. Risks we could face with respect to acquisitions include:

- difficulties in the integration of the operations, technologies, products and personnel of the acquired company;
- risks of entering markets in which we have no or limited prior experience;
- potential loss of employees;
- diversion of management's attention away from other business concerns; and
- expenses of any undisclosed or potential legal liabilities of the acquired company.

From time to time we also divest parts of our business to optimize our product portfolio or operations. Any decision to dispose of or otherwise exit businesses may result in the recording of special charges, such as workforce reduction costs and industry and technology-related write-offs. We cannot assure that we will be successful in consummating future acquisitions or divestments on favourable terms or at all. The risks associated with such acquisitions and divestments could have a material adverse effect upon our business, financial condition and results of operations.

We are a party to joint ventures and partnerships which may not be successful and expose us to future costs.

We are partners in joint ventures and partnerships. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners. Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the market. Additionally, our share of any losses from or commitments to contribute additional capital to such partnerships may adversely affect our results of operations or financial position.

We rely on a limited number of suppliers of components, production capacity and R&D and IT services, which exposes us to supply disruptions and cost increases.

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining a timely and adequate supply of materials, components, production capacity and other vital services on competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Accordingly, there is a risk that we will be unable to obtain key supplies we need to produce our products on commercially reasonable terms, or at all. Failure by any of our suppliers could interrupt our product supply or

Telcordia05308

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operations and significantly limit sales or increase our costs. To find an alternative supplier or re-design products to replace components may take significant time which could cause significant delays or interruptions in the delivery of our products. We have from time to time experienced interruptions of supply and we may experience such interruptions in the future.

Furthermore, our procurement of supplies requires us to predict future customer demands. If we fail to anticipate customer demand properly, an over or under supply of components and production capacity could occur. In many cases, some of our competitors utilize the same contract manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers or could increase costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers where we pay in advance for supplies.

Product or service quality issues could lead to reduced revenue, gross margins and declining sales to existing customers.

Sales contracts normally include warranty undertakings for faulty products and often include provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may negatively affect our reputation, results and financial position. If significant warranty obligations arise due to reliability or quality issues, our operating results and financial position could be negatively impacted by costs associated with fixing software or hardware defects, high service and warranty expenses, high inventory obsolescence expense, delays in collecting accounts receivable or declining sales to existing customers.

Due to having a majority of our costs in SEK and revenues in other currencies, our business is exposed to foreign exchange fluctuations that could negatively impact our revenue, operating profit and results of operations.

We incur a significant portion of our expenses in SEK. As a result of our international operations, we generate, and expect to continue to generate, a significant portion of our revenue in currencies other than SEK. To the extent we are unable to match revenue received in foreign currencies with costs paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

As market prices are predominantly established in USD or EUR, we presently have a net revenue exposure in foreign currencies which means that a stronger SEK exchange rate would generally have a negative effect on our reported results. Our attempts to reduce the effects of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results.

Our ability to benefit from intellectual property rights (IPR) which are critical to our business may be limited by changes in regulation limiting patents, inability to prevent infringement, the loss of licenses from third parties and IP infringement claims brought against us by competitors.

Although we have a large number of patents, there can be no assurance that they will not be challenged, invalidated, or circumvented, or that any rights granted in relation to our patents will in fact provide us with competitive advantages.

In 2005, the European Union considered restricting the patentability of software. Although the European Union ultimately rejected this proposal, we cannot guarantee that they will not revisit this issue in the future. We rely on many software patents, and limitations on the patentability of software may materially affect our business.

We utilize a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing laws of some countries in which we conduct business offer only limited protection of intellectual property rights, if at all.

Our solutions may also require us to license technologies from third parties. It may be necessary in the future to seek or renew licenses and there can be no assurance that they would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect proprietary rights in our products.

Many key aspects of telecommunications and data network technology are governed by industry-wide standards usable by all market participants. As the number of market entrants and the complexity of technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. Third parties have asserted, and may assert in the future, claims, directly against us or indirectly against our customers, alleging infringement of their intellectual property rights. Defending such claims may be expensive, time-consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we could be required to pay damages and other compensation directly or to indemnify our customers for such damages and other compensation, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that such licenses will be available to us on commercially reasonable terms or at all, and such judgments could have a materially adverse effect on our business.

We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.

In the normal course of our business we are involved in legal proceedings. These lawsuits include such matters as commercial disputes, claims regarding intellectual property, antitrust, tax and labour disputes. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavourable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

As a publicly listed company, Ericsson may be exposed to lawsuits in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulation or other laws, regulations or requirements. Whether or not there is merit to such

Telcordia05309

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claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs could have significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see "Legal and Tax Proceedings" in the Board of Directors' Report.

Our operations are complex and several critical operations are centralized in a single location. Any disruption of our operations, whether due to natural or man made events, may be highly damaging to the operation of our business.

Our business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced a significant portion of our IT operations, we depend partly on security and reliability measures of external companies. Regardless of protection measures, our systems and communications networks are susceptible to disruption due to failure, vandalism, computer viruses, security breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, including R&D, production, network operation centres, and logistic centres and shared services centres, where business interruptions could cause material damage and costs. The delivery of goods from suppliers, and to customers, could also be hampered for the reasons stated above. We cannot provide any assurance that interruptions to our systems and communications that will have an adverse effect on our operations and financial condition will not occur.

Our operations, including our managed services business, are exposed to possible cyber security incidents occurring, such as know how and data privacy infringements or leakage, which could have material adverse effects or our business operations, financial condition and brand.

We must continue to attract and retain highly qualified employees to remain competitive.

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future, and failure in retention and recruiting could have a material adverse effect on our business.

If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks.

After completing sales to customers, we may encounter difficulty collecting accounts receivables and could be exposed to risks associated with uncollectable accounts receivable. We regularly assess the credit worthiness of our customers and upon which we determine a credit limit for customers. Challenging economic conditions have impacted some of our customers' ability to pay their accounts receivables. Although our credit losses have historically been low and we have policies and procedures for managing customer finance credit risk we may be unable to avoid future losses on our trade receivables. We have also experienced demands for customer financing, and in adverse financial markets or more competitive environments, those demands may increase. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's on-going business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

We rely on various capital sources for short-term and long-term capital for the funding of our business. Should such capital become unavailable or available in insufficient amounts or unreasonable terms, our business may materially suffer.

If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the required times and terms, our business is likely to be adversely affected. Access to funding may decrease or become more expensive as a result of our operational and financial condition, market conditions, including financial conditions in the Euro-zone, or due to deterioration in our credit rating. There can be no assurance that additional sources of funds that we from time to time may need, will be available or available on reasonable terms. If we cannot access capital on commercially viable terms, our business could materially suffer.

Impairment of Goodwill may negatively impact financial condition.

An impairment of goodwill or other intangible assets could adversely affect our financial condition or results of operations. We have a significant amount of goodwill and intangible assets, for example patents, customer relations, trademarks and software. Goodwill is the only intangible asset the company has recognized to have indefinite useful life. Other intangible assets are mainly amortized on a straight-line basis over their estimated useful lives, but no more than ten years, and are reviewed for impairment whenever events such as product discontinuances, product dispositions or other changes in circumstances indicate that the carrying amount may not be wholly recoverable. Those not yet in use are tested for impairment annually.

Historically, we have recognized impairment charges related to intangible assets mainly due to restructuring. Additional impairment charges may be incurred in the future that could be significant due to various reasons, including restructuring actions or adverse market conditions that are either specific to us or the broader telecommunications industry or more general in nature and that could have an adverse effect on our results of operations or financial condition.

Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. Estimates require management judgment as well as the definition of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

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REGULATORY, COMPLIANCE AND CORPORATE GOVERNANCE RISKS

Our business may suffer as a result of changes in laws or regulations which could subject us to liability, increase costs, or reduce product demand.

Telecommunications is an industry which is subject to regulations. Changes to these regulations may adversely affect both our customers' and our own operations. For example, regulations imposing more stringent, time-consuming or costly planning and zoning requirements or building approvals for radio base stations and other network infrastructure could adversely affect the timing and costs of network construction or expansion, and ultimately the commercial launch and success of these networks. Similarly, tariff and roaming regulations or rules on network neutrality could also affect operators' ability or willingness to invest in network infrastructure, which in turn could affect the sales of our systems and services. Additionally, delay in radio frequency spectrum allocation, and allocation between different types of usage may affect operator spending adversely or force us to develop new products to be able to compete.

Further, we develop many of our products and services based on existing regulations and technical standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline. Regulatory changes in license fees, environmental, health and safety, privacy and other regulatory areas may increase costs and restrict our operations or the operations of network operators and service providers. Also indirect impacts of such changes and regulatory changes in other fields, such as pricing regulations, could have an adverse impact on our business even though the specific regulations may not apply directly to our products or us. Ericsson may fail or be unable to comply with laws or regulations and could experience adverse rulings in enforcement or other proceedings, which could have a material adverse impact on our business operations, financial condition and brand.

Our substantial international operations are subject to uncertainties which could affect our operating results.

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to specific countries or regions. We conduct business in more than 180 countries, with a significant proportion of our sales to emerging markets in the Asia Pacific region, Latin America, Eastern Europe, the Middle East and Africa.

Our extensive operations are subject to numerous additional risks, including civil disturbances, economic and political instability, the imposition of exchange controls, economies which are subject to significant fluctuations, nationalization of private assets or other governmental actions affecting the flow of goods and currency, and difficulty of enforcing agreements and collecting receivables through local legal systems. Further, in certain markets in which we operate, there is a risk of protectionist governmental measures implemented to assist domestic market participants at the expense of foreign competitors. The implementation of such measures could adversely affect sales or our ability to purchase critical components.

We must always comply with relevant export control regulations and sanctions or other trade embargoes in force, not only at the time of sale but also at the time of delivery. The political situation in parts of the world, particularly in the Middle East, has lead to an increase of sanctions imposed by the global community. A universal element of these sanctions is the financial restrictions with respect to individuals and/or legal entities, but sanctions can also restrict certain exports and ultimately lead to a complete trade embargo towards a country. There is a risk in many of these countries of unexpected changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, or other governmental policies which could limit our operations and decrease our profitability. Although we seek to comply with all such regulations, there can be no assurance that we are, or will be in the future, compliant with all relevant regulations and such violations, even unintentional violations, could have material adverse effects on our business, operational results and brand.

There has been a growing concern reported by media and others, that certain countries may use features of their telecommunications systems violating the human rights. This may adversely affect the telecommunications business and may have a negative impact on our brand.

As a result of the credit crisis in Europe, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states. These and other concerns could in worst case lead to the re-introduction of individual currencies in one or more member states, or, in more extreme circumstances, the possible dissolution of the euro entirely. These potential developments, or market perceptions concerning these and related issues, could adversely affect our operations and have a material adverse effect on our business, operating results and financial condition.

We may fail to comply with our corporate governance standards which could subject us to harm.

We apply mandatory corporate governance laws and regulations and are also committed to several corporate responsibility and environmental initiatives. To ensure that our operations are executed in accordance with these requirements, our management system includes a Code of Business Ethics as well as policies and directives to govern our processes and operations. While we attempt to monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Code of Conduct, we cannot provide any assurances that violations will not occur which could have material adverse effects on our operations, business results and brand.

Failure to comply with environmental, health and safety regulations in many jurisdictions may expose us to significant penalties and other sanctions.

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. While we believe that we are in compliance with all material laws and regulations related to the environment, health, and safety, we can provide no assurance that we have been, are, or will in the future be compliant with these regulations. If we have failed or fail to comply with these regulations, we could be subject to significant penalties and other sanctions that could have a material adverse effect on our business, operating results and financial condition. Additionally, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain

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compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters. Adverse future events, regulations, or judgments could have a material effect on our business, operating results and financial condition.

Potential health risks related to electromagnetic fields may subject us to various product liability claims and result in regulatory changes.

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects from mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot guarantee that we or the jointly owned Sony Ericsson Mobile Communications or ST-Ericsson will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business, operating results and financial condition.

RISKS ASSOCIATED WITH OWNING ERICSSON SHARES

Our share price has been and may continue to be volatile, especially as technology companies, securities and markets as a whole remain volatile.

Our share price has been volatile due to various factors, including our operating performance as well as the high volatility in the securities markets generally and volatility in telecommunications and technology companies' securities in particular. Our share price is also likely to be affected by future developments in our market, our reported financial results and the expectations of financial analysts, as well as statements and market speculation regarding our future prospects or the timing or content of any public communications, including reports of operating results, by us or our competitors.

Factors other than our financial results that may affect our share price include, but are not limited to:

- a weakening of our brand name or other circumstances with adverse effects on our reputation;
- announcements by our customers, competitors or us regarding capital spending plans of our customers;
- financial difficulties for our customers;
- awards of large supply or service contracts;
- speculation in the press or investment community about the business level or growth in the telecommunications market;
- technical problems, in particular those relating to the introduction and viability of new network systems, including LTE/4G and new platforms such as the RBS 6000 (multi-standard radio base station) platform;
- actual or expected results of ongoing or potential litigation;
- announcements concerning bankruptcy or investigations into the accounting procedures of ourselves or other telecommunications companies; and
- our ability to forecast and communicate our future results in a manner consistent with investor expectations.

Currency fluctuations may adversely affect share value or value of dividends.

Because our shares are quoted in SEK on NASDAQ OMX Stockholm (our primary stock exchange), but in USD on NASDAQ New York (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of our shareholders' investment. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions when converted into other currencies. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on NASDAQ OMX Stockholm or NASDAQ New York.

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AUDITORS' REPORT

To the Annual General Meeting of the shareholders of Telefonaktiebolaget LM Ericsson (publ), corporate identity number 556016-0680

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Telefonaktiebolaget LM Ericsson (publ) for the year 2011. (The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 19–123.)

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President and CEO determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President and CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINIONS

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President and CEO of Telefonaktiebolaget LM Ericsson (publ) for the year 2011.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President and CEO are responsible for administration under the Companies Act.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President and CEO is liable to the company. We also examined whether any member of the Board of Directors or the President and CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINIONS

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Stockholm, February 24, 2012

Peter Nyllinge
Authorized Public Accountant
PricewaterhouseCoopers AB
Auditor in Charge

Johan Engstam
Authorized Public Accountant
PricewaterhouseCoopers AB

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FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events and expected operational and financial performance. The words "believe", "expect", "foresee", "anticipate", "assume", "intend", "may", "could", "plan", "estimate", "will", "should", "could", "aim", "ambition", "target", "might" or, in each case, their negative, and similar words are intended to help identify forward-looking statements. Forward-looking statements may be found throughout this document, but in particular in the chapter "Board of Directors' Report" and include statements regarding:

- Our goals, strategies and operational or financial performance expectations
- Development of corporate governance standards, stock market regulations and related legislation
- The growth of the markets in which we operate
- Our liquidity, capital resources, capital expenditures, our credit ratings and the development in the capital markets, affecting our industry or us
- The expected demand for our existing as well as new products and services
- The expected operational or financial performance of our joint ventures and other strategic cooperation activities
- The time until acquired entities will be accretive to income
- Technology and industry trends including regulatory and standardization environment, competition and our customer structure
- Our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions, judgments and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein. Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

- Our ability to respond to changes in the telecommunications market and other general market conditions in a cost effective and timely manner
- Developments in the political, economic or regulatory environment affecting the markets in which we operate, including trade embargoes, changes in tax rates, changes in patent protection regulations, allegations of health risks from electromagnetic fields, cost of radio licenses for our customers, allocation of radio frequencies for different purposes and results of standardization activities
- The effectiveness of our strategies and their execution, including partnerships, acquisitions and divestments
- Financial risks, including changes in foreign exchange rates or interest rates, lack of liquidity or access to financing, changes in tax liabilities, credit risks in relation to counterparties, customer defaults under significant customer finance arrangements and risks of confiscation of assets in foreign countries
- The impact of the consolidation in the industry, and the resulting (i) reduction in the number of customers, and adverse consequences of a loss of, or significant decline in, our business with a major customer; (ii) increased strength of a competitor or the establishment of new competitors
- The impact of changes in product demand, price erosion, competition from existing or new competitors or new technologies or alliances between vendors of different types of technology and the risk that our products and services may not sell at the rates or levels we anticipate
- The product mix and margins of our sales
- The volatility of market demand and difficulties to forecast such demand
- Our ability to develop commercially viable products, systems and services, to acquire licenses of necessary technology, to protect our intellectual property rights through patents and trademarks and to license them to others and defend them against infringement, and the results of patent litigation
- Supply constraints, including component or production capacity shortages, suppliers' abilities to cost effectively deliver quality products on time and in sufficient volumes, and risks related to concentration of proprietary or outsourced production in a single facility or sole source situations with a single vendor
- Our ability to successfully manage operators' networks to their satisfaction with satisfactory margins
- Our ability to maintain a strong brand and good reputation and to be acknowledged for good corporate governance
- Our ability to recruit and retain qualified management and other key employees.

Certain of these risks and uncertainties are described further in "Risk Factors". We undertake no obligation to publicly update or revise any forward-looking statements included in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

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THINKING AHEAD

To enable the networked society, we need to be more than just market leaders. We need to be thought leaders.

We make sure that the knowledge we gain is shared with our people. This keeps our thinking – and our business – one step ahead.

30,000

WITH 30,000 PATENTS AND 90 LICENSE AGREEMENTS, WE HAVE THE INDUSTRY'S STRONGEST WIRELESS INTELLECTUAL PROPERTY PORTFOLIO.

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CORPORATE GOVERNANCE REPORT 2011

As Chairman of the Board it lies at the core of my responsibilities to ensure that the Board's work is conducted in an optimal way, in line with the principles and processes in the work procedure for the Board of Directors.

The Board has two key roles: to provide good support for Group management and to exercise critical review of their work. This requires at all times an open, meaningful dialogue on important issues. In my view, the Group management and the Board do not have to be in agreement from the beginning, but our dialogue must always result in agreement being reached.

It is of utmost importance that the Board is well informed at all times in order to give constructive input to management. The Board's work is constantly scrutinized and improved to ensure that it has the best possible basis for its resolutions.

Good corporate governance is the basis for building robust corporate culture. However, corporate governance can not only be about efficient and reliable controls and procedures. It is also about the adherence to a strong principle of ethical business practice by all people in the organization – starting at the top and permeating to all employees. This strengthens the business, which in turn generates shareholder value.

Leif Johansson

Chairman of the Board of Directors

CONTENTS

REGULATION AND COMPLIANCE 128
SHAREHOLDERS 129
GOVERNANCE STRUCTURE 129
GENERAL MEETING OF SHAREHOLDERS 130
NOMINATION COMMITTEE 131
BOARD OF DIRECTORS 132
COMMITTEES OF THE BOARD OF DIRECTORS 134
REMUNERATION TO BOARD MEMBERS 137
MEMBERS OF THE BOARD OF DIRECTORS 138
MANAGEMENT 142
MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM 145
AUDITORS 148
INTERNAL CONTROL OVER FINANCIAL REPORTING 2011 148
AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT 151

Corporate governance describes the ways in which rights and responsibilities are distributed among the various corporate bodies according to applicable laws, rules and processes. Corporate governance also defines the decision-making systems and structure through which owners directly or indirectly control a company.

This Corporate Governance Report is rendered as a separate report added to the Annual Report in accordance with the Annual Accounts Act ((SFS 1995:1554) Chapter 6, Section 6 and 8) and the Swedish Corporate Governance Code. The report has been reviewed by Ericsson's auditors in accordance with the Annual Accounts Act and a report from the auditors is appended hereto.

KEY EVENTS 2011

Leif Johansson was elected new Chairman of the Board

Jacob Wallenberg was elected new member of the Board

Three new members joined the Executive Leadership Team

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REGULATION AND COMPLIANCE

External rules

As a Swedish public limited liability company with securities quoted on NASDAQ OMX Stockholm as well as on NASDAQ New York, Ericsson is subject to a variety of rules that affect its governance. Major external rules include:

- The Swedish Companies Act
- The Rulebook for issuers of NASDAQ OMX Stockholm
- The Swedish Corporate Governance Code (the "Code")
- NASDAQ New York Stock Market Rules, including applicable NASDAQ New York corporate governance requirements (subject to certain exemptions principally reflecting mandatory Swedish legal requirements)
- Applicable requirements of the US Securities and Exchange Commission.

Internal rules

In addition, to ensure compliance with legal and regulatory requirements and the high ethical standards that we set for ourselves, Ericsson has adopted internal rules that include:

- A Code of Business Ethics
- Group Steering Documents including Group policies and directives, instructions and business processes for approval, control and risk management
- A Code of Conduct, to be applied in the product development, production, supply and support of Ericsson products and services worldwide.

The Board of Directors has also included internal rules in its work procedure.

Compliance with the Swedish Corporate Governance Code

The Code has been applied by Ericsson since July 2005. Ericsson is committed to complying with best-practice corporate governance on a global level wherever possible. This includes continued compliance with the Code. Ericsson has not deviated from any of the rules of the Code. The Code can be found on the website of the Swedish Corporate Governance Board which administrates the Code (www.corporategovernanceboard.se).

Compliance with applicable stock exchange rules

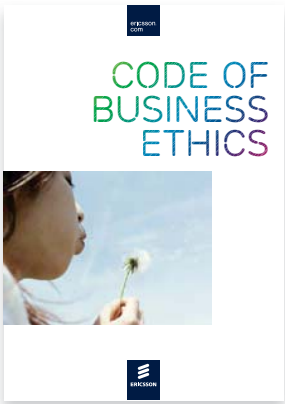
There has been no infringement of applicable stock exchange rules and no breach of good practice on the securities market reported by the stock exchange's disciplinary committee or the Swedish Securities Council.

Code of Business Ethics

Ericsson's Code of Business Ethics sets out how the Group achieves and maintains high ethical standards. It summarizes the Group's fundamental policies and directives and underpins the importance of ethical conduct in all business activities.

The Code of Business Ethics has been translated into 25 languages. This ensures that it is accessible to all employees. During recruitment, employees acknowledge that they are aware of the principles of the Code of Business Ethics. This procedure is repeated at regular intervals throughout the term of employment.

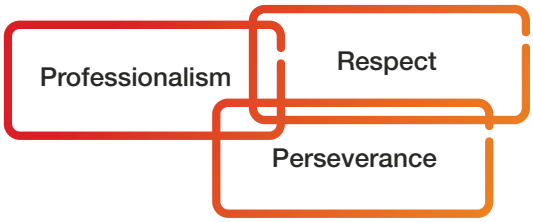
Through this process, Ericsson strives to ensure that high ethical standards are continuously upheld. All employees have an individual responsibility to ensure that business practices adhere to the rules of the Code of Business Ethics.



The Code of Business Ethics can be found at www.ericsson.com/code-of-business-ethics

Information on the Ericsson website does not form part of this Report.

ERICSSON'S CORE VALUES



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SHAREHOLDERS

Ownership structure

As of December 31, 2011, Telefonaktiebolaget LM Ericsson (the "Parent Company") had 592,542 shareholders (according to the share register kept by Euroclear Sweden AB). Institutions, both Swedish and international, own approximately 80% of the shares. The largest shareholders are Investor AB, holding 21.48% of the votes and AB Industrivärden, holding 19.92% of the votes (together with Svenska Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening).

A significant number of the shares held by foreign investors are nominee-registered, i.e. held off-record by banks, brokers and/or nominees. This means that the actual shareholder is not displayed in the share register or included in the shareholding statistics.

More information on Ericsson's shareholders can be found in the chapter "Share Information" in the Annual Report.

Shares and voting rights

The share capital of the Parent Company consists of two classes of listed shares: A and B shares. Each Class A share carries one vote and each Class B share carries one tenth of one vote. Class A and B shares entitle the holder to the same proportion of assets and earnings and carry equal rights to dividends.

The Parent Company may also issue Class C shares in order to create treasury stock to finance and hedge long-term variable remuneration programs resolved by the General Meeting of shareholders. The Class C shares are converted into Class B shares before they are used for the long-term variable remuneration programs.

The members of the Board of Directors and the Executive Leadership Team have the same voting rights on shares as other shareholders.

GOVERNANCE STRUCTURE

The shareholders may exercise their decision-making rights in the Company at General Meetings of shareholders.

A Nomination Committee is appointed by the major shareholders in accordance with a procedure adopted by the Annual General Meeting of shareholders. One of the tasks of the Nomination Committee is to propose candidates for election to the Board of Directors at the Annual General Meeting of shareholders.

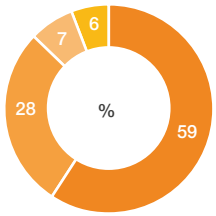
The Board of Directors is ultimately responsible for the organization of Ericsson and the management of its operations. In addition to the Directors elected by the shareholders, the Board of Directors consists of employee representatives appointed by the unions.

The President and CEO, appointed by the Board of Directors, is responsible for the day to day management of Ericsson in accordance with instructions from the Board. The President and CEO is supported by the Executive Leadership Team.

The external auditor of Ericsson is elected by the General Meeting of shareholders.

SHAREHOLDERS

Ownership percentage (voting rights)



- Swedish institutions. **59.29%**, of which:
  - Investor AB: **21.48%**
  - AB Industrivärden (together with SHB Pensionsstiftelse and Pensionskassan SHB Försäkringsförening): **19.92%**
- Foreign investors: **27.95%**
- Retail Swedish investors: **7.00%**
- Other: **5.76%**

Source: Capital Precision

GOVERNANCE STRUCTURE

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GENERAL MEETING OF SHAREHOLDERS

Decision-making at General Meetings

The decision-making rights of Ericsson's shareholders are exercised at General Meetings of shareholders. Most resolutions at General Meetings are passed by a simple majority. However, the Swedish Companies Act requires qualified majorities in certain cases, for example in case of:

- Amendment of the articles of association
- Resolution to transfer own shares to employees participating in long-term variable remuneration programs.

The Annual General Meeting of shareholders

The Annual General Meeting of shareholders (AGM) is held in Stockholm. The date and venue for the meeting is announced on the Ericsson website no later than at the time of release of the third-quarter interim financial report.

Shareholders who cannot participate in person may be represented by proxy. Only shareholders registered in the share register have voting rights. Nominee-registered shareholders who wish to vote may request to be entered into the share register by the record date for the AGM.

The AGM is held in Swedish and is simultaneously interpreted into English. All documentation provided by the Company is available in both Swedish and English.

The AGM gives shareholders the opportunity to raise questions relating to the operations of the Group. Ericsson always strives to ensure that the members of the Board of Directors and the Executive Leadership Team are present to answer such questions. Shareholders and other interested parties may also correspond in writing with the Company at any time.

The external auditor is always present at the AGM.

Ericsson's Annual General Meeting 2011

Including shareholders represented by proxy, 2,263 shareholders attended the AGM held on April 13, 2011, representing approximately 64% of the votes.

The meeting was also attended by the Board of Directors, members of the Executive Leadership Team and the external auditor.

Decisions of the AGM 2011 included:

- Payment of a dividend of SEK 2.25 per share for 2010
- Election of Leif Johansson as new Chairman of the Board of Directors
- Re-election of members of the Board of Directors: Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Carl-Henric Svanberg, Hans Vestberg and Michelangelo Volpi
- Election of Jacob Wallenberg as a new member of the Board of Directors
- Board of Directors' fees:
  - Chairman: SEK 3,750,000 (unchanged)
  - Other non-employed Board members: SEK 825,000 each (previously SEK 750,000)
  - Chairman of the Audit Committee: SEK 350,000 (unchanged)
  - Other non-employed members of the Audit Committee: SEK 250,000 each (unchanged)
  - Chairmen of the Finance and Remuneration Committees: SEK 200,000 each (previously SEK 125,000)
  - Other non-employed members of the Finance and Remuneration Committees: SEK 175,000 each (previously SEK 125,000)
- Approval for part of the Directors' fees to be paid in the form of synthetic shares
- Approval of guidelines for remuneration to the Executive Leadership Team
- Implementation of a Long-Term Variable Remuneration Program 2011
- Approval of the Board of Directors' proposal to amend the articles of association to adjust the description of the objects of the Parent Company to the Group's strategy to expand into new industry segments.

The minutes of the AGM 2011 are available at: http://www.ericsson.com/res/investors/docs/2011/agm/amg2011_minutes_en.pdf (information on the Ericsson website does not form part of this Report).

ANNUAL GENERAL MEETING 2012

Ericsson's AGM 2012 will take place on May 3, 2012 at Kistamässan in Kista, Stockholm.

Shareholders who wish to have a matter addressed at the AGM may submit their written request to the Board in due time before the AGM. Further information is available on Ericsson's website. (Information on the Ericsson website does not form part of this Report.)

CONTACT THE BOARD OF DIRECTORS

Telefonaktiebolaget LM Ericsson
The Board of Directors Secretariat
SE-164 83 Stockholm
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boardsecretariat@ericsson.com

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NOMINATION COMMITTEE

A Nomination Committee was elected by the AGM for the first time in 2001. Since then, each AGM has appointed a Nomination Committee, or resolved on the procedure for appointing the Nomination Committee.

The AGM 2011 resolved that the Nomination Committee shall consist of:

- Representatives of the four largest shareholders by voting power by the end of the month in which the AGM was held
- The Chairman of the Board of Directors.

As described in the procedure for appointing members to the Nomination Committee, the Committee may include additional members following a request by a shareholder. The request must be justified by changes in the shareholder's ownership of shares and be received by the Nomination Committee no later than December 31. No fees are paid to the members of the Nomination Committee.

Members of the Nomination Committee

In addition to the Chairman of the Board of Directors, the current Nomination Committee consists of four representatives appointed by the four shareholders with the largest voting power as of April 29, 2011:

- Carl-Olof By (AB Industrivärden, Svenska Handelsbankens Pensionsstiftelse), Chairman of the Nomination Committee
- Petra Hedengran (Investor AB)
- Caroline af Ugglas (Livförsäkringsaktiebolaget Skandia)
- Marianne Nilsson (Swedbank Robur Fonder).

The tasks of the Nomination Committee

Over the years the tasks of the Nomination Committee have evolved to comply with the requirements of the Code. The main task of the Committee remains to propose candidates for election to the Board of Directors. In doing this, the Committee must not only orientate itself on the Company's strategy and future challenges to be able to assess the competence and experience that is required by the Board; it must also consider all applicable rules on independence of the Board of Directors.

The Committee also prepares remuneration proposals for resolution by the AGM to non-employed Directors elected by the AGM and to the auditor.

The assignment of the Nomination Committee further includes proposing auditors, whereby candidates are selected in cooperation with the Audit Committee of the Board. The Committee also proposes a candidate for election of the Chairman at the Annual General Meeting.

Work of the Nomination Committee for the AGM 2012

The Nomination Committee starts its work by going through a checklist of all its duties according to the Code and the appointment procedure, resolved by the AGM. The Committee also sets a time plan for its work ahead. A thorough understanding of Ericsson's business is paramount to the role of the members of the Committee. Therefore, the President and CEO is invited to, together with the Chairman of the Board, present their views on the Company's position and strategy.

The Committee has been thoroughly informed of the results of the evaluation of the Board work and procedures, including the performance of the Chairman of the Board. From this basis the Committee can make assessments on the competence and experience required by Board members.

The Committee has acquainted itself with the assessments made by the Company and the Audit Committee on the quality and efficiency of external auditor work, including recommendations regarding auditors and audit fees. As of February 24, 2012 the Nomination Committee has held six meetings.

Shareholders may submit proposals to the Nomination Committee at any time, but should do so in due time before the AGM to ensure that the proposals can be considered by the Committee. Further information is available on Ericsson's website. (Information on the Ericsson website does not form part of this Report.)

CONTACT THE NOMINATION COMMITTEE

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The Nomination Committee
c/o General Counsel's Office
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nomination.committee@ericsson.com

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BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the organization of Ericsson and the management of Ericsson's operations. The Board of Directors develops guidelines and instructions for day-to-day operations, managed by the President and CEO. The President and CEO ensures that the Board is updated regularly on events of importance to the Group. This includes updates on business development, results, financial position and the liquidity of the Group.

According to the Articles of Association, the Board of Directors shall consist of no less than five and no more than twelve directors, with no more than six deputies. In addition, under Swedish law, trade unions have the right to appoint three directors and their deputies to the Board.

Directors serve from the close of one AGM to the close of the next, but can serve any number of consecutive terms.

The President and CEO may be elected director of the Board, but under the Swedish Companies Act the President of a public company may not be elected Chairman of the Board.

Rules and regulations

Ericsson strictly follows rules and regulations regarding conflicts of interest. Directors are disqualified from participating in any decision regarding agreements between themselves and Ericsson. The same applies to agreements between Ericsson and any third party or legal entity in which the Board member has an interest.

The Audit Committee has implemented a procedure on related-party transactions and a pre-approval process for non-audit services carried out by the external auditor.

Composition of the Board of Directors

The Board of Directors consists of 12 Directors, including the Chairman of the Board, elected by the shareholders at the AGM 2011 for the period until the close of the AGM 2012. It also includes three employee representatives, each with a deputy, appointed by the trade unions for the same period of time. The President and CEO, Hans Vestberg, is the only Board member who was also a member of Ericsson's management during 2011.

Work procedure

Pursuant to the Swedish Companies Act, the Board of Directors has adopted a work procedure that outlines rules for the distribution of tasks between the Board and its Committees as well as between the Board, its Committees and the President and CEO. This complements the regulation in the Swedish Companies Act and in the Articles of Association of the Company. The work procedure is reviewed, evaluated and adopted by the Board as required and at least once a year.

Independence

The Board of Directors and its Committees are subject to a variety of independence requirements. Ericsson applies independence rules in applicable Swedish law, the Code, the NASDAQ New York Stock Market Rules and in the Sarbanes-Oxley Act of 2002. However, Ericsson has sought and received exemptions from certain requirements in the Sarbanes-Oxley Act and in the NASDAQ New York Stock Market Rules that are contrary to Swedish law.

The composition of the Board of Directors meets all applicable independence criteria.

The Nomination Committee concluded before the AGM 2011 that, for the purposes of the Code, at least six of the persons nominated to the Board were independent of Ericsson, its senior management and its major shareholders. These were Roxanne S. Austin, Sir Peter L. Bonfield, Leif Johansson, Ulf J. Johansson, Nancy McKinstry and Michelangelo Volpi.

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Structure of the work of the Board of Directors

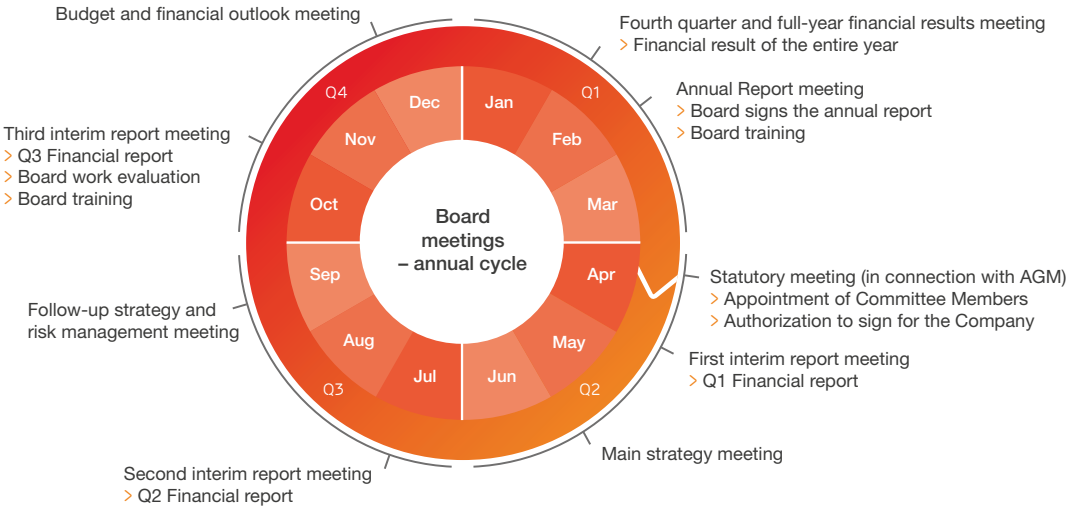
The work of the Board follows a yearly cycle. This enables the Board to appropriately address each of its duties and to keep strategy, risk assessment and value creation high on the agenda.

- **Statutory meeting**
  The yearly cycle starts with the statutory Board meeting which is held in connection with the AGM. At this meeting, members of each of the three Committees are appointed and the Board resolves on matters such as signatory power.
- **First interim report meeting**
  At the next ordinary meeting, the Board handles the interim financial report for the first quarter of the year.
- **Main strategy meeting**
  Various strategic issues are addressed at most of the Board meetings. In accordance with the annual cycle for the strategy process, a main strategy Board meeting is also held, which is in essence dedicated to short and long-term strategies of the Group. Following the Board's input on and approval of the overall strategy, the strategy is cascaded throughout the entire organization, starting at the Global Leadership Summit with Ericsson's top 250 managers.
- **Second interim report meeting**
  At the second interim report meeting, the Board convenes to handle the interim financial report for the second quarter of the year.
- **Follow-up strategy and risk management meeting**
  Following the summer, a meeting is held to address particular strategy matters in further detail and to finally confirm the Group strategy. The meeting also addresses the overall risk management of the Group.
- **Third interim report meeting**
  A Board meeting is held to handle the interim financial report for the third quarter of the year. At this meeting, the results of the Board evaluation are presented to and discussed by the Board.
- **Budget and financial outlook meeting**
  A meeting is held for the Board to address budget and financial outlook as well as further analysis of internal and external risks.
- **Fourth quarter and full-year financial results meeting**
  Following the end of the calendar year, the Board holds a meeting which focuses on the financial results of the entire year and handles the fourth-quarter financial report.
- **Annual Report meeting**
  The Annual Report meeting closes the yearly cycle of work of the Board of Directors and at this meeting the Board approves the Annual Report.

As the Board is responsible for financial oversight, financials are presented and evaluated at each Board meeting. Furthermore, each Board meeting generally includes reports on Committee work by the Chairman of each Committee. In addition, minutes from the Committee meetings are distributed to all Directors prior to the Board meeting.

At each Board meeting, the President and CEO reports on business and market developments as well as on the financial performance of the Company. The Board is regularly informed of developments in legal and regulatory matters of importance.

THE BOARD'S ANNUAL WORK CYCLE



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Auditor involvement

The Board meets with Ericsson's external auditors at least once a year to receive and consider the auditors' observations. The auditors report to management on the accounting and financial reporting practices of the Group.

The Audit Committee also meets with the auditors to receive and consider observations on the interim reports and the Annual Report. The auditors have been instructed to report on whether the accounts, the management of funds and the general financial position of the Group are well controlled in all material respects.

The Board also reviews and assesses the process for financial reporting, as described later in "Internal control over financial reporting 2011". Combined with the internal controls, the Board's and the auditors' review of interim and annual reports are deemed to give reasonable assurance on the quality of the financial reporting.

Training of the Board of Directors

All new Directors receive comprehensive training tailored to their individual needs. Introductory training typically includes meetings with the heads of the business units and Group functions, as well as training arranged by NASDAQ OMX Stockholm on listing issues and insider rules. In addition, full-day training sessions are held twice a year for all Directors. These sessions enhance their knowledge of specific operations and issues as appropriate to ensure that the Board has knowledge and understanding at the forefront of technical development and of the business activities of the Group.

As a rule, the Board receives Sustainability and Corporate Responsibility training at least once a year.

Key focus areas in Board training 2011 were:

- Technology, research and thought leadership. Being the thought leader is being the prime driver, while also introducing entirely new thoughts, ideas and concepts
- Growth drivers and market trends.

Work of the Board of Directors in 2011

In 2011, 12 Board meetings were held. For attendance at Board meetings see the table on page 137. Among the matters addressed by the Board this year (apart from regular matters in the annual Board work cycle) were:

- A number of acquisitions, including Nortel's Multiservices Switch business, GDNT in China, Telcordia and the M2M technology platform from Telenor Connexion
- Exclusive strategic alliance with Akamai to create mobile cloud acceleration solutions
- Acquisition of a Nortel patent portfolio as part of a consortium of technology companies
- Continued focus on effects of the general financial uncertainty on the market, including effects of the political unrest in the Middle East and Africa, the earthquake and tsunami in Japan and other natural disasters
- Sale of Ericsson's share of Sony Ericsson to Sony
- An increased focus on patents and licensing as a key revenue area with growth opportunities.

Board work evaluation

A key objective of the Board evaluation is to ensure that the Board is functioning well. This includes gaining an understanding of the issues which the Board thinks warrant greater focus, as well as determining areas where additional competence is needed within the Board. The evaluation also serves as guidance for the work of the Nomination Committee.

Each year, the Chairman of the Board initiates and leads the evaluation of Board and Committee work and procedures. The evaluation tools include detailed questionnaires and discussions.

In 2011, all the Directors responded to three separate written questionnaires, covering the Director's individual performance, Board work in general and the Chairman's performance. The Chairman was not involved in the development or compilation of the questionnaire which related to his performance, nor was he present when his performance was evaluated. The evaluations were thoroughly discussed and an action plan was developed in order to further improve the work of the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established three Committees: the Audit Committee, the Finance Committee and the Remuneration Committee. Members of each Committee are appointed for one year amongst the Board members in accordance with the Swedish Companies Act and the Code.

The task of the Committees is mainly to prepare matters for final resolution by the Board. However, the Board has authorized each Committee to determine certain issues in limited areas. It may also on occasion provide extended authorization to the Committees to determine specific matters.

If deemed appropriate, the Board of Directors and each Committee have the right to engage external expertise, either in general or in respect to specific matters.

ORGANIZATION OF THE BOARD WORK

Board of Directors
15 Directors

Audit Committee
(5 Directors)
- Oversight over financial reporting
- Oversight over internal control
- Oversight over auditing

Finance Committee
(4 Directors)
- Financing
- Investing
- Customer credits

Remuneration Committee
(4 Directors)
- Remuneration policy
- Long-Term Variable Remuneration
- Executive compensation

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Prior to every Board meeting, each Committee submits to the Board minutes from Committee meetings held since the last Board meeting. The Chairman of the Committee also reports on the Committee work at each Board meeting.

Audit Committee

On behalf of the Board, the Audit Committee monitors the following:

- The scope and correctness of the financial statements
- Compliance with legal and regulatory requirements
- Internal control over financial reporting
- Risk management.

The Audit Committee also reviews the annual and interim financial reports and oversees the external audit process, including audit fees. This involves:

- Reviewing, with management and the external auditors, the financial statements (including their conformity with generally accepted accounting principles)
- Reviewing, with management, the reasonableness of significant estimates and judgments made in preparing the financial statements, as well as the quality of the disclosures in the financial statements
- Reviewing matters arising from reviews and audits performed.

The Audit Committee itself does not perform audit work. Ericsson has an internal audit function which reports to the Audit Committee and performs independent audits.

The Committee is also involved in the preparatory work of proposing candidates for election of the auditor. It also monitors Group transactions and the ongoing performance and independence of the auditors with the aim to avoid conflicts of interest.

In order to ensure the auditors' independence, the Audit Committee has established pre-approval policies and procedures for non-audit related services to be performed by the external auditors. Pre-approval authority may not be delegated to management.

MEMBERS OF THE COMMITTEES

Members of the Committees of the Board of Directors 2011

Audit Committee	Finance Committee	Remuneration Committee
> Ulf J Johansson (Chairman)	> Leif Johansson (Chairman)	> Leif Johansson (Chairman)
> Roxanne S. Austin	> Pehr Claesson	> Börje Ekholm
> Sir Peter L. Bonfield	> Anders Nyrén	> Nancy McKinstry
> Jan Hedlund	> Jacob Wallenberg	> Karin Åberg
> Sverker Martin-Löf		

The Audit Committee has also established the following:

- A process for reviewing transactions with related parties
- A whistleblower procedure for the reporting of violations relating to accounting, internal control and auditing matters.

Alleged violations are investigated by Ericsson's internal audit function together with the relevant Group function. Information regarding any incident is reported to the Audit Committee. Reports include measures taken, details of the responsible Group function and the status of any investigation.

MEMBERS OF THE AUDIT COMMITTEE

The Audit Committee consists of five Board members appointed by the Board. In 2011, the Audit Committee comprised Ulf J. Johansson (Chairman of the Committee), Roxanne S. Austin, Sir Peter L. Bonfield, Jan Hedlund and Sverker Martin-Löf.

The composition of the Audit Committee meets all applicable independence requirements. Each member is financially literate and familiar with the accounting practices of an international company such as Ericsson. The Board of Directors has determined that Ulf J. Johansson, Roxanne S. Austin, Sir Peter L. Bonfield and Sverker Martin-Löf all satisfy the requirement of being an audit committee financial expert, in accordance with the Sarbanes-Oxley Act, Section 407. Each of them fulfill relevant US independence requirements.

Former authorized public accountant Peter Markborn has been appointed external expert advisor to assist and advise the Audit Committee.

WORK OF THE AUDIT COMMITTEE IN 2011

The Audit Committee held 8 meetings in 2011. Directors' attendance is reflected in the table on page 137. During the year, the Audit Committee reviewed the scope and results of external financial audits and the independence of the external auditor. It also monitored the external audit fees and approved non-audit services performed by the external auditor in accordance with the Committee's pre-approval policies and procedures.

The Committee approved the annual audit plan for the internal audit function and reviewed its reports. Prior to publishing, the Committee also reviewed and discussed each interim report with the external auditor.

The Committee monitored the continued compliance with the Sarbanes-Oxley Act as well as the internal control and risk management process. It also reviewed certain related-party transactions in accordance with its established process.

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Finance Committee

The Finance Committee is primarily responsible for:

- Handling matters related to acquisitions and divestments
- Handling capital contributions to companies inside and outside the Ericsson Group
- Raising of loans, issuances of guarantees and similar undertakings, and the approval of financial support to customers and suppliers
- Continuously monitoring the Group's financial risk exposure.

The Finance Committee is authorized to determine matters such as:

- Direct or indirect financing
- Provision of credits
- Granting of securities and guarantees
- Certain investments, divestments and financial commitments.

MEMBERS OF THE FINANCE COMMITTEE

The Finance Committee consists of four Board members as appointed by the Board. In 2011, the Finance Committee comprised: Leif Johansson (Chairman of the Committee), Pehr Claesson, Anders Nyrén and Jacob Wallenberg.

WORK OF THE FINANCE COMMITTEE IN 2011

The Finance Committee held 6 meetings in 2011. Directors' attendance is reflected in the table on page 137. During the year, the Finance Committee has approved numerous customer finance credit arrangements and reviewed a number of potential mergers and acquisitions from a financial perspective. As a result of the uncertainty on the financial markets and the macro-economic development, the Finance Committee has focused particularly on discussing and securing an adequate capital structure, cash flow and cash-generating ability. It has also continuously monitored Ericsson's financial position and credit exposure.

Remuneration Committee

The Remuneration Committee's main responsibility is to prepare for resolution by the Board of Directors matters regarding salary and other remuneration, including pension benefits of the President and CEO, the Executive Vice Presidents and other officers who report directly to the President and CEO. Other responsibilities include:

- Developing, monitoring and evaluating strategies and general guidelines for employee remuneration, including Short-Term Variable remuneration ("STV") and pension benefits
- Reviewing the results of Short-Term Variable remuneration plans before pay out
- Preparation of the Long-Term Variable remuneration ("LTV") program for referral to the Board and resolution by the General Meeting of shareholders
- Preparation of targets for Short-Term Variable remuneration for the following year, for resolution by the Board.

To achieve this, the Committee holds annual remuneration reviews with Company representatives. These reviews determine the strategic direction, and align program designs and remuneration policies with the business objectives.

Consideration is given to trends in remuneration, legislative changes, disclosure rules and the general global environment surrounding executive remuneration. The Committee reviews salary survey data before approving any salary adjustment for CEO direct reports. In addition, the Committee prepares salary adjustments for the President and CEO for resolution by the Board.

MEMBERS OF THE REMUNERATION COMMITTEE

The Remuneration Committee consists of four Board members as appointed by the Board. In 2011, the Remuneration Committee comprised: Leif Johansson (Chairman of the Committee), Börje Ekholm, Nancy McKinstry and Karin Åberg.

Piia Pilv was appointed by the Remuneration Committee in September 2011 as an independent expert advisor to assist the Committee, particularly regarding international trends and developments. Piia Pilv replaced Gerrit Aronson as expert advisor.

WORK OF THE REMUNERATION COMMITTEE IN 2011

The Remuneration Committee held 8 meetings in 2011. Directors' attendance is reflected in the table on page 137.

The Committee reviewed and prepared for resolution by the Board a proposal for the Long-Term Variable remuneration program 2011. This was approved by the AGM 2011. The Committee further resolved on salaries and Short Term Variable remuneration for 2011 for CEO direct reports. It prepared remuneration to the President and CEO, for resolution by the Board. The Committee also prepared a remuneration policy and guidelines for remuneration to the Executive Leadership Team, which were subsequently referred by the Board to the AGM for approval.

Towards the end of the year, the Committee concluded its analysis of the current Long-Term Variable remuneration structure and remuneration policy. The resulting proposals will be referred to the AGM 2012 for resolution.

For further information on fixed and variable remuneration, please see Notes to the Consolidated Financial Statements – Note C28 "Information Regarding Members of the Board of Directors, the Group management and Employees" and the "Remuneration Report" included in the Annual Report.

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REMUNERATION TO BOARD MEMBERS

Remuneration to Board members not employed by the Company is proposed by the Nomination Committee for resolution by the AGM.

The AGM 2011 approved the Nomination Committee's proposal for fees to the non-employed Board members for Board and Committee work. For information on Board of Directors' fees 2011, please refer to Notes to the Consolidated Financial Statements – Note C28 "Information Regarding Members of the Board of Directors, the Group management and Employees" in the Annual Report. The AGM 2011 also approved the Nomination Committee's proposal that Board members may be paid part of their Board fee in the form of synthetic shares.

A synthetic share gives the right to receive a future cash payment of an amount which corresponds to the market value of a class B share in Ericsson at the time of payment. The director's right to receive payment with regard to allocated synthetic shares occurs, as a main rule, after the publication of the Company's year-end financial statement during the fifth year following the general meeting which resolved on the allocation of the synthetic shares. The purpose of paying part of the Board of Directors' fee in the form of synthetic shares is to further align the Directors' interest with shareholder interest. For more information on the terms and conditions of the synthetic shares, please refer to the notice convening the AGM 2011 at www.ericsson.com/thecompany/investors/general-meetings. (Information on the Ericsson website does not form part of this Report.)

DIRECTORS' ATTENDANCE AND FEES 2011

	Fees resolved by the AGM 2011		Number of Board/Committee meetings attended			
Board member	Board fees [1]	Committee fees	Board	Audit Committee	Finance Committee	Remuneration Committee
Leif Johansson [2]	3,750,000	400,000	8		3	5
Michael Treschow [3]	–		*4*		*2*	*3*
Sverker Martin-Löf [4]	825,000	250,000	11	5		
Jacob Wallenberg [2]	825,000	175,000	8		3	
Marcus Wallenberg [3]	–		*4*		*3*	
Roxanne S. Austin	825,000	250,000	12	8		
Sir Peter L. Bonfield	825,000	250,000	12	8		
Börje Ekholm	825,000	175,000	12			8
Ulf J. Johansson	825,000	350,000	12	8		
Nancy McKinstry	825,000	175,000	11			8
Anders Nyrén	825,000	175,000	12		6	
Carl-Henric Svanberg	825,000		10			
Hans Vestberg	–		12			
Michelangelo Volpi	825,000		11			
Pehr Claesson [5]	18,000 [6]		12		3	
Anna Guldstrand [7]	*6,000* [6]		*4*		*3*	
Jan Hedlund	16,500 [6]		11	7		
Karin Åberg	18,000 [6]		12			7
Kristina Davidsson	18,000 [6]		12			
Karin Lennartsson	18,000 [6]		12			
Roger Svensson [8]	12,000 [6]		8			
Total number of meetings			**12**	**8**	**6**	**8**

[1] Non-employed Directors can choose to receive part of their Board fee (exclusive of Committee fees) in the form of synthetic shares.
[2] Elected Board member as of April 13, 2011.
[3] Resigned as Board member as of April 13, 2011.
[4] Member of the Audit Committee since April 13, 2011.
[5] Member of the Finance Committee since April 13, 2011.
[6] Employee representative Board members and their deputies are not entitled to a Board fee but a compensation in the amount of SEK 1,500 per attended Board meeting.
[7] Resigned as employee representative as of April 13, 2011.
[8] Appointed deputy employee representative as of April 13, 2011.

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MEMBERS OF THE BOARD OF DIRECTORS

Board members elected by the AGM 2011

Leif Johansson

(first elected 2011)

Chairman of the Board of Directors, Chairman of the Remuneration Committee and of the Finance Committee

Born 1951. Master of Science in Engineering, Chalmers University of Technology.

Board Chairman: European Round Table of Industrialists and the International Advisory Board of the Nobel Foundation.

Board Member: Svenska Cellulosa Aktiebolaget SCA, the Confederation of Swedish Enterprise and Ecolean AB.

Holdings in Ericsson [1]**:** 17,933 Class B shares.

Principal work experience and other information: President and CEO of AB Volvo 1997-2011. Executive Vice President of AB Electrolux 1988-1991, President 1991-1994 and President and CEO of AB Electrolux 1994-1997. Member of the Royal Swedish Academy of Engineering Sciences. Holds honorary Doctorates at Blekinge Institute of Technology and the University of Gothenburg. Awarded the large gold medal of the Royal Swedish Academy of Engineering Sciences in 2011.

Sverker Martin-Löf

(first elected 1993)

Deputy Chairman of the Board of Directors, Member of the Audit Committee

Born 1943. Doctor of Technology and Master of Engineering, Royal Institute of Technology, Stockholm.

Board Chairman: Skanska AB, Svenska Cellulosa Aktiebolaget SCA, SSAB and AB Industrivärden.

Board Member: Svenska Handelsbanken AB.

Holdings in Ericsson [1]**:** 10,400 Class B shares.

Principal work experience and other information: President and CEO of Svenska Cellulosa Aktiebolaget SCA 1990–2002, where he was employed 1977–1983 and 1986–2002. Previous positions at Sunds Defibrator and Mo och Domsjö AB.

Jacob Wallenberg

(first elected 2011)

Deputy Chairman of the Board of Directors, Member of the Finance Committee

Born 1956. Bachelor of Science in Economics and Master of Business Administration, Wharton School, University of Pennsylvania, Officer of the Reserve, Swedish Navy.

Board Chairman: Investor AB.

Deputy Board Chairman: Atlas Copco AB, SAS AB and SEB Skandinaviska Enskilda Banken AB (SEB).

Board member: ABB Ltd., The Coca-Cola Company, The Knut and Alice Wallenberg Foundation and Stockholm School of Economics.

Holdings in Ericsson [1]**:** 750 Class A shares and 3,413 Class B shares.

Principal work experience and other information: Chairman of the Board of Investor AB since 2005. Extensive experience in banking and finance, including experience from the commercial banks JP Morgan, New York and SEB. Appointed President and CEO of SEB in 1997 and appointed Chairman of SEB's Board of Directors in 1998. Executive Vice President and CFO of Investor AB 1990-1993. Chairman of IBLAC (Mayor of Shanghai's International Business Leaders Advisory Council) and a member of The European Round Table of Industrialists.

Roxanne S. Austin

(first elected 2008)

Member of the Audit Committee

Born 1961. Bachelor of Business Administration in Accounting, University of Texas, San Antonio, USA.

Board Member: Abbott Laboratories, Teledyne Technologies Inc. and Target Corporation.

Holdings in Ericsson [1]**:** 3,000 Class B shares.

Principal work experience and other information: President of Austin Investment Advisors since 2004. President and CEO of Move Networks Inc. 2009–2010. President and CEO of DIRECTV 2001–2003. Corporate Senior Vice President and CFO of Hughes Electronics Corporation 1997–2000, which she joined in 1993. Previously a partner at Deloitte & Touche. Member of the board of trustees of the California Science Center. Member of the California State Society of certified Public Accountants and the American Institute of Certified Public Accountants.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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Sir Peter L. Bonfield

(first elected 2002).

Member of the Audit Committee

Born 1944. Honors degree in Engineering, Loughborough University, Leicestershire, UK.

Board Chairman: NXP Semiconductors N.V.

Deputy Board Chairman: British Quality Foundation.

Board Member: Mentor Graphics Inc., Sony Corporation, TSMC and Actis Capital LLP.

Holdings in Ericsson [1]**:** 4,400 Class B shares.

Principal work experience and other information: CEO and Chairman of the Executive Committee of British Telecommunications plc. 1996–2002. Chairman and CEO of ICL plc 1985–1996. Positions with STC plc and Texas Instruments Inc. Member of the Advisory Boards of New Venture Partners LLP, the Longreach Group and Apax Partners LLP. Board Mentor of CMi. Senior Advisor, Rothschild, London. Fellow of the Royal Academy of Engineering.

Börje Ekholm

(first elected 2006)

Member of the Remuneration Committee

Born 1963. Master of Science in Electrical Engineering, Royal Institute of Technology, Stockholm. Master of Business Administration, INSEAD, France.

Board Chairman: Royal Institute of Technology, Stockholm.

Board Member: Investor AB, AB Chalmersinvest, EQT Partners AB, Husqvarna AB, Nasdaq OMX Group Inc. and Scania AB.

Holdings in Ericsson [1]**:** 30,760 Class B shares.

Principal work experience and other information: President and CEO of Investor AB since 2005. Formerly Head of Investor Growth Capital Inc. and New Investments. Previous positions at Novare Kapital AB and McKinsey & Co Inc.

Ulf J. Johansson

(first elected 2005)

Chairman of the Audit Committee

Born 1945. Doctor of Technology and Master of Science in Electrical Engineering, Royal Institute of Technology, Stockholm.

Board Chairman: Acando AB, Eurostep Group AB, Novo A/S, Novo Nordisk Foundation and Trimble Navigation Ltd.

Holdings in Ericsson [1]**:** 6,435 Class B shares.

Principal work experience and other information: Founder of Europolitan Vodafone AB, where he was the Chairman of the Board 1990–2005. Previous positions at Spectra-Physics AB as President and CEO and at Ericsson Radio Systems AB. Member of the Royal Academy of Engineering Sciences.

Nancy McKinstry

(first elected 2004)

Member of the Remuneration Committee

Born 1959. Master of Business Administration in Finance and Marketing, Columbia University, USA. Bachelor of Arts in Economics, University of Rhode Island, USA.

Board Chairman: CEO and Chairman of the Executive Board of Wolters Kluwer n.v.

Board Member: TiasNimbas Business School, Sanoma Corporation.

Holdings in Ericsson [1]**:** 4,000 Class B shares.

Principal work experience and other information: CEO and Chairman of the Executive Board of Wolters Kluwer n.v. President and CEO of CCH Legal Information Services 1996–1999. Previous positions at Booz, Allen & Hamilton and New England Telephone Company. Member of the Advisory Board of the University of Rhode Island, the Advisory Council of the Amsterdam Institute of Finance, the Board of Overseers of Columbia Business School and the Advisory Board of the Harrington School of Communication and Media.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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Anders Nyrén

(first elected 2006)

Member of the Finance Committee

Born 1954. Graduate of Stockholm School of Economics, Master of Business Administration from Anderson School of Management, UCLA, USA.

Board Chairman: Sandvik AB.

Deputy Board Chairman: Svenska Handelsbanken AB.

Board Member: Svenska Cellulosa Aktiebolaget SCA, AB Industrivärden, SSAB, AB Volvo, Ernströmgruppen and Stockholm School of Economics.

Holdings in Ericsson [1]**:** 6,686 Class B shares.

Principal work experience and other information: President and CEO of Industrivärden since 2001. CFO and EVP of Skanska AB 1997–2001. Director Capital Markets of Nordbanken 1996–1997. CFO and EVP of Securum AB 1992–1996. Managing Director of OM International AB 1987–1992. Earlier positions at STC Scandinavian Trading Co AB and AB Wilhelm Becker.

Hans Vestberg

(first elected 2010)

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala.

Board Chairman: ST-Ericsson and Svenska Handbollförbundet.

Board Member: Sony Ericsson Mobile Communications AB and Thernlunds AB.

Holdings in Ericsson [1]**:** 116,535 Class B shares.

Principal work experience and other information: President and CEO of Telefonaktiebolaget LM Ericsson since January 1, 2010. First Executive Vice President until December 31, 2009. Chief Financial Officer and Head of Group Function Finance until October 31, 2009. Previously Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Member of the Broadband Commission for Digital Development, heading the broadband and climate-change workstream and member of the advisory board of the Digital Health Initiative.

Carl-Henric Svanberg

(first elected 2003)

Born 1952. Master of Science, Linköping Institute of Technology. Bachelor of Science in Business Administration, University of Uppsala.

Board Chairman: BP p.l.c.

Board Member: Melker Schörling AB.

Holdings in Ericsson [1]**:** 3,234,441 Class B shares.

Principal work experience and other information: President and CEO of Telefonaktiebolaget LM Ericsson 2003-2009. President and CEO of Assa Abloy AB 1994–2003. Various positions within Securitas AB 1986–1994 and Asea Brown Boveri (ABB) 1977–1985. Member of the Steering Committee of the Global Alliance for Information and Communication Technologies and Development (GAID), the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School. Holds Honorary Doctorates at Luleå University of Technology and Linköping University. Recipient of the King of Sweden's medal for his contribution to Swedish industry.

Michelangelo Volpi

(first elected 2010)

Born 1966. Bachelor of Science in Mechanical Engineering and Masters in Manufacturing Systems Engineering from Stanford University, USA. MBA from the Stanford Graduate School of Business, USA.

Board Member: None.

Holdings in Ericsson [1]**:** None.

Principal work experience and other information: Partner at Index Ventures since July 2009. Previously CEO of Joost Inc.. Various positions in Cisco from 1994-2007, including Senior Vice President & General Manager of the Routing and Service Provider Technology Group and Chief Strategy Officer. Has also worked for Hewlett Packard in the optoelectronics division.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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MEMBERS OF THE BOARD OF DIRECTORS

Board members and deputies appointed by the unions

Pehr Claesson (first appointed 2008)

Employee representative, Member of the Finance Committee

Born 1966. Appointed by the union The Swedish Association of Graduate Engineers.

Holdings in Ericsson [1]**:** 767 Class B shares.

Employed since 1997. Working with marketing and communication for Consulting and Systems Integration within Business Unit Global Services.

Jan Hedlund (first appointed 1994)

Employee representative, Member of the Audit Committee

Born 1946. Appointed by the union IF Metall.

Holdings in Ericsson [1]**:** 1,259 Class B shares.

Employed since 1982. Previously working with model production mechanics within Business Unit Networks. Currently working full time as union representative.

Karin Åberg (first appointed 2007)

Employee representative, Member of the Remuneration Committee

Born 1959. Appointed by the union Unionen.

Holdings in Ericsson [1]**:** 2,289 Class B shares.

Employed since 1995. Working as a Service Engineer within the IT organization.

Kristina Davidsson
(first appointed 2006)

Deputy employee representative

Born 1955. Appointed by the union IF Metall.

Holdings in Ericsson [1]**:** 1,369 Class B shares.

Employed since 1995. Previously working as repairer within Business Unit Networks and currently working full time as union representative.

Karin Lennartsson
(first appointed 2010)

Deputy employee representative

Born 1957. Appointed by the union Unionen.

Holdings in Ericsson [1]**:** 404 Class B shares.

Employed since 1976. Working as Process Expert within Group Function Finance – Process Management.

Roger Svensson
(first appointed 2011)

Deputy employee representative

Born 1971. Appointed by the union The Swedish Association of Graduate Engineers.

Holdings in Ericsson [1]**:** 6,031 Class B shares.

Employed since 1999. Working as Senior Specialist Test Strategy Power Amplifier within Business Unit Networks.

Hans Vestberg was the only Director who held an operational management position at Ericsson in 2011. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person.

At the Annual General Meeting 2011, Leif Johansson replaced Michael Treschow as Chairman of the Board of Directors and Jacob Wallenberg replaced Marcus Wallenberg as Deputy Chairman of the Board of Directors. Anna Guldstrand resigned as employee representative of the Board of Directors as of the date of the Annual General Meeting 2011 and Pehr Claesson was appointed employee representative as of the same date (previously deputy employee representative). Roger Svensson was appointed new deputy employee representative as of the date of the Annual General Meeting 2011.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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MANAGEMENT

The President/CEO and the Executive Leadership Team

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. The President and CEO is responsible for the management of day-to-day operations and is supported by the Executive Leadership Team (ELT). In addition to the President and CEO, the ELT consists of heads of Group functions, heads of business units and heads of two of Ericsson's regions. Up until December 21, 2011, the Chief Brand Officer was also part of the ELT.

The role of the ELT is to:

- Establish a strong corporate culture, a long-term vision and Group strategies and policies, all based on objectives stated by the Board
- Determine targets for operational units, allocate resources and monitor unit performance
- Secure operational excellence and realize global synergies through efficient organization of the Group.

Remuneration to the Executive Leadership Team

A remuneration policy including guidelines on remuneration to the ELT was approved by the AGM 2011. For further information on fixed and variable remuneration, see the Remuneration Report and Notes to the Consolidated Financial Statements – Note C28, "Information Regarding Members of the Board of Directors, the Group management and Employees" in the Annual Report.

The Ericsson Group Management System

Ericsson has a global management system, the Ericsson Group Management System (EGMS) to drive corporate culture and to ensure that the business is managed:

- To fulfill the objectives of Ericsson's major stakeholders (customers, shareholders, employees)
- Within established risk limits and with reliable internal control
- In compliance with relevant applicable laws, listing requirements, governance codes and corporate social responsibilities.

The EGMS is founded on ISO 9001 (International Standard for Quality management system) but is designed as a dynamic governance system, enabling Ericsson to adapt the system to evolving demands and expectations, including new legislation as well as customers' and other stakeholders' requirements. The management system is an important foundation and is continuously evaluated and improved.

Certificates are evidence from an independent body verifying that the operations fulfill defined requirements. As the EGMS is a global system, group-wide certificates can be issued by a third party certification body proving that the system is efficient throughout the whole organization. Ericsson has a number of certificates and is currently globally certified to ISO 9001 (Quality) and ISO 14001 (Environment) and is in the process of obtaining global OHSAS 18001 (Health & Safety) certification. Ericsson is also ISO 27001 (information security) certified in selected units.

The EGMS comprises three elements:

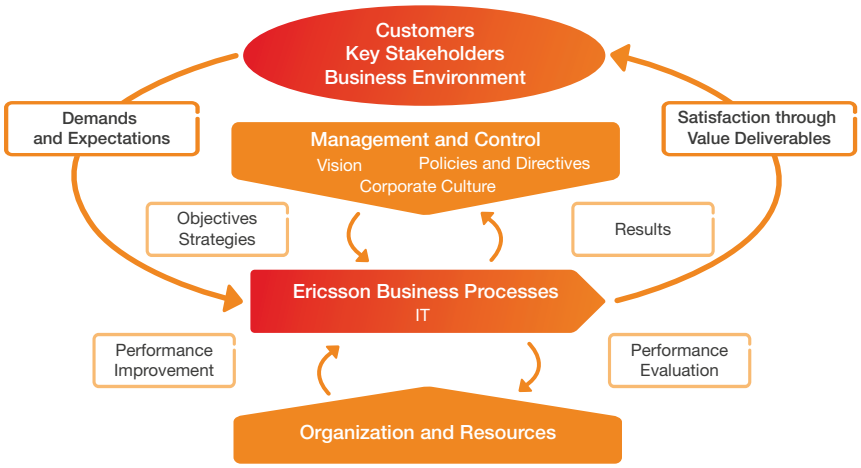
- Management and control
- Ericsson business processes
- Organization and resources.

MANAGEMENT AND CONTROL

Strategy and target setting

Ericsson's strategy and target setting processes consider the demands and expectations of customers as well as other key stakeholders. The process facilitates the alignment of objectives and their measurement in activities at all levels of the organization.

ERICSSON GROUP MANAGEMENT SYSTEM



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Ericsson uses balanced scorecards as tools for translating strategic objectives into a set of performance indicators for its operational units. Based on the annual strategy work, these scorecards are updated with targets for each unit for the next year and are communicated throughout the organization.

Group policies and directives

Group-wide policies and directives govern how the organization works and are core elements in managing and controlling Ericsson. The policies and directives include a Code of Business Ethics, a Code of Conduct and accounting and reporting directives to fulfill external reporting requirements and the Sarbanes-Oxley Act. The Group Steering Documents Committee secures that the policies and directives cover relevant issues; that they are aligned and consistent with Group strategies, values and structures; and that they are not in conflict with legal and regulatory requirements.

ERICSSON BUSINESS PROCESSES

As a market leader, Ericsson utilizes the competitive advantages that are gained through global scale and has implemented common processes and IT tools across all operational units worldwide. Customer requirements are identified, clarified and formalized in Ericsson Business Processes where requirements transform from theory to reality. Through management and continuous improvement of processes and IT tools, Ericsson reduces costs with efficient and effective process flows and with standardized internal controls and performance indicators.

ORGANIZATION AND RESOURCES

Company structure

Ericsson is operated in two dimensions: one operational structure and one legal structure.

The operational structure aligns accountability and authority regardless of country borders and supports the process flow with cross-country operations. There are four business units and ten regions. Group functions coordinate Ericsson's strategies, operations and resource allocation and define the necessary directives, processes and organization for the effective governance of the Group.

The legal structure is the basis for legal requirements and responsibility as well as for tax and statutory reporting purpose. There are more than 200 legal entities within the Ericsson Group with representation (via legal entities, branch and representative offices) in more than 140 countries.

Risk management

Ericsson's risk management is integrated with the business and its operational processes, and is a part of the EGMS to ensure accountability, effectiveness, efficiency, business continuity and compliance with corporate governance, legal and other requirements. The Board of Directors is also actively engaged in the Company's risk management. Risks related to set long-term objectives are discussed and strategies are formally approved by the Board as part of the annual strategy process. Risks related to annual targets for the Company are also reviewed by the Board and then monitored continuously during the year. Certain transactional risks require specific Board approval, e.g. acquisitions, management remuneration, borrowing or customer finance in excess of pre-defined limits.

STRATEGIC AND TACTICAL RISKS

Strategic risks constitute the highest risk to the Company if not managed properly as they could have a long-term impact. Ericsson therefore reviews its long-term objectives, main strategies and business scope on an annual basis and continuously works on its tactics to reach these objectives and to mitigate any risks identified.

In the annual strategy and target setting process, objectives are set for the next five years. Risks and opportunities are assessed and strategies are developed to achieve the objectives. The strategy process in the Company is well established and involves regions, business units and Group functions. The strategy is finally summarized and discussed in a yearly Global Leadership Summit with approximately 250 managers from all

STRATEGIC, TARGET SETTING AND RISK MANAGEMENT CYCLE

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parts of the business. By involving all parts of the business in the process, potential risks are identified early and mitigating actions can be incorporated in the strategy and in the annual target process following the finalization of the strategy.

Technology development, industry and market fundamentals and the development of the economy are key components in the evaluation of risks related to Ericsson's long-term objectives.

The outcome from the strategy process forms the basis for the annual target process which involves regions, business units and Group functions. Risks and opportunities linked to the targets are identified as part of this process together with actions to mitigate the identified risks. Follow-up of targets, risks and mitigating actions are reported and discussed continuously in business unit and region steering groups and are reviewed by the Board of Directors.

The Company has been using the Balanced Scorecard concept to structure its targets, risks and opportunities for many years. For 2011 risks and opportunities were identified and analyzed in the three balanced scorecard perspectives. For more information on risks related to Ericsson's business, see the chapter "Risk Factors" in the Annual Report.

Operational and financial risks

Operational risks are owned and managed by operational units. Risk management is embedded in various process controls, such as decision tollgates and approvals. Certain cross-process risks are centrally coordinated, such as information security, IT security, corporate responsibility and business continuity and insurable risks. Financial risk management is governed by a Group policy and carried out by the Treasury and Customer Finance functions, both supervised by the Finance Committee. The policy governs risk exposures related to foreign exchange, liquidity/financing, interest rates, credit risk and market price risk in equity instruments. For further information on financial risk management, see Notes to the Consolidated Financial Statements – Note C14, "Trade Receivables and Customer Finance", Note C19, "Interest-Bearing Liabilities" and Note C20, "Financial Risk Management and Financial Instruments" in the Annual Report.

COMPLIANCE RISKS

Ericsson has implemented Group policies and directives to ensure compliance with applicable laws and regulations, including a Code of Business Ethics and a Code of Conduct. Risk management is integrated in the Company's business processes. Policies and controls are implemented to ensure compliance with financial reporting standards and stock market regulations, such as the US Sarbanes-Oxley Act.

MONITORING AND AUDITS

Company management monitors the compliance with policies, directives and processes through internal self-assessment within all units. This is complemented by internal and external audits. External financial audits are performed by PwC, and ISO/management system audits by Det Norske Veritas, DNV and Intertek. Internal audits are performed by the company's internal audit function which reports to the Audit Committee. Audits of suppliers are also conducted in order to secure compliance with agreed key performance indicators and Ericsson's Code of Conduct which is mandatory for suppliers to the Ericsson Group.

RISK MITIGATION

Significant activities ongoing in order to mitigate risks are:

- Establish flexibility to cost-effectively accommodate for fluctuations in demand
- Conduct regular Supplier Code of Conduct audits
- Efficient business continuity management
- Corporate governance training as needed
- Continuous monitoring of information systems to guard against data breaches.

PROCESS TO IDENTIFY AND MANAGE OPERATIONAL RISKS FOR REGIONS, BUSINESS UNITS AND GROUP FUNCTIONS

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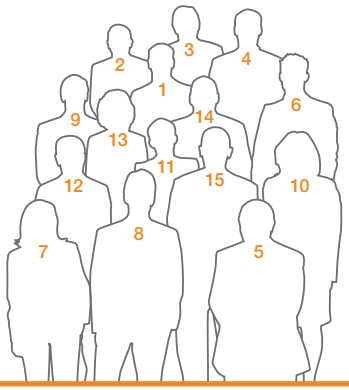
MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM

1. Hans Vestberg
2. Jan Frykhammar
3. Magnus Mandersson
4. Johan Wibergh
5. Cesare Avenia
6. Per Borgklint
7. Bina Chaurasia
8. Håkan Eriksson
9. Douglas L. Gilstrap
10. Nina Macpherson
11. Helena Norrman
12. Mats H. Olsson
13. Rima Qureshi
14. Angel Ruiz
15. Jan Wäreby



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Hans Vestberg

President and CEO (since 2010).

Born 1965.

Bachelor of Business Administration and Economics, University of Uppsala.

Board Chairman: ST-Ericsson and Svenska Handbollförbundet.

Board member: Telefonaktiebolaget LM Ericsson, Sony Ericsson Mobile Communications AB and Thernlunds AB.

Holdings in Ericsson [1]: 116,535 Class B shares.

Background: First Executive Vice President until December 31, 2009. Chief Financial Officer and Head of Group Function Finance until October 31, 2009. Previously Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Member of the Broadband Commission for Digital Development, heading the broadband and climate-change workstream, and member of the advisory board of the Digital Health Initiative.

Jan Frykhammar

Executive Vice President and Chief Financial Officer and Head of Group Function Finance (since 2009).

Born 1965.

Bachelor of Business Administration and Economics, University of Uppsala.

Board member: Sony Ericsson Mobile Communications AB, ST-Ericsson and the Swedish International Chamber of Commerce.

Holdings in Ericsson [1]: 6,837 Class B shares.

Background: Previously Senior Vice President and Head of Business Unit Global Services. Various positions within Ericsson including Sales and Business Control in Business Unit Global Services, CFO in North America and Vice President, Finance and Commercial within the Global Customer Account Vodafone.

Magnus Mandersson

Executive Vice President (since November 1, 2011) **and Head of Business Unit Global Services** (since 2010).

Born 1959.

Bachelor of Business Administration, University of Lund.

Deputy board member: Sony Ericsson Mobile Communications AB.

Holdings in Ericsson [1]: 12,875 Class B shares.

Background: Previously Head of Business Unit CDMA, Market Unit Northern Europe, Global Customer Account Deutsche Telekom AG and Product Area Managed Services. Has also been President and CEO of SEC/Tele2 Europe and COO of Millicom International Cellular S.A.

Johan Wibergh

Executive Vice President (since 2010) **and Head of Business Unit Networks** (since 2008).

Born 1963.

Master of Computer Science, Linköping Institute of Technology.

Board member: ST-Ericsson, Confederation of Swedish Enterprise, Royal Institute of Technology and Teknikföretagen.

Deputy board member: Sony Ericsson Mobile Communications AB.

Holdings in Ericsson [1]: 28,655 Class B shares.

Background: President of Ericsson Brazil, President of Market Unit Nordic and Baltics and Vice President and Head of Sales at Business Unit Global Services.

Cesare Avenia

Chief Brand Officer (from 2010 up until December 21, 2011).

Born 1950.

Bachelor of Electronics engineering, University of Naples, Italy.

Board member: Sony Ericsson Mobile Communications Italy S.p.A, member of the Steering Committee for Innovation and Technology Services within the Association of Telecom service providers within Confindustria, the National Association of Industrialists in Italy.

Holdings in Ericsson [1]: 11,704 Class B shares.

Background: Previously Head of Market Unit Italy and Market Unit South East Europe.

Per Borgklint

Senior Vice President and Head of Business Unit Multimedia (since June 7, 2011).

Born 1972.

Master of Science in Business Administration, Jönköping International Business School.

Holdings in Ericsson [1]: None.

Background: Previously CEO of Net1 (Ice.net), Canal Plus Nordic and Versatel. Has also held several leading positions at Tele2.

Bina Chaurasia

Senior Vice President and Head of Group Function Human Resources and Organization (since 2010).

Born 1962.

Master of Science in Management and Human Resources, Ohio State University and Master of Arts in Philosophy, University of Wisconsin.

Holdings in Ericsson [1]: 14,735 Class B shares.

Background: Joined Ericsson from Hewlett Packard, where she was Vice President of Global Talent Management. Has held senior HR leadership roles at Gap, Sun Microsystems and PepsiCo/Yum.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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Håkan Eriksson

Senior Vice President, Chief Technology Officer, Head of Group Function Technology & Portfolio Management (since 2003) **and Head of Ericsson in Silicon Valley** (since 2010).

Born 1961.

Master of Science and Honorary Ph D, Linköping Institute of Technology.

Board member: Vestas Wind Systems A/S.

Holdings in Ericsson [1]: 40,696 Class B shares.

Background: Previously Senior Vice President and Head of Research and Development. Has held various positions within Ericsson since 1986. Member of the Royal Swedish Academy of Engineering Sciences.

Douglas L. Gilstrap

Senior Vice President and Head of Group Function Strategy (since 2009).

Born 1963.

Bachelor of Accounting, University of Richmond and Master of Business Administration, Emory University, Atlanta. Executive program at INSEAD, France.

Board member: TM Forum.

Deputy board member: Sony Ericsson Mobile Communications AB, ST-Ericsson.

Holdings in Ericsson [1]: 5,069 Class B shares.

Background: Has held various global managerial positions within the telecommunications sector for more than 15 years.

Nina Macpherson

Senior Vice President, General Counsel and Head of Group Function Legal Affairs (since January 1, 2011)

Born 1958.

Master of Laws, LL M, University of Stockholm.

Board member: The Swedish Anti-Corruption Institute and the Association for Listed Companies.

Holdings in Ericsson [1]: 4,508 Class B shares.

Background: Previously Vice President and Deputy Head of Group Function Legal Affairs at Ericsson. Previous positions also include private practice and in-house attorney. Member of the Swedish Securities Council.

Helena Norrman

Senior Vice President and Head of Group Function Communications (since May 23, 2011).

Born 1970.

Master of International Business Administration, Linköping University.

Holdings in Ericsson [1]: 4,619 Class B shares.

Background: Previously Vice President, Communications Operations at Group Function Communications at Ericsson. Has held various positions within Ericsson's global communications organization since 1998. Previous positions as communications consultant.

Mats H. Olsson

Head of Region China & North East Asia (since 2010).

Born 1954.

Master of Business Administration from the Stockholm School of Economics.

Board member: Sony Ericsson Mobile Communications (China) Co. Ltd.

Holdings in Ericsson [1]: 50,547 Class B shares.

Background: Also International Economic Advisor to a number of Chinese provincial and municipal governments. Previously Head of Market Unit Greater China. Has held various executive positions across Asia-Pacific over the last 25 years. Appointed President of Ericsson Greater China in 2004, with overall responsibility for Mainland China, Hong Kong, Macao and Taiwan.

Rima Qureshi

Senior Vice President and Head of Business Unit CDMA Mobile Systems (since 2010).

Born 1965.

Bachelor of Information Systems and Master of Business Administration, McGill University, Montreal, Canada.

Board member: MasterCard Incorporated.

Holdings in Ericsson [1]: 3,477 Class B shares.

Background: Also serves as head of Ericsson Response. Previously Vice President of Strategic Improvement Program and Vice President Product Area Customer Support. Has held various positions within Ericsson since 1993.

Angel Ruiz

Head of Region North America (since 2010).

Born 1956.

Bachelor of Electrical Engineering, University of Central Florida and Master of Management Science and Information Systems, Johns Hopkins University, USA.

Board member: CTIA, Sony Ericsson Mobile Communications (USA) Inc.

Holdings in Ericsson [1]: 23,023 Class B shares.

Background: Joined Ericsson in 1990 and has held a variety of sales and managerial positions within the Company, including heading up the global account teams for Cingular/SBC/BellSouth (now AT&T). Was appointed President of Ericsson North America in 2001.

Jan Wäreby

Senior Vice President and Head of Sales and Marketing (since January 1, 2011).

Born 1956.

Master of Science, Chalmers University, Göteborg.

Board member: Sony Ericsson Mobile Communications AB, ST-Ericsson.

Holdings in Ericsson [1]: 55,617 Class B shares.

Background: Senior Vice President and Head of Business Unit Multimedia and Executive Vice President and Head of Sales and Marketing for Sony Ericsson Mobile Communications.

Up until May 23, 2011, Henry Sténson, former Senior Vice President and Head of Group Function Communications, was a member of the Executive Leadership Team.

[1] The number of shares reflects ownership as of December 31, 2011 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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AUDITORS

According to the Articles of Association, the Parent Company shall have no less than one and no more than three registered public accounting firms as external independent auditors. Pursuant to the Swedish Companies Act, the mandate period of an auditor shall be one year, unless the Articles of Association provides for a longer mandate period up to four years. The auditors report to the shareholders at General Meetings.

The duties of the auditors include the following:

- Updating the Board of Directors regarding the planning, scope and content of the annual audit
- Examining the interim and year-end financial statements to assess accuracy and completeness of the accounts and adherence to accounting standards and policies
- Advising the Board of Directors of non-audit services performed, the consideration paid and other issues that determine the auditors' independence.

For further information on the contacts between the Board and the auditors, please see "Work of the Board of Directors" earlier in this Corporate Governance Report.

All Ericsson's quarterly financial reports are reviewed by the auditors.

Current auditors

PricewaterhouseCoopers AB was elected auditor at the AGM 2011 for a period of one year, i.e. until the close of the AGM 2012.

PricewaterhouseCoopers AB has appointed Peter Nyllinge, Authorized Public Accountant, to serve as auditor in charge.

Fees to the auditors

Ericsson paid the fees (including expenses) for audit-related and other services listed in the table in Notes to the Consolidated Financial Statements – Note C30, "Fees to Auditors" in the Annual Report.

INTERNAL CONTROL OVER FINANCIAL REPORTING 2011

This section has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code and is limited to internal control over financial reporting.

Since Ericsson is listed in the United States, the requirements outlined in the Sarbanes-Oxley Act (SOX) apply. These regulate the establishment and maintenance of internal controls over financial reporting as well as management's assessment of the effectiveness of the controls.

In order to support high quality reporting and to meet the requirement of SOX, the Company has implemented detailed documented controls and testing and reporting procedures based on the COSO framework for internal control. The COSO framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's internal control report according to SOX will be included in Ericsson's Annual Report on Form 20-F and filed with the SEC in the United States.

During 2011, the Company has included operations of acquired entities as well as continued to improve the design and execution of its financial reporting controls.

Disclosure policies

Ericsson's financial disclosure policies aim to ensure transparent, relevant and consistent communication with the equity and debt investors on a fair and equal basis. This will support a fair market value for Ericsson shares. Ericsson wants current and potential investors to have a good understanding of how the Company works, including operational performance, prospects and potential risks.

To achieve these objectives, financial reporting and disclosure must be:

- Transparent – enhancing understanding of the economic drivers and operational performance of the business, building trust and credibility
- Consistent – comparable in scope and level of detail to facilitate comparison between reporting periods
- Simple – to support understanding of business operations and performance and to avoid misinterpretations
- Relevant – with focus on what is relevant to Ericsson's stakeholders or required by regulation or listing agreements, to avoid information overload
- Timely – with regular scheduled disclosures as well as ad-hoc information, such as press releases on important events, performed on a timely basis
- Fair and equal – where all material information is published via press releases to ensure that the whole investor community receives the information at the same time
- Complete, free from material errors and a reflection of best practice – disclosure is compliant with applicable financial reporting standards and listing requirements and in line with industry norms.

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Ericsson's website (www.ericsson.com/investors) comprises comprehensive information on the Group, including:

- An archive of annual and interim reports
- On-demand access to recent news
- Copies of presentations given by senior management at industry conferences.

(Information on the Ericsson website does not form part of this Report.)

Disclosure controls and procedures

Ericsson has controls and procedures in place to ensure timely information disclosure under applicable laws and regulations, including the US Securities Exchange Act of 1934 and under agreements with NASDAQ OMX Stockholm and NASDAQ New York. These procedures also ensure that such information is provided to management, including the CEO and CFO, so timely decisions can be made regarding required disclosure.

The Disclosure Committee comprises members with various expertise. It assists managers in fulfilling their responsibility regarding disclosures made to the shareholders and the investment community. One of the main tasks of the committee is to monitor the integrity and effectiveness of the disclosure controls and procedures.

Ericsson has investments in certain entities that the Company does not control or manage. With respect to such entities, disclosure controls and procedures are substantially more limited than those maintained with respect to subsidiaries.

During the year, Ericsson's President and CEO and the CFO evaluated the disclosure controls and procedures and concluded that they were effective at a reasonable assurance level as at December 31, 2011.

During the period covered by the Annual Report 2011, there were no changes to the disclosure controls and procedures that have materially affected, or are likely to materially affect, the internal control over financial reporting.

Internal control over financial reporting

Ericsson has integrated risk management and internal control into its business processes. As defined in the COSO framework, internal control is an aggregation of components such as a control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

The Company's internal control structure is based on the division of tasks between the Board of Directors and its Committees and the President and CEO. The Company has implemented a management system that is based on:

- Steering documents, such as policies, directives and a Code of Business Ethics
- A strong corporate culture
- The Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority
- Several well-defined group-wide processes for planning, operations and support.

The most essential parts of the control environment relative to financial reporting are included in steering documents and processes for accounting and financial reporting. These steering documents are updated regularly to include, among other things:

- Changes to laws
- Financial reporting standards and listing requirements, such as IFRS and SOX.

The processes include specific controls to be performed to ensure high quality reports. The management of each reporting legal entity, region and business unit is supported by a financial controller function with execution of controls related to transactions and reporting. The financial controller functions are organized in a number of Company Control Hubs, each supporting a number of legal entities within a geographical area. A financial controller function is also established on Group level, reporting to the CFO.

Risk assessment

Risks of material misstatements in financial reporting may exist in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure. Other risks related to financial reporting include fraud, loss or embezzlement of assets and undue favorable treatment of counterparties at the expense of the Company.

Policies and directives regarding accounting and financial reporting cover areas of particular significance to support correct, complete and timely accounting, reporting and disclosure.

Identified types of risks are mitigated through well-defined business processes with integrated risk management activities,

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segregation of duties and appropriate delegation of authority. This requires specific approval of material transactions and ensures adequate asset management.

Control activities

The Company's business processes include financial controls regarding the approval and accounting of business transactions. The financial closing and reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

Regular analyses of the financial results for each subsidiary, region and business unit cover the significant elements of assets, liabilities, revenues, costs and cash flow. Together with further analysis of the consolidated financial statements performed at Group level, this ensures that the financial reports do not contain material errors.

For external financial reporting purposes, additional controls performed by the Disclosure Committee ensure that all disclosure requirements are fulfilled.

The Company has implemented controls to ensure that the financial reports are prepared in accordance with its internal accounting and reporting policies and IFRS as well as with relevant listing regulations. It maintains detailed documentation on internal controls related to accounting and financial reporting. It also keeps records on the monitoring of the execution and results of such controls. This ensures that the CEO and CFO can assess the effectiveness of the controls in a way that is compliant with SOX.

Entity-wide controls, focusing on the control environment and compliance with the financial reporting policies and directives, are implemented in all subsidiaries. Detailed process controls and documentation of controls performed are also implemented in almost all subsidiaries, covering all items with significant materiality and risk.

In order to secure compliance, governance and risk management in the areas of legal entity accounting and taxation, as well as securing funding and equity levels, the Company operates through a Company Control hub structure, covering subsidiaries in each respective geographical area.

Based on a common IT platform, a common chart of account and common master data, the hubs and shared services centers perform accounting and financial reporting services for most subsidiaries.

Information and communication

The Company's information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned. Regular updates and briefing documents regarding changes in accounting policies, reporting and disclosure requirements are also supplied.

Subsidiaries and operating units prepare regular financial and management reports to internal steering groups and Company management. These include analysis and comments on financial performance and risks. The Board of Directors receives financial reports monthly. The Audit Committee of the Board has established a whistleblower procedure for reporting violations in accounting, internal controls and auditing matters.

Monitoring

The Company's process for financial reporting is reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The shared service center and company control hub management continuously monitors accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and company controllers in all subsidiaries as well as in business units and regions.

The Company's financial performance is also reviewed at each Board meeting. The Committees of the Board fulfill important monitoring functions regarding remuneration, borrowing, investments, customer finance, cash management, financial reporting and internal control. The Audit Committee and the Board of Directors review all interim and annual financial reports before they are released to the market. The Company's internal audit function, which reports to the Audit Committee, performs independent audits. The Audit Committee also receives regular reports from the external auditor. The Audit Committee follows up on any actions taken to improve or modify controls.

BOARD OF DIRECTORS

Stockholm, February 24, 2012
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016–0680

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AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of the shareholders in Telefonaktiebolaget LM Ericsson (publ), corporate identity number 556016-0680.

It is the Board of Directors who is responsible for the corporate governance report for the year 2011 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm 24 February, 2012

Peter Nyllinge
Authorized Public Accountant
PricewaterhouseCoopers AB
Auditor in Charge

Johan Engstam
Authorized Public Accountant
PricewaterhouseCoopers AB

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REMUNERATION REPORT

INTRODUCTION

This report outlines how the remuneration policy is implemented throughout Ericsson in line with corporate governance best practice, with specific references to Group management. To begin with, the work of the Remuneration Committee 2011 and the remuneration policy are explained, followed by descriptions of plans and approaches.

This report also includes information on how the remuneration programs have been evaluated and draws conclusions from that. More details of the remuneration of Group management and Board members' fees can be found in the Notes to the Consolidated Financial Statements – Note C28, "Information regarding members of the Board of Directors, the Group management and employees" (Note C28).

CONTENTS

INTRODUCTION	152
THE REMUNERATION COMMITTEE	152
REMUNERATION 2011	153
TOTAL REMUNERATION	154
REMUNERATION OF THE BOARD OF DIRECTORS	156

THE REMUNERATION COMMITTEE

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration of the Executive Leadership Team (ELT). This includes fixed salaries, pensions, other benefits and short-term and long-term variable remuneration, all in the context of pay and employment conditions throughout Ericsson. The Remuneration Committee also:

- Approves variable remuneration outcomes for the ELT
- Prepares remuneration related proposals for Board and shareholder approval
- Develops and monitors the remuneration policy, strategies and general guidelines for employee remuneration.

The Remuneration Committee's work is the foundation for the governance of Ericsson's remuneration processes together with Ericsson's internal systems and audit controls. The Committee is chaired by Leif Johansson and its other members are Börje Ekholm, Nancy McKinstry, and Karin Åberg. All the members are non-executive directors, independent (except for the employee representative) as required by the Swedish Corporate Governance Code and have relevant knowledge and experience of remuneration matters.

The Company's General Counsel acts as secretary to the Committee. The Chief Executive Officer, the Senior Vice President, Head of Human Resources and Organization and the Vice President, Head of Total Rewards attend the Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed.

The Remuneration Committee has appointed an independent expert advisor, Piia Pilv, to assist and advise the Committee. The independent advisor provided no other services to the Company during 2011. The Remuneration Committee is also provided with national and international pay data collected from external survey providers and can call on other independent expertise, should it so require. The Chairman continues to ensure that contact is maintained, as necessary and appropriate, with principal shareholders on the subject of remuneration.

The purpose and function of the Remuneration Committee will remain going forward and its responsibilities can be found on the Ericsson website*. These responsibilities, together with the remuneration policy, are reviewed and evaluated annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy.

The guidelines for remuneration to the ELT is, in accordance with Swedish law, brought to shareholders annually for approval.

REMUNERATION POLICY

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. The remuneration policy, together with the mix of remuneration elements, is designed to reflect these principles by creating a balanced remuneration package. The policy for 2011 can be found in Note C28. The auditor's report regarding whether we have complied with the guidelines for compensation to the ELT during 2011 is posted on the Ericsson website*.

* Information on the Ericsson website (www.ericsson.com) does not form part of this Report.

Telcordia05341

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SUMMARIES OF 2011 SHORT AND LONG-TERM VARIABLE REMUNERATION

What we call it	What is it?	What is the objective?	Who participates?	How is it earned?
Short term: Remuneration delivered over 12 months or less				
Fixed salary	Fixed remuneration paid at set times	Attract and retain employees, delivering part of annual remuneration in a predictable format	All employees	Market appropriate levels set according to position and evaluated according to individual performance
Short-Term Variable remuneration (STV)	A variable plan that is measured and paid over a single year	Align employees with clear and relevant targets, providing an earnings opportunity in return for performance, and flexible cost	Enrolled employees, including Executive Leadership Team. Approx. 72,500 in 2011	Achievements against set targets. Reward can increase to up to twice the target level and decrease to zero, depending on performance
Local and Sales Incentive Plans	Tailored versions of the STV	As for STV, tailored for local or business requirements, such as sales	Employees in sales. Approx. 4,500 in 2011	Similar to STV. All plans have maximum award and vesting limits
Long term: Remuneration delivered over 3 years or more				
Stock Purchase Plan (SPP)	All-employee stock-based plan	Reinforce a "One Ericsson" and align employees' interests with those of shareholders	All employees are eligible	Buy one share and it will be matched by one share after 3 years if still employed
Key Contributor Retention Plan (KC)	Share-based plan for selected individuals	Recognize, retain and motivate key contributors for performance, critical skills and potential	Up to 10% of employees	If selected, get one more matching share in addition to the SPP one
Executive Performance Stock Plan (EPSP)	Share-based plan for senior executives	Remuneration for long-term commitment and value creation	Senior executives, including Executive Leadership Team	Get up to 4, 6 or, for CEO, 9 further matching shares to the SPP one for long-term performance

REMUNERATION 2011

The Remuneration Committee met eight times during the year. The winter meetings focused on following up on results from the 2010 variable remuneration programs and preparing proposals to shareholders for the 2011 Annual General Meeting (AGM). During the spring the committee considered feedback from the AGM and remuneration to new members of the ELT were established. In the fall when the new independent advisor was appointed the scope of the independent advisor role was reviewed.

The committee continued with a review of the remuneration strategy with focus on the Long-Term Variable remuneration plans, the Short-Term Variable remuneration plans and levels of fixed compensation. It was concluded that the committee will recommend to continue the Long-Term Variable remuneration plan without any substantial changes based on feedback from investors, market analysis and global trend analyses. The Committee has also considered market trends, target setting, its working arrangements and corporate governance.

As of 2011 a new initiative for the ELT was introduced by the Committee. On a voluntary basis ELT members may participate in a wellness program that provides proactive and individual coaching and training. ELT members have large responsibilities, substantial travel and heavy workloads. The purpose of the program is to actively reduce their health risks.

Evaluation of remuneration policy and plans

The Remuneration Committee has supported the Board with the review and evaluation of remuneration policy and practice. As described later in this report, all remuneration elements and levels are evaluated through benchmarking against market data provided by external sources. Analyses of market data, as well as of attrition data, show that Ericsson is in general competitive in local markets and that total remuneration is appropriate and not excessive.

The remuneration policy is evaluated annually. This is in light of the long-term strategy as well as the Remuneration Committee's overview of total remuneration and each individual remuneration element. The Committee has concluded and the Board has decided that the remuneration policy remains valid and right for Ericsson and should not be materially changed for 2012.

To enhance the understanding of how Ericsson translates remuneration principles and policy into practice, an internal remuneration website was launched in January 2011. The site contains e-learning and training programs targeted at line managers. It supports more informed decisions and better communication to the wider employee population.

Extensive analyses of local market data for each position in the ELT have been conducted. Decisions on remuneration increases for the ELT have been taken by the Remuneration Committee. The work is also reviewed by the independent advisor to the Committee.

In its evaluation of the Long-Term Variable remuneration plan the Remuneration Committee concluded that the plan fulfills the defined objectives of the Stock Purchase Plan, namely to promote "One Ericsson" and to align the interests of employees with those of shareholders. The participation rate as of December 1, 2011 was 30%, compared to 27% as of December 1, 2010. The evaluation conducted also confirms that the Key Contributor Retention Plan meets the purpose of

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retaining our key employees. The voluntary attrition rate among Key Contributors is about two thirds compared to the attrition rate in the total number of employees.

A survey of Ericsson's managers in January 2011 verified that all managers consider the Long-Term Variable and Short-Term Variable remuneration plans to be "effective" or "very effective" in meeting the purpose of the plans. This confirms earlier third-party research that has shown that the Long-Term Variable plan drives the right values and enhancing retention. The plan remains competitive by Swedish standards. The participation rate among Key Contributors remains high compared with international benchmarks.

The evaluation also showed that the Executive Performance Stock Plan has had limited success in terms of meeting the purpose of rewarding long-term financial performance. The Earnings per Share (EPS) performance target proved to be more binary than anticipated, where the 2004 plan vested in full and the plans for 2005, 2006, 2007 and 2008 did not vest. The 2009 and 2010 plans, that are still in the performance period, have EPS as the performance target.

The following targets apply to the Executive Performance Stock Plan 2011:

- Net sales growth
- Operating income growth
- Cash conversion rate.

For further information see below under the Executive Performance Stock Plan.

TOTAL REMUNERATION

When considering the remuneration of an individual, it is the total remuneration that matters. First the total annual cash compensation is defined, consisting of the target level of short-term variable remuneration plus fixed salary. Thereafter target long-term variable remuneration may be added to get to the total target remuneration and, finally, pension and other benefits to arrive at the total remuneration.

For the ELT, remuneration consists of fixed salary, short-term and long-term variable remuneration, pension and other benefits. If the size of any one of these elements is increased or decreased when setting the remuneration, at least one other element has to change if the competitive position is to remain unchanged.

The remuneration costs for the CEO and the ELT are reported in Note C28.

Fixed salary

Fixed salaries are set to be competitive within an individual's home market. When setting fixed salaries, the Remuneration Committee considers the impact on total remuneration, including pension and associated costs. The absolute levels are determined by the size and complexity of the position and the year-to-year performance of the individual. Together with other elements of remuneration, ELT salaries are subject to an annual review by the Remuneration Committee, which considers external pay data to ensure that levels of pay remain competitive and appropriate to the remuneration policy.

Variable remuneration

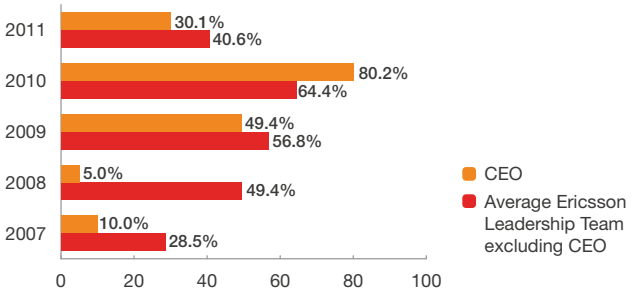
Ericsson strongly believes that, where possible, variable compensation should be encouraged as an integral part of total remuneration. First and foremost this aligns employees with clear and relevant targets, but it also enables more flexible payroll costs and emphasizes the link between performance and pay. All variable remuneration plans have maximum award and vesting limits. Short-term variable remuneration is to a greater extent dependent on the own unit or function, while long-term variable remuneration is dependent on the achievements of the Ericsson Group.

SHORT-TERM VARIABLE REMUNERATION

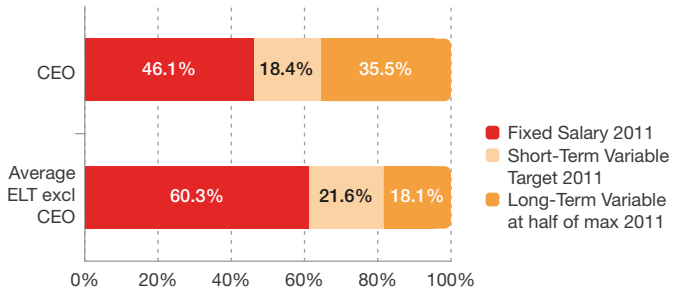
Annual variable remuneration is delivered through cash-based programs. Specific business targets are derived from the annual business plan approved by the Board of Directors and, in turn, defined by the Company's long-term strategy. Ericsson strives to grow faster than the market with best-in-class margins and strong cash conversion and therefore the starting point is to have three core targets:

- Net sales growth
- Operating income
- Cash flow.

SHORT-TERM VARIABLE REMUNERATION PAYOUTS AS PERCENTAGE OF TARGET LEVELS



FIXED SALARY, SHORT-TERM AND LONG-TERM VARIABLE REMUNERATION AS PERCENTAGE OF TOTAL TARGET REMUNERATION



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SHORT-TERM VARIABLE REMUNERATION STRUCTURE

	Short-Term Variable remuneration as percentage of Fixed Salary			Percentage of Short-Term Variable remuneration maximal opportunity		
	Target level	Maximum level	Actual paid for 2010	Group financial targets	Unit/functional financial targets	Non-financial targets
CEO 2011	40%	80%	24%	90%	0%	10%
CEO 2012	40%	80%	–	90%	0%	10%
Average ELT 2011 [1]	34%	68%	29%	61%	23%	16%
Average ELT 2012 [1]	36%	72%	–	49%	27%	24%

[1] Excludes CEO – differences in target and maximum levels from year to year are due to changes in the composition of the ELT.

For the ELT, targets are thus predominantly financial targets at either Group level (for Heads of Group Functions) or at the individual unit level (for Heads of Regions or Business Units) and may also include operational targets like customer satisfaction and employee motivation. Targets are cascaded to all managers and will vary depending on the specific position. All variable remuneration targets have to be objective and measurable. They typically refer to a result that is achieved on a collective basis.

Each target is, in accordance with our strict governance instructions, defined in a target specification and measured over the calendar year. The target setting process is fully integrated with the strategy work and target levels are tested against plans and forecasts until they are finalized around the turn of the year.

The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are cascaded to unit-related targets throughout the Company, always subject to a two-level management approval process. The Remuneration Committee monitors the appropriateness and fairness of Group target levels throughout the performance year and has the authority to revise them should they cease to be relevant or stretching or to enhance shareholder value.

During 2011, approximately 77,000 employees participated in short-term variable plans. Of these 8,000 were in the global Short-Term Variable remuneration plan (STV) for management, including the ELT, and 4,500 were in the global Sales Incentive Plan (SIP). Local plans vary in design according to local competitive practice but typically mirror the STV.

The chart on page 154 illustrates how payouts to the ELT have varied with performance over the past five years.

LONG-TERM VARIABLE REMUNERATION

Share-based long-term variable remuneration plans are submitted each year for approval by shareholders at the AGM. All long-term variable remuneration plans are designed to form part of a well-balanced total remuneration package and to span over a minimum of three years. As these are variable plans, outcomes are unknown and rewards depend on long-term personal investment, corporate performance and resulting share price performance. During 2011, share-based remuneration was made up of three different but linked plans: the all-employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

THE STOCK PURCHASE PLAN

The all-employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate. This reinforces “One Ericsson” aligned with shareholder interests. Employees can save up to 7.5% (CEO 10%) of gross fixed salary (CEO gross fixed salary and annual variable remuneration) for purchase of Class B shares at market price on NASDAQ OMX Stockholm or ADSs on NASDAQ New York (contribution shares) over a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee’s shares will be matched with a corresponding number of Class B shares or ADSs as applicable. The plan was introduced in 2002 and employees in 71 countries participated during its first year. In December 2011 the number of participants was over 24,000, or approximately 30% of eligible employees in 96 countries.

Participants save each month, beginning with the August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment and hence the matching spans over two financial years and two tax years.

THE KEY CONTRIBUTOR RETENTION PLAN

The Key Contributor Retention Plan is part of Ericsson’s talent management strategy. It is designed to recognize individuals for performance, critical skills and potential as well as encouraging retention of key employees.

Under the program, operating units around the world can nominate up to 10% of employees worldwide. Each unit nominates individuals that have been identified according to performance, critical skills and potential. The nominations are calibrated in management teams locally and are reviewed by both local and corporate Human Resources to ensure that there is a minimum of bias and a strong belief in the system.

Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month investment period. The plan was introduced in 2004.

THE EXECUTIVE PERFORMANCE STOCK PLAN

The Executive Performance Stock Plan was first introduced in 2004. The plan is designed to focus management on driving long-term financial performance and providing market

Telcordia05344

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competitive remuneration. Senior executives, including the ELT, are selected to obtain up to four or six extra shares (performance matching shares). This is in addition to the one matching share for each contribution share purchased under the all-employee Stock Purchase Plan. The performance matching is subject to the fulfillment of the performance targets. Since 2010, the CEO may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share.

In the 2004 to the 2010 plans the performance targets were Earnings Per Share (EPS) targets.

To support the long-term strategy and the value creation of the Company, new operational targets were defined for the 2011 plan. At the AGM 2011, the following targets for the 2011 Executive Performance Stock Plan were resolved on proposal by the Board:

- Up to one third of the award will vest based on the compound annual growth rate of consolidated net sales comparing 2013 to 2010
- Up to one third of the award will vest based on the compound annual growth rate of consolidated operating income comparing 2013 to 2010
- One third of the award will vest based on the cash conversion rate. If the cash conversion rate is at or above 70% during each of the years 2011 to 2013 one ninth of the total award will vest for each year the target is achieved.

The performance targets are not capable of being retested after the end of the three-year performance period. If the minimum required performance is not achieved, all matching shares subject to performance will lapse. The Board will consider the impact of larger acquisitions, divestments, the creation of joint ventures and any other significant capital event on the three targets on a case-by-case basis. Also, the Board may reduce the number of performance matching shares, if deemed appropriate, considering the Company's financial results and position, conditions on the stock market and other relevant circumstances at the time of matching.

Benefits and terms of employment

Pension benefits follow the competitive practice in the employee's home country and may contain various supplementary plans, in addition to any national system for social security. Where possible, pension plans are operated on a defined contribution basis. Under these plans, Ericsson pays contributions into a plan but does not guarantee the ultimate benefit, unless local regulations or legislation prescribe that defined benefit plans that do give such guarantees have to be offered.

For the CEO and other members of the ELT employed in Sweden before 2011, a supplementary pension plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP). The pension age for these ELT members is normally 60 years. The pensionable salary for ELT members employed before 2011 on local contract in Sweden consists of the annual fixed salary including vacation pay and the target value of the Short-Term Variable remuneration.

ELT members employed in Sweden as of 2011 are normally covered by the defined contribution plan under the ITP1 scheme, with a pensionable age of 65 years. The pensionable salary includes all cash compensation.

For members of the ELT who are not employed in Sweden, local market competitive pension arrangements apply.

Other benefits, such as company car and medical insurance, are also set to be competitive in the local market. ELT members may not receive loans from the Company.

ELT members locally employed in Sweden have a mutual notice period of up to six months. Upon termination of employment by the Company, severance pay can amount to up to 18 months' fixed salary. For other ELT members different notice period and severance pay agreements apply, however no agreement exceeds the notice period of 6 months or the severance pay period of 18 months.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of Directors not employed by Ericsson is handled separately and the Nomination Committee makes remuneration proposals for resolution by the Annual General Meeting of shareholders. The remuneration consists of fees for Board and committee work, part of which can be delivered under a synthetic share program. The synthetic shares, which are valued in line with Ericsson's Class B shares, vest in cash after the publication of the year-end financial statement during the fifth year after award.

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GDP

0.3 PERCENT GDP INCREASE WHEN BROADBAND SPEED DOUBLES.

SHARE INSPIRE GROW

As network speeds increase, their users find better, richer ways to share. This inspires new ideas and fresh thinking.

In turn, this stimulates economic growth – creating more opportunity for everyone.

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GLOSSARY

2G
The first digital generation of mobile systems. Includes GSM, TDMA, PDC and cdmaOne.

3G
3rd generation mobile system. includes WCDMA/HSPA, CDMA2000 and TD-SCDMA.

4G
See LTE.

ALL-IP
A single, common IP infrastructure that can handle all network services, including fixed and mobile communications, for voice and data services as well as video services such as TV.

ATM
(Asynchronous Transfer Mode)
A communication standard for transmission and management of high-speed packet-switched networks.

BACKHAUL
Transmission between radio base stations and the core network.

CAGR
Compound Annual Growth Rate.

CAPEX
Capital expenditure.

CDMA
(Code Division Multiple Access)
A radio technology on which the cdmaOne (2G) and CDMA2000 (3G) mobile communication standards are both based.

CLOUD
When data and applications reside in the network.

EDGE
A mobile standard, developed as an enhancement of GSM. Enables the transmission of data at speeds up to 250 kbps. (Evolved EDGE up to 1 Mbps)

FTTH
(Fiber-to-the-Home)
Refers to fiber optic broadband connections to individual homes.

GDP
(Gross Domestic Product)
The total annual cost of all finished goods and services produced within a country.

GPON
(Gigabit Passive Optical Network)
Used for fiber-optic communication to the home (FTTH).

GPRS
(General Packet Radio Service)
A packet-switched technology (2.5G) that enables GSM networks to handle mobile data communications at rates up to 115 kbps.

HIGH-TRAFFIC SMARTPHONES
High-traffic smartphones are defined as the subset of open-OS phones (e.g. iPhone, Android & Windows) that typically generate high traffic, 5–10 times that of low-traffic devices.

HSPA
(High Speed Packet Access)
Enhancement of 3G/WCDMA that enables mobile broadband.

ICT
Information and Communication Technology.

IMS
(IP Multimedia Subsystem)
A standard for offering voice and multimedia services over mobile and fixed networks using internet technology (IP).

IP
(Internet Protocol)
Defines how information travels between network elements across the internet.

IPTV
(IP Television)
A technology that delivers digital television via fixed broadband access.

JV
(Joint Venture)
A business enterprise in which two or more companies enter a partnership.

LTE
(Long-Term Evolution)
The next evolutionary step of mobile technology beyond HSPA, allowing data rates above 100 Mbps.

M2M
Machine-to-Machine.

MANAGED SERVICES
Management of operator networks and/or hosting of their services.

MOBILE BROADBAND
A wireless access technology. It enables high-speed internet access services, such as video streaming.

OPEX
Operating expenses.

PENETRATION
The number of subscriptions divided by the population in a geographical area.

PETABYTE
Million gigabytes.

RAN
Radio Access Network.

SOFTSWITCH
A software-based system for handling call management functionality. Integrates IP-telephony and the legacy circuit-switched part of the network.

TDM
(Time Division Multiplexing)
Legacy technology for circuit switching.

WCDMA
(Wideband Code Division Multiple Access)
A 3G mobile communication standard. WCDMA builds on the same core network infrastructure as GSM.

XDSL
Digital Subscriber Line technologies for broadband multimedia communications in fixed-line networks. Examples: IP-DSL, ADSL and VDSL.

Telcordia05347

FINANCIAL TERMINOLOGY

CAPITAL EMPLOYED
Total assets less non-interest-bearing provisions and liabilities.

CAPITAL TURNOVER
Net sales divided by average capital employed.

CASH CONVERSION
Cash flow from operating activities divided by net income reconciled to cash – expressed in percent.

CASH DIVIDENDS PER SHARE
Dividends paid divided by average number of shares, basic.

COMPOUND ANNUAL GROWTH RATE (CAGR)
The year-over-year growth rate over a specified period of time.

DAYS SALES OUTSTANDING (DSO)
Trade receivables balance at quarter end divided by net sales in the quarter and multiplied by 90 days.
If the amount of trade receivables is larger than last quarter's sales, the excess amount is divided by net sales in the previous quarter and multiplied by 90 days, and total DSO are the 90 days of the most current quarter plus the additional days from the previous quarter.

EARNINGS PER SHARE (EPS)
Basic earnings per share: profit or loss attributable to stockholders of the Parent Company divided by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share: the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

EBITA MARGIN
Earnings Before Interest, Taxes, Amortization and write-downs of acquired intangibles, as a percentage of net sales.

EPS (NON-IFRS)
EPS, diluted, excluding amortizations and writedowns of acquired intangible assets.

EQUITY RATIO
Equity, expressed as a percentage of total assets.

GROSS CASH
Cash and cash equivalents plus short-term investments.

INVENTORY TURNOVER DAYS (ITO-days)
365 divided by inventory turnover, calculated as total adjusted cost of sales divided by the average inventories for the year (net of advances from customers).

NET CASH
Cash and cash equivalents plus short-term investments less interest-bearing liabilities and post-employment benefits.

PAYABLE DAYS
The average balance of trade payables at the beginning and at the end of the year divided by cost of sales for the year, and multiplied by 365 days.

PAYMENT READINESS
Cash and cash equivalents and short-term investments less short-term borrowings plus long-term unused credit commitments.
Payment readiness is also shown as a percentage of net sales.

RETURN ON CAPITAL EMPLOYED
The total of Operating income plus Financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31).

RETURN ON EQUITY
Net income attributable to stockholders of the Parent Company as a percentage of average Stockholders' equity (based on the amounts at January 1 and December 31).

STOCKHOLDERS' EQUITY PER SHARE
Stockholders' equity divided by the number of shares outstanding at end of period, basic.

TOTAL SHAREHOLDER RETURN (TSR)
The increase or decrease in share price during the period plus dividends paid, expressed as a percentage of the share price at the start of the period.

TRADE RECEIVABLES TURNOVER
Net sales divided by average trade receivables.

VALUE AT RISK (VAR)
A statistical method that expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time.

WORKING CAPITAL
Current assets less current non-interest-bearing provisions and liabilities.

EXCHANGE RATES

EXCHANGE RATES USED IN THE CONSOLIDATION

	January–December	
	2011	2010
SEK/EUR		
Average rate	9.02	9.56
Closing rate	8.92	9.02
SEK/USD		
Average rate	6.48	7.20
Closing rate	6.90	6.80

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SHAREHOLDER INFORMATION

CONTACT FOR PRINTED PUBLICATIONS

A printed copy of the Annual Report is provided on request.

- Strömberg Distribution
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WHERE YOU CAN FIND OUT MORE:

It is our ambition to provide our shareholder with up to date information about Ericsson and its development. Information is available on Ericsson's website:
www.ericsson.com

On the website, the Annual Report is available as an online version and as a pdf document. Previous annual and interim reports and other relevant shareholder information can be found at:
www.ericsson.com/investors

By publishing the Annual Report on the web, we will not only reduce the cost for print and distribution, but also the impact on the environment.

The Annual Report on Form 20-F (filed with the Securities and Exchange Commission, SEC) is also available on:
www.ericsson.com/investors

Telefonaktiebolaget LM Ericsson's shareholders are invited to participate in the Annual General Meeting to be held on Thursday, May 3, 2012, at 3 p.m. at Kistamässan, Arne Beurlings Torg 5, Kista, Stockholm, Sweden.

Registration and notice of attendance

Shareholders who wish to attend the Annual General Meeting must:

- Be recorded in the share register kept by Euroclear Sweden AB (the Swedish Securities Registry) on Thursday, April 26, 2012, and
- Give notice of attendance to the Company at the latest on Thursday, April 26, 2012. Notice of attendance can be given on Ericsson's website: www.ericsson.com/investors; by telephone: +46 8 402 90 54 on weekdays between 10 a.m. and 4 p.m.; or by fax: +46 8 402 9256.

Notice of attendance may also be given in writing to:
Telefonaktiebolaget LM Ericsson
General Meeting of Shareholders
Box 7835, SE-103 98 Stockholm, Sweden

When giving notice of attendance, please state name, date of birth, address, telephone number and number of assistants.

The meeting will be conducted in Swedish and simultaneously interpreted into English.

Shares registered in the name of a nominee

In addition to giving notice of attendance, shareholders who have their shares registered in the name of a nominee must request the nominee to temporarily enter the shareholder into the share register in order to be entitled to attend the meeting. In order for such registration to be effective on Thursday, April 26, 2012, shareholders should contact their nominee well before that day.

Proxy

Shareholders represented by proxy shall submit to the Company a power of attorney for the representative. A power of attorney issued by a legal entity must be accompanied by a copy of the entity's certificate of registration (should no such certificate exist, a corresponding document of authority must be submitted). Such documents must be no more than one year old unless the power of attorney explicitly provides that it is valid for a longer period, up to a maximum of five years. In order to facilitate the registration at the Annual General Meeting, the power of attorney in original, certificates of registration and other documents of authority should be sent to the Company in advance. All documents should be sent to the Company at the address above for receipt by Wednesday, May 2, 2012. Forms of power of attorney in Swedish and English are available on Ericsson's website: www.ericsson.com/investors.

Dividend

The Board of Directors has decided to propose the Annual General Meeting to resolve on a dividend of SEK 2.50 per share for the year 2011 and that Tuesday, May 8, 2012 will be the record day for dividend.

Financial information from Ericsson

Interim reports 2012:
- April 25, 2012 (Q1)
- July 18, 2012 (Q2)
- October 26, 2012 (Q3)
- January 25, 2013 (Q4)

Annual Report 2012: March, 2013
2011 Form 20-F for the US market: March-April, 2012

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Ericsson headquarters at Torshamnsgatan 23 in Kista, Stockholm, Sweden.

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Sweden

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UNCERTAINTIES IN THE FUTURE

Some of the information provided in this material is or may contain forward-looking information such as statements about expectations, assumptions about future market conditions, projections or other characterizations of future events. The words “believe”, “expect”, “anticipate”, “intend”, “may”, “plan”, the negative of such terms, and similar expressions are intended to identify these statements. Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct and actual results may differ materially. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or stock exchange regulation. We advise you that Ericsson is subject to risks both specific to our industry and specific to our company that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, changing conditions in the telecommunications industry, political, economic and regulatory developments in our markets, our management’s ability to develop and execute a successful strategy, various financial risks such as interest rate changes and exchange rate changes, erosion of our market position, the structure and financial strength of our customer base, our credit ratings, product development risks, supply constraints, and our ability to recruit and retain quality staff.

ERICSSON ANNUAL REPORT 2011:

Project Management:
Ericsson Investor Relations

Design and production:
Harleys and Paues Media

All Group Management and Board of Directors photography:
Per Myrehed

Reprographics and Printing:
Imprima Visuell Kommunikation AB 2012

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ERICSSON

BRINGING THE NETWORKED SOCIETY TO LIFE

ANNUAL REPORT 2012

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BRINGING THE NETWORKED SOCIETY TO LIFE

With everything connected, our world changes. We are developing communications technology that will embrace entire societies, empowering and advancing the individuals and businesses within them.

See page 8 for further information on market trends.

Our mission is “Innovating to empower people, business and society.”

See page 12 for further information on Ericsson strategy.

2012 was a year of growth in Global Services and Support Solutions.

Hans Vestberg, President and CEO

MORE INFORMATION

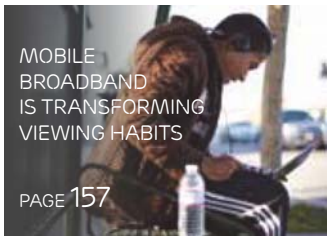
The Annual Report describes Ericsson’s financial and operational performance during 2012. A Corporate Governance Report is attached to the Annual Report.

Find our Annual Report online:
www.ericsson.com/annualreport2012

We issue a separate Sustainability and Corporate Responsibility Report.
www.ericsson.com/thecompany/sustainability_corporateresponsibility

There is further information on sustainability and corporate responsibility on page 22 and pages 41–42.

CONTENTS



ANNUAL REPORT 2012

Our business

This is Ericsson	2
Group overview	4
Letter from the CEO	6
Market trends	8
Our competitive assets	10
Our people	11
Strategy and customers	12
Our portfolio	14
Regional development	18
Our performance	20
Sustainability and Corporate Responsibility	22
Five-year summary	24
Letter from the Chairman	25

Results

Board of Directors' report*	26
Consolidated financial statements*	47
Notes to the consolidated financial statements*	52
Parent Company financial statements*	101
Notes to the Parent Company financial statements*	107
Risk factors*	121
Auditors' report	128
Forward-looking statements	129

Corporate Governance

CORPORATE GOVERNANCE REPORT 2012	130
Remuneration report	158

Shareholders

Share information	162
Shareholder information	169

Other information

Glossary	167
Financial terminology	168

** Chapters covered by the Auditors' report.*

OUR BUSINESS

THIS IS ERICSSON

We are a world-leading provider of communications networks, telecom services and support solutions.

Communication is changing the way we live and work. When one person connects his or her world changes. With everything connected, our world changes. Ericsson plays a key role in this evolution, using innovation to empower people, business and society. We are enabling the networked society with efficient real-time solutions that allow us all to study, work and live our lives more freely, in sustainable societies.

Since the establishment of the Company in 1876, we are a leader in telecommunication and are now expanding our role into an ICT (Information and Communications Technology) solutions provider.

Our research and solutions development has made mobile communications and broadband possible. When you make a call or browse the internet on your handset, tablet or mobile PC, you will likely use one of our solutions.

Our offering comprises services, software and infrastructure, mainly for telecom operators.

- 40% of the world's mobile traffic runs through networks that are supplied by us
- We provide solutions and services to all major telecom operators in the world
- The networks we manage for operators serve about 950 million subscribers
- We have more than 33,000 granted patents, comprising one of the industry's strongest patent portfolios.

2012 IN REVIEW

JANUARY
Ericsson strengthens its focus on IPR licensing, to get a fair return on R&D investments in patents development. Any company that provides wireless connectivity will likely need a license from us.

FEBRUARY
Ericsson complements the heterogeneous network offering with telecom grade Wi-Fi through acquisition of Wi-Fi company BelAir Networks, enabling operators to further improve the mobile broadband user experience.

APRIL
SOFTBANK MOBILE signs 4G/LTE contract with Ericsson in Japan. The network will cover three major cities in the country, together accounting for 70% of the data and voice traffic. Ericsson has deployed LTE networks on five continents.

JUNE
At a briefing for journalists in San Francisco, Ericsson's President and CEO Hans Vestberg discusses how the rapid increases in subscribers and data usage impact the entire ICT industry. Network quality, user experience, billing and charging models and services offerings all need to be adapted.

JANUARY FEBRUARY MARCH APRIL MAY JUNE

JANUARY
Ericsson signs a deal to connect the entire vessel fleet of the world's largest shipping company, Maersk Line, using our capabilities to enable machine-to-machine communication.

MARCH
Ericsson widens the scope of managed services to include such services for broadcasters by announcing the acquisition of the Broadcast Services Division of Technicolor.

MAY
Ericsson's efficient AIR radio base station is selected by T-Mobile as the first operator in the USA to launch this technology, which enables improvement of existing coverage and quick launch of LTE in 2013. The contract also includes consulting and systems integration and rollout services.

40%
of the world's mobile traffic runs through Ericsson-supplied networks.

For more information on our segments please go to page 36

OUR SEGMENTS

Today, we are more than 110,000 people serving customers in more than 180 countries. To best reflect our business, we report four business segments:

Networks
Networks provides the infrastructure that is the basis for all mobile communication. We deliver superior-performance and cost-efficient networks to ensure the best user experience.

Global Services
With 60,000 services professionals globally, we deliver managed services, consulting and systems integration, customer support, network design and optimization and network rollout.

Support Solutions
Support Solutions is the new name for former segment Multimedia and it signposts a change of direction. The segment focuses on software for operations support systems and business support systems (OSS and BSS), TV and media management, and m-commerce.

Joint venture ST-Ericsson
ST-Ericsson offers modems and ModAps (integrated modem and application processor platforms) for handset and tablet manufacturers.

OUR REGIONS

We secure an efficient go-to-market setup through ten regions. We strive for profitable growth through solid regional competence and strong customer relationships, backed by our global knowledge.

In our ten regions, we work together with our customers to develop innovative and scalable solutions that help operators grow their revenues and reduce their costs.

Once a successful case is proven, we can roll out the same practice all over the world, sharing common processes, methods and tools. This ensures quality and efficiency.

Solutions and services often go hand-in-hand as networks become more complex and often include products from several suppliers. Operators look for long-term services partnerships with companies such as Ericsson for support in every aspect of their business.

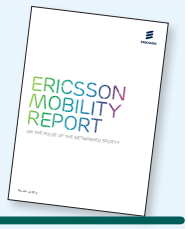
We serve our customers through regional competence organized into six engagement practices: Mobile Broadband; Communication Services; Fixed Broadband and Convergence; Managed Services; Operations and Business Support Systems; and Television and Media Management.

JULY
MTN Nigeria boosts its ability to serve subscribers and their growing data needs by becoming the first African operator to deploy Ericsson's scalable SSR 8020 platform for wireless IP core networks. This is one of 39 SSR contracts that Ericsson won in 2012.

SEPTEMBER
Ericsson partners in the Social Good Summit 2012 in New York, discussing how mobile broadband can be used to help tackle global challenges such as poverty and climate change.

NOVEMBER
Ericsson holds its annual Investor Day, focusing on profitable growth and how the company is transforming into a leading ICT solutions provider in telecoms.

NOVEMBER
The new Ericsson Mobility Report is launched, stating that "Traffic in mobile networks continues to grow at an impressive rate worldwide, driven by uptake of smart devices and apps." This is a recurrent report on network traffic and market trends, based on data traffic measurements in live networks globally and on internal forecasts.



JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

AUGUST
Italian operator FASTWEB signs a seven-year IT managed services contract with Ericsson. It includes data center consolidation and transformation, as well as managed operations for its IT infrastructure. Ericsson extends the scope of managed services from telecoms to data centers.

OCTOBER
Ericsson is selected to implement a new LTE network for Vivo, a subsidiary of Telefônica, helping meet user demand for connectivity and mobile broadband services in Brazil. Ericsson has an LTE market share of more than 50% in Latin America.

DECEMBER
Ericsson announces that Volvo Car Group will use Ericsson's Connected Vehicle Cloud to allow drivers, passengers and their cars to connect to services available in the cloud. Drivers and passengers can access applications for information, navigation and entertainment from a screen in the car.

GROUP OVERVIEW

Our four business segments provide solutions and services which in combination create an industry-leading telecommunications portfolio.

Segment	NETWORKS **Headed by Johan Wibergh**	GLOBAL SERVICES **Headed by Magnus Mandersson**
	We develop and deliver superior-performance network infrastructure for 2G/GSM, 3G/WCDMA/HSPA & CDMA, and 4G/LTE with solutions for: › Radio access, based on multi-standard radio base station RBS 6000 › IP and transport; IP Edge routing based on SSR 8000 and transport solutions based on fiber and microwave › Core network; switching and IMS solutions based on the Ericsson Blade System platform.	Globally, 60,000 service professionals deploy and operate networks, and integrate solutions to allow operators to monetize increasing data traffic and ensure high user experience in networks. We use global processes, methods and tools to ensure quality and efficiency in the networks. Global Services include: › Professional Services; consulting and systems integration, managed services, network design and optimization as well as customer support › Network Rollout.
Revenue and margin	SEK 117.3 BN (2011: 132.4 bn)	SEK 97.0 BN (2011: 83.9 bn)
	Share of revenue: 51% (2011: 58%) Operating margin: 6% (2011: 13%)	Share of revenue: 43% (2011: 37%) Operating margin: 6% (2011: 7%)
Market share estimates	35% in mobile network equipment	13% in a fragmented market
Market position	#1 in radio access	#1 in telecom services

SUPPORT SOLUTIONS

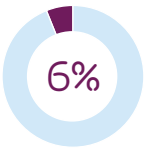
Headed by Per Borgklint

We develop and deliver software solutions for:

- Operations and Business Support Systems (OSS and BSS); enabling management of networks and services, customer interaction and revenue management
- TV and Media management; enabling operators, broadcasters and content owners to create multiscreen TV experience on all devices
- M-Commerce; software solutions and hosted services to enable mobile financial services and global interoperability.

SEK 13.5BN
(2011: 10.6 bn)

Share of revenue



(2011: 5%)

Operating margin

9%
(2011: –5%)

31% in solutions for prepaid

#1 in OSS and real-time charging & billing

ST-ERICSSON*

Headed by Didier Lamouche

A 50/50 joint venture with STMicroelectronics, ST-Ericsson offers modems and ModAps (integrated modem and application processor platforms) for leading handset and tablet manufacturers.

STMicroelectronics announced in October its intention to exit as a shareholder in ST-Ericsson. Ericsson is presently exploring various strategic options for the future of ST-Ericsson assets.

Ericsson continues to believe that the modem technology, which it originally contributed to the JV, has a strategic value for the wireless industry.

* The Ericsson share of ST Ericsson's results is accounted for according to the equity method.

For more information on our segments please go to page 36

LETTER FROM THE CEO

2012 was a year of growth in Global Services and Support Solutions, but more challenging for Networks. We have extended our leadership in several key growth areas and taken important steps in executing our strategy.

DEAR SHAREHOLDERS

We can look back at 2012 in which the strong growth of mobile data continued across the world and 4G/LTE launches started across all regions. Broadband is a transformative technology that is already improving quality of life, productivity and sustainability globally. During the year we have clearly seen how the world is moving towards our vision of a networked society, and over time, this will create new business opportunities for Ericsson and our customers.

Executing our strategy

The work to leverage our strength in the growth areas mobile broadband, managed services and operations and business support solutions (OSS and BSS) has continued with both selective acquisitions and divestments to enhance and streamline the portfolio.

Key acquisitions in the year that have contributed to strengthening our leadership include BelAir in the area of mobile broadband, ConceptWave and Telcordia in the area of OSS and BSS as well as Technicolor's broadcast services division in the area of managed services.

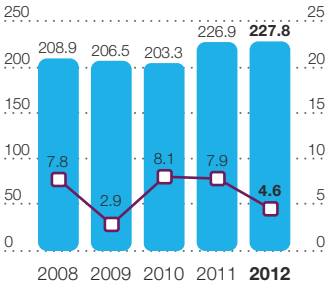
In addition we completed the divestment of our share in Sony Ericsson and launched a new strategy for Support Solutions.

Our R&D and services investments form the foundation for the long-term strength of the company. Despite a challenging year for Networks, we remain almost the size of number two and three combined in the market when it comes to installed base of radio base stations and we have maintained a strong market share also in mobile network equipment. Global Services outperformed the market and solidified its leadership. In the fragmented telecom services market, Ericsson held a 13% market share for 2012, well ahead of its closest competitor.

> We have a strong portfolio, position and capabilities to continue to support our customers in a transforming ICT market.

Net sales and operating margin

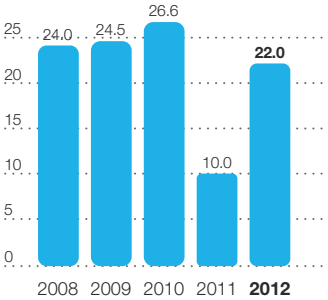
SEK billion Percent



Net sales
Operating margin incl. JV(s)

Cash flow from operating activities

SEK billion



Earnings per share

1.78 SEK

(2011: 3.77)

Our joint venture ST-Ericsson had a tough year. Following the announcement of STMicroelectronics' intention to exit as a shareholder, Ericsson will, together with STMicroelectronics, continue to explore various strategic options for ST-Ericsson assets. We continue to believe that the modem technology which we originally contributed to the JV has a strategic value to the wireless industry.

Performance in 2012

Sales in 2012 were flat compared to 2011, despite a challenging year for Networks.

Global Services contributed with both sales growth and stable operating profitability, and Support Solutions went from making losses in 2011 to achieving profitability.

Global Services and Support Solutions together represented close to 50% of Group sales, compared to 42% in 2011, highlighting the ongoing transformation into an ICT company combining services, software and hardware, into industry-leading solutions.

Profitability has been under pressure during the year due to operating losses in ST-Ericsson, the ongoing network modernization projects in Europe as well as the underlying business mix, with a higher share of coverage projects than capacity projects. Improving profitability has been a key priority throughout the year and we have taken actions globally to reduce costs and improve efficiency.

Throughout 2012 North America was our strongest region, driven by continued mobile broadband investments and a high demand for services. Our second largest region was North East Asia where sales grew in Japan, though not fully offsetting the lower sales of GSM in China and 3G in Korea.

Financial strength

We continue to have high focus on capital efficiency. We ended the year with strong cash flow, full-year cash conversion well above target and maintained our strong net cash position.

Financial strength allows us to make selective acquisitions to capture opportunities to consolidate the market, gain market share and fill portfolio gaps when relevant, and provide a good return to shareholders. It is also a competitive advantage in our customer relationships.

The Board of Directors proposes a dividend for 2012 of SEK 2.75 (2.50) per share.

Sustainability and Corporate Responsibility

Ericsson is strongly committed to sustainability and corporate responsibility.

Focus remains on reducing our carbon footprint and in 2012 we exceeded our target. We see an increasing interest from customers in driving energy efficiency in their networks, and using broadband to shape the low-carbon economy of the future.

We continue to advocate the use of broadband to enable access to education, better health and livelihood through our partnerships and programs such as Connect To Learn and Ericsson Response.

Responsibility and high governance standards guide all Ericsson employees in all parts of the world. Our aim is to be the trusted partner to all of our stakeholders and as such we put strong focus on evolving our governance framework with further integration of sustainability and corporate responsibility principles.

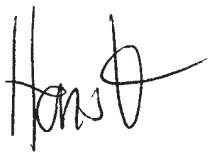
Our Code of Business Ethics was updated during the year to reflect our ongoing commitment to respect human rights and the new UN Guiding Principles on Business and Human Rights.

During 2012 we also signed the World Economic Forum's Partnering Against Corruption Initiative, enhanced our anti-corruption program and broadened our whistle blower procedure.

Strong long-term drivers

We build our strength on the combination of our core assets: technology leadership, services leadership and global scale. We have strong and long-standing customer relationships and highly skilled and engaged employees. I have worked in this company for 24 years and the dedication and professionalism that Ericsson employees demonstrate never cease to impress me.

Our focus on profitable growth remains. While the macroeconomic and political uncertainty continues in certain regions, the industry fundamentals remain attractive. We have a strong portfolio, position and capabilities to continue to support our customers in a transforming ICT market and look forward to a year of leveraging our leadership position and continuing our journey into the networked society.



Hans Vestberg
President and CEO

MARKET TRENDS

Everything is going mobile. The uptake of mobile broadband, driven by increasing use of smartphones, tablets and apps is driving change for people, business and society.

6.5BN

We expect mobile broadband subscriptions to reach 6.5 billion in 2018 (2012: 1.5 billion)

THE NETWORKED SOCIETY

In the networked society, connectivity will be the starting point for new ways of innovating, collaborating and socializing. It's about creating freedom, empowerment and opportunity that will transform industries and society while helping find solutions to some of the greatest challenges facing our planet.

When one person connects, his or her world changes. With everything connected, our world changes. We believe ICT will be a fundamental driver of this transformation. For our customers the networked society will offer opportunities to expand their existing businesses, and to engage in new business areas, such as cloud services and industry-specific services.

Operators' revenue growth and potential for efficiencies will steer their investments going forward. As a result, although the total addressable telecom market is growing at a modest pace, our portfolio momentum areas – mobile broadband, managed services as well as OSS and BSS – are set for higher growth.

Fundamentally, we believe the market is strong, fueled by higher smartphone penetration and growing mobile data usage. As a market leader, we understand the possibilities – and have the ability to drive rethinking, reinvention and innovation of our industry.

In 2012, mobile data traffic doubled. We expect it will continue to grow at a high rate in the coming years. The main driver is the change in user behavior, leading to increasing user expectations on network and application performance. Demand for greater mobile data capacity will also affect how operators choose to develop and operate networks and services.

CHANGING USER BEHAVIOR

The rapid increase in mobile data traffic will, in the coming years, be fuelled by three trends: increased smartphone uptake, the increasing use of mobile broadband, and the breakthrough of cloud-based services.

Smartphone uptake is accelerating

While voice traffic is increasing at a steady rate, mobile data traffic is increasing exponentially. This increase is driven largely by smartphone use. Clearly phones are no longer simply for talking and texting – most of the time spent on a smartphone is dedicated to activities such as watching videos, playing games, shopping and engaging in social media.

Today 15–20% of the worldwide installed base of mobile phone subscriptions use smartphones – the number of smartphone subscriptions was 1.1 billion at the end of 2012 and we estimate that it will reach 3.3 billion by the end of 2018.

Mobile broadband use is increasing

People and businesses increasingly demand good network coverage, high-speed and high-quality broadband access at all times.

The number of mobile broadband subscriptions is increasing rapidly, from approximately 1.5 billion in 2012, to an estimated 6.5 billion in 2018. As the number of subscriptions increases, so does the data volume per subscription. By the end of 2018, we estimate that both mobile PCs and smartphones will generate four times as much data per device per month as today. Global mobile data traffic is estimated to grow twelve-fold between 2012 and 2018.

The largest contributor to increased data traffic is video, which is also watched on smartphones and tablets. Online video now constitutes on average 25–40% of traffic in mobile networks.

x12

Total mobile data traffic is expected to grow by 12 times between 2012 and 2018

With the increasing use of 'apps', coverage is expected everywhere. But, when a user runs an app that requires higher performance (e.g. throughput) than needed for voice, the actual coverage area for the app will be smaller than that for voice.

In a network, every app has its own coverage area; a video application has a smaller coverage area than a music-streaming app which in turn has a smaller coverage area than voice.

Understanding of app coverage is therefore essential in order for operators to make the right investments in a network.

Cloud for availability everywhere

For many businesses and individuals, content is delivered as a cloud service – that is, as a service over the internet. Users see the benefits of accessing applications and data from any computer, phone or tablet anywhere, and at any time. Often they choose not to own the content but to stream it, gaining access to movies, TV, music and much more. Cloud-based services add to the demand for mobile capacity.

CHANGING OPERATOR NEEDS

The changes in how people, businesses and society at large operate, use the internet and interact will demand greater speed, capacity, quality of service and operational efficiency. To meet these demands, operators are upgrading their networks, revising how they can increase their operational efficiency and how they should best monetize the increased data traffic.

Focus on superior-performance broadband networks

As user demand for coverage, speed and quality increases, superior-performance networks have become a key differentiator for operators. 3G/HSPA coverage is expected to increase from over 50% of the world's population today, to 85% by the end of 2017. We anticipate that by 2017, half the world's population will be covered by 4G/LTE networks. Operators come to Ericsson to expand network coverage and to upgrade networks for higher speed and capacity. To maintain superior performance there is also a continuous need for network tuning and optimization as traffic increases.

Focus on operational efficiency

To improve efficiency and reduce cost, operators increasingly choose to outsource the network and field operations, allowing them to focus on strategy, marketing and customer care. In a managed services project, Ericsson transforms the customer's operations and implements our processes, methods and tools.

Monetizing data traffic

The demands created by mobile connectivity present new opportunities for operators. They are developing business models to monetize the increasing data use, with tiered pricing plans aligned to user needs, based for example on volume, time or speed. Increasingly, quality of service is becoming a differentiator for operators, as some focus on pure network development and others choose to be providers of premium services such as media, m-commerce and mobile finance.

Ericsson Operations Support Systems (OSS) enable the monitoring and optimization of the performance of operators' increasingly complex networks and services, while our Business Support Systems (BSS) enable monetization of services and enhance their customer interaction capabilities.

Market trends 2012

USERS

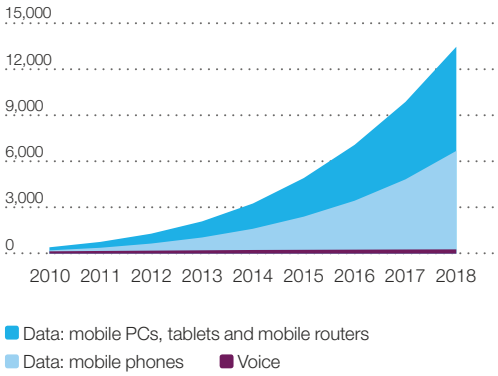
Higher demand for data capacity due to:
- Smartphone uptake acceleration
- Increasing use of mobile broadband
- Changing lifestyle with mobility and cloud-based services.

OPERATORS

Focus on:
- Superior-performance broadband networks
- Increasing efficiency through transformation and outsourcing
- Creating new value streams from networks.

Global mobile traffic 2010–2018

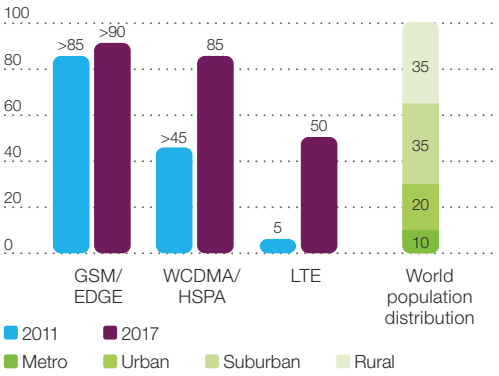
Monthly PetaBytes (10^{15} B)



Source: Ericsson estimate

Population coverage, 2011 and 2017

Percent



Source: Ericsson estimate

OUR COMPETITIVE ASSETS

The unique combination of core assets drives our performance throughout the business.

TECHNOLOGY LEADERSHIP

Combining superior performance and thought leadership

Innovation is an important element of our corporate culture and a foundation for our competitiveness. Our long-time pioneering in telecommunications technologies is reflected in one of the industry's largest patent portfolios. Through research into new technologies and a strong contribution to the creation of open standards, we strive to be first-to-market with new solutions. Our networks are designed and optimized for superior end-user experience. They are built to accommodate future traffic increase and the increasing number of connected devices.

SERVICES LEADERSHIP

Meeting operator objectives of business efficiency & revenue growth

Service delivery is industrialized in four Global Services Centers and local resources in our ten regions, where we use the same processes, methods and tools. This ensures standardized services packages of high quality. Our services professionals have advanced multi-vendor and multi-technology competence. They create value for customers by improving network efficiency and user experience as well as by supporting them in business innovation and revenue growth.

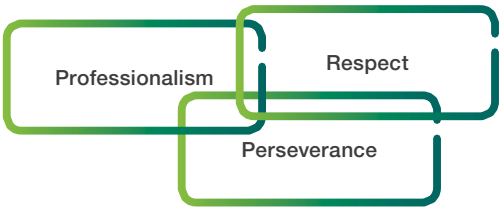
GLOBAL SCALE

Combining global scale advantages with local presence

We have a geographically diversified business, with customers in more than 180 countries. We have established relationships with all major telecom operators in the world, supporting networks with over 2.5 billion subscriptions. Focus on global standards means that we can provide global products. Economies of scale in R&D and production ensure that the products are efficient and of high quality.

Ericsson's core values

Our values are the foundation of our culture. They guide us in our daily work, in how we relate to each other and the world around us and in the way we do business.



OUR PEOPLE

At the end of the day it is our people that make the real difference. Our people strategy centers on building the best talent in the industry.

110,000
We are more than 110,000 people working for customers in more than 180 countries

Our people are at the heart of everything we do, and they made us the industry leader we are today.

But what brought us here will not keep us here. Our industry is changing, and we work every day to secure high performance in everything we do.

In order to maintain our technology and services leadership, and to leverage our global scale, we have developed a business-aligned people strategy.

Grounded on our core values – professionalism, respect and perseverance – our people strategy focuses on building the best talent in the industry. To achieve this we have four objectives:

Attract exceptional talent

We leverage a strategic and aligned approach to attracting the best talent at all levels in all the markets where we have employees.

Rigorous talent planning and development

Our objective is to have the right talent at the right time in the right place.

We have a rigorous process for identifying, calibrating and developing our talent. We have a comprehensive career and competence model that allows our employees to build career paths, and clearly understand how to keep developing capabilities for the continued success of the company.

Our approach emphasizes best-in-class learning solutions through our Ericsson Academy and on-the-job development through stretch assignments and internal mobility.

Leadership

We believe that strong leadership is a key factor in creating and maintaining a high performance work environment with a highly engaged workforce.

We expect our leaders to maintain an environment that fosters creativity, innovation and the constant flow of ideas. Our employees should have clear goals and receive continuous feedback and coaching. These are the drivers of high performance and employee engagement.

Diversity

We have a focused strategy aimed at ensuring that our employee base and our leadership teams are as diverse as the world in which we operate. We believe a diverse and inclusive workforce drives innovation and leads to high performing teams and superior business results.

STRATEGY AND CUSTOMERS

We aim to become a leading information and communication technology (ICT) solutions provider by combining our core assets: technology leadership, services leadership and global scale.

VISION

The Company's vision is to be the prime driver in an all-communicating world. Ericsson envisions a continued evolution, from having connected 6 billion people to connecting 50 billion 'things'. The Company envisions that anything that can benefit from being connected will be connected, mainly via mobile broadband in the networked society that is beginning to come to life.

OUR STRATEGY

The Company's strategy builds on a long-term vision and mission which is translated into a business strategy that should generate value for the Company's key stakeholders; customers, employees and shareholders.

Four pillars form the foundation for our business strategy: Excel in Networks, Expand in Services, Extend in Support Solutions and Establish leading position in enablers of the networked society.

Excel in Networks

Networks' strategic focus is on evolving networks from 2G to 3G to 4G with superior quality and performance. We secure a strong footprint in LTE and continue to assist operators in expanding their business by providing support for new business models and revenue streams.

We will expand our portfolio with heterogeneous networks in which Wi-Fi access will be part of our offering.

We will also utilize our large installed base of systems for mobile telephony to lead the transition to voice over LTE (VoLTE), where next-generation video and presence capabilities will be added to the traditional voice services.

We anticipate an array of "things" communicating, in addition to billions of people being connected. Mobile networks will thus increasingly carry more data and video, and we will evolve networks for the networked society through 4th-generation IP networks that are smart, scalable, simple and offer superior performance.

Expand in Global Services

In Global Services, we will leverage our momentum in sales and growth, and keep our focus on innovation, competence and cost control.

The focus area of innovation involves developing new business by capturing opportunities in new areas such as IT and broadcasting, as well as in new business models.

Competence is critical when expanding into an ICT market with a higher degree of complexity, with new competitors such as IT and professional services companies.

Cost control is supported by industrializing delivery, standardized services packaging and automated tools.

Our service delivery model enables us to provide services in the same way and with the same quality across the world. It also ensures that innovation and knowledge sharing are spread globally in an efficient way.

Extend in Support Solutions

Segment Support Solutions focuses on building business in OSS and BSS, TV and Media management, as well as M-Commerce.

After the acquisitions of Telcordia and ConceptWave in 2012, we now have a full spectrum of OSS solutions from planning and engineering tools, through fulfillment and inventory tools and service assurance products. We now provide customers with the solutions to be best in class in plan-to-provision, lead-to-service and trouble-to-resolution.

We will continue to invest in our market-leading charging, billing and converged charging and billing solutions.

Our m-commerce business, focused on international remittance, builds on the strength in charging systems and our customers' prepaid customer base.

Our TV and Media management offering comprises of compression, for both operators and media companies, and multiscreen TV & video, including IPTV, service enablement and service delivery platforms.

Establish leading position in enablers of a networked society

In the networked society anything that benefits from being connected will be connected. This development will be made possible through enablers such as solutions for machine-to-machine communications, modems from ST-Ericsson and IPRs.

We are shifting the focus from connected devices to enablers of a networked society. This is an area that will be developed over the coming years as we start investigating different opportunities both together with operator customers and with customers from other industries.

COMPANY TRANSFORMATION

We are going through a period of transformation and change – both in the industry and within the company. Two important areas of company-wide transformation are:

Go-to-market model

A new go-to-market model with ten regions and six global engagement practices was introduced in 2010, enabling us to expand engagements with customers into new areas, develop skills across our portfolio, and build momentum around global knowledge sharing.

This makes it possible for us to work even closer together with our customers, to understand their needs, while leveraging our global scale.

Lean and agile ways of working in R&D

One major undertaking to improve performance and efficiency in our R&D is to implement a lean and agile methodology. This is a way of working that includes shortened feedback loops, improved communication and rationalized processes.

Some product development projects have just begun the transition to lean and agile ways of working, while others are well advanced.

OUR CUSTOMERS

Our business is defined by long-term relationships mainly with large telecom operators around the world. We serve approximately 400 customers. Globally, telecom operators represent the majority of net sales.

We also engage directly with customers in certain other industries such as utilities and media.

We have customers in more than 180 countries and have been present in many markets for more than 100 years. Our ten largest customers, of which half are multinational, account for 46% of net sales.

Our customers operate in a wide range of local economies and are at various technology stages. They have different business focuses depending on the maturity of their respective markets.

OUR PORTFOLIO

We have the competence, the skills and the solutions our customers need to tackle the challenges of today and tomorrow. Here we feature our offering to telecom operators.

25%

Mobile broadband now accounts for approximately 25% of all mobile subscriptions

MOBILE BROADBAND

In summary

- Evolving networks from 2G/GSM to 3G/WCDMA/HSPA and 4G/LTE
- Helping operators meet demand for higher speed and capacity
- Building heterogeneous networks where capacity demand is high, such as in cities.

Mobile broadband is playing an increasingly important role in our daily lives. It is changing the way we are entertained and educated, and helps us work, keep in touch, and share information and ideas, regardless of where we are. It has the power to lessen the divide between geographic regions and socioeconomic groups, and improve the quality of life in all parts of the world. Mobile data traffic almost doubled in 2012, driven particularly by video, new smartphone and tablet launches, and mobile PC users generating even more data traffic. Mobile data traffic is expected to grow at a high rate, presenting a significant opportunity for operators, both in mature and emerging markets. Operators need to enhance network quality by increasing coverage, speed and capacity, and by providing service differentiation to ensure they can monetize the ever-increasing consumer demands for mobile broadband, and the accompanying lifestyle expectations. We provide the network infrastructure, upgrades and LTE expansions and support solutions to meet these operators' needs.

Network evolution

We were a key force behind the development of mobile technologies. Now our strategic focus is on evolving networks. With the evolution of the major mobile broadband technologies WCDMA/HSPA and LTE, true broadband performance and capacity is used to connect smartphones, PCs, tablets, sensors and machines to the internet and broadband services. With the high-speed, high-capacity mobile broadband possible through our WCDMA/HSPA and LTE offerings, operators can cost-effectively meet user demand for advanced internet services anywhere, anytime. We expect WCDMA/HSPA to be the predominant mobile broadband technology for many years to come. With the transition toward LTE, we take further steps towards greater capacity and higher throughput. LTE covers only 5–10% of global population today, but by 2017, we expect it will cover roughly half the people in the world. The ramp up of LTE is quicker than for earlier generations.

In addition, by 2017, densely populated urban areas, are expected to generate around 60% of total mobile traffic. To increase network capacity in these areas, we will build heterogeneous

950 MILLION

We manage networks with approximately 950 million subscribers

networks. Here, we complement powerful radio base stations with smaller radio base stations including Wi-Fi, which provide extra capacity in areas of high traffic loads, such as malls, transport hubs, hotels and offices.

Platform strength

Our network infrastructure is built on three main platforms:

- The RBS 6000 multi-standard platform for radio base stations. The platform supports GSM/EDGE, WCDMA/HSPA, LTE and CDMA in a single unit. The RBS 6000 family ensures a smooth transition to new technology such as LTE. Upgrades and expansions involve mostly software and services, often delivered remotely. RBS 6000 now accounts for almost all of radio base station shipments.
- The Ericsson Blade System platform for handling of network control functionality in fixed and mobile core networks
- The SSR 8000 family of smart services routers for network gateways which provides two powerful differentiators for operators. It is a high-capacity router platform with multi-application capabilities, thus enabling better network performance; it also supports services across fixed and mobile networks.

All platforms offer cost-effective deployment and a future-secured evolution for capacity and functionality.

MANAGED SERVICES

In summary

- Networks and business models becoming increasingly complex
- Market pressures leading operators to enhance offerings while increasing efficiency
- We build and manage networks, allowing operators to focus on strategy and customer attraction and retention.

Greater consumer expectations, and the upsurge in data traffic, demand greater network capacity and capability, which in turn lead to increased complexity, both in networks and their supporting business models. Maturing markets, intensified competition and stronger financial pressure lead to a need among telecom operators for greater service differentiation, enhanced offerings, and faster time to market, all at the same time as trying to reduce costs and increase efficiency.

This is where a managed services model comes into play. We take responsibility for activities telecom operators once handled in-house, from designing, planning and building a network, to managing its day-to-day operation. Operators can look to reduce costs and manage complexity through a partner such as Ericsson, who can take on a broader responsibility, and apply global best practices.

The world's largest managed services provider

We handle complex issues such as convergence, quality and capacity management, while freeing up operator resources to focus on strategy, marketing and customer care. We can also help operators scale quickly and cost-effectively, and address new opportunities in cloud solutions and media offerings.

We manage networks with approximately 950 million subscribers in more than 100 countries.

The networks we manage are typically complex multi-vendor, multi-technology environments. More than 50% of the equipment we manage is non-Ericsson. Our four global service centers (GSCs) all house global network operation centers (GNOCs) for efficient remote network management.

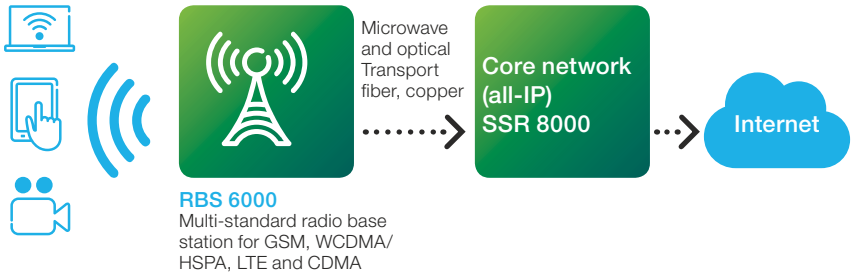
Expanding the scope

We are expanding the managed services model to adjacent, growing industries such as TV/media and IT systems.

The television industry is clearly migrating towards the internet. Traditional broadcasting is being complemented or replaced by a multitude of communications technologies. Here we see the opportunity to extend the managed services model to be a true ICT service provider, covering the full broadcast chain.

Operators also look for providers that can run and operate their entire IT systems and data centers. Consequently our managed services offering has expanded from network operations into IT Managed Services. This means Ericsson can run day-to-day operations IT systems and offer complete application life-cycle management, application development, and maintenance of both applications and infrastructure.

End-to-end leadership in mobile broadband



OUR PORTFOLIO CONTINUED

OPERATIONS AND BUSINESS SUPPORT SYSTEMS (OSS AND BSS)

In summary

- We provide systems used for managing services, revenues and subscriber relationships
- We help operators manage and monetize the increasing amount of data traffic
- We help operators manage increasingly complex networks.

In the telecom industry, customers need change fast, driven by swiftly-evolving technology. Business models that once promised commercial success are being challenged. These are the reasons operations and business support systems (OSS and BSS) have become key areas of investment for operators.

OSS and BSS are the systems and services used for managing services, revenues and subscriber relationships. With the growth in mobile broadband, operators need to evolve their OSS and BSS solutions to monetize the increasing amount of data, and to manage increasing network complexity. Our solutions help operators optimize their services based on:

- Customer experience, where understanding, acting and responding to changes in the way customers experience and use services helps meet their expectations
- Business innovation, being able to adapt to and adopt different approaches
- Business efficiency, consolidating systems and simplifying processes to manage the total cost of ownership.

Our OSS and BSS solutions have led change and created value through four generations of telecoms evolution. They are based on deep and broad experience in the business, and are now significantly strengthened by our acquisition of Telcordia. Solutions include:

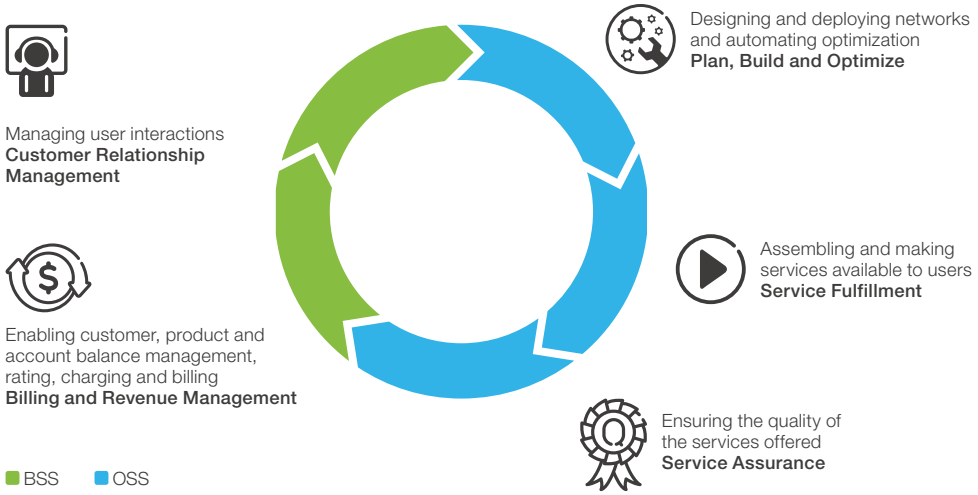
- Service differentiation – We provide the means for operators to improve customer loyalty and revenues as they are adopting new business models with tiered pricing plans for different speeds, data use or quality guarantees as well as personalized and improved customer experiences
- Transformation – We support the transformation of operations through consulting, systems integration and software solutions, to help operators adapt to rapidly changing and competitive markets
- Assurance – We offer solutions for monitoring network performance, and for planning, building and optimizing networks, so operators can improve customer experience and secure revenue
- Billing and revenue management – BSS solutions include those for revenue management and customer care. Our mobile money solution is pre-integrated with charging systems to help operators to lower churn, increase customer loyalty and reduce operating expenses.

> Operators want to enhance user experience while reducing cost.

This is OSS and BSS

Business Support Systems facilitate the relationship of the operator with their customers.

Operations Support Systems facilitate the operations of the operator's network.



COMMUNICATION SERVICES

- Operator-based services, based on industry standards, to ensure interoperability
- IMS, HD voice and Voice over LTE (VoLTE) drive development.

Communication services are the services people use to interact with each other, such as voice and video calls as well as text and multimedia messaging. These operator-based services are provided globally and are based on industry standards, ensuring interoperability.

Users expect their communication services to provide a seamless, instantaneous experience across all devices and all subscriptions. This shift requires operators to provide new functionality and richer offerings.

Operators now exploit opportunities to enhance user experience while reducing costs for voice communication. Our IP Multimedia Subsystem (IMS) enables this. Services controlled by IMS include voice (including HD voice), messaging and video calls.

HD voice significantly improves quality of voice communication. It helps ensure that voice continues to provide revenue streams for operators of both fixed and mobile networks.

Voice over LTE (VoLTE) enables operators to offer voice services over all-IP LTE networks. It also brings with it new services such as HD video and richer multimedia services.

FIXED BROADBAND AND CONVERGENCE

- Our IP-based converged networks provide low-cost and high-performance services.

Strong growth in data traffic drives a need for higher capacity solutions, based on IP and Ethernet technologies. Operators compete by evolving their networks to provide fast internet speeds, reliable high-definition IPTV and video on demand. To reduce cost and enable service bundling, fixed traffic can be provided over a multiservice network converging telephony, internet and TV. Our 4th generation IP network portfolio supports IP-based services and applications at low cost and high performance.

TV AND MEDIA MANAGEMENT

- A broad suite of standard-based products for digital TV, HDTV, video on demand, IPTV, mobile TV and content management.

TV is going digital and interactive. In the converging media landscape, broadcast and broadband are coming together. The worldwide digital TV market is growing rapidly.

With a broad suite of open standards-based products, we offer high-quality solutions for digital TV, HDTV, video on demand, IPTV, mobile TV and content management.

High-performance video means large amounts of traffic in the networks. This can be handled with our media distribution solution for video delivery over IP, combining a content distribution network with our TV portfolio.

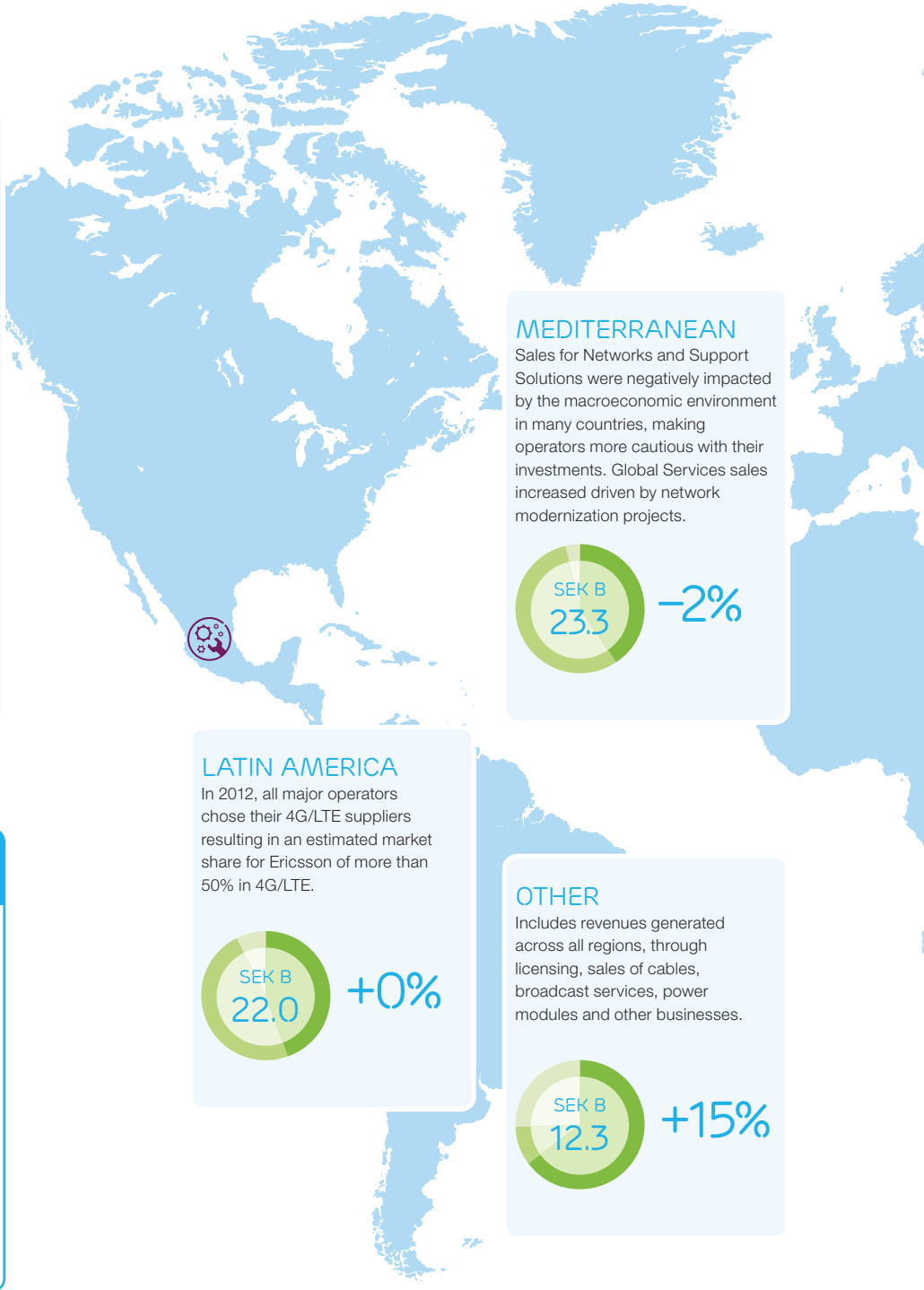
Our IPTV network infrastructure offers a verified end-to-end solution from video head-end to broadband access, optimized for multi-stream HD-IPTV and on-demand video services. The solution also offers support for video to mobile handsets over HSPA and LTE networks.

Ericsson's multiscreen TV solution combines the full features of IPTV, mobile TV and web TV with a common user interface. It fully integrates fixed line and wireless media for the first time.

Business consulting, systems integration and implementation ensure a smooth launch of new TV infrastructure and services.

REGIONAL DEVELOPMENT

Ericsson is a truly global player, with customers in more than 180 countries. We have been present in many countries, such as China, Brazil and India, for more than 100 years.



NORTH AMERICA

Development in North America has been strong across all segments, driven by operators' demand for rollout of 4G networks as well as 3G capacity upgrades. A wide range of 4G devices are available to North American consumers and this fueled traffic growth and operators' demand for network capacity. All Ericsson CDMA customers have transitioned to 4G/LTE.

+16%

MEDITERRANEAN

Sales for Networks and Support Solutions were negatively impacted by the macroeconomic environment in many countries, making operators more cautious with their investments. Global Services sales increased driven by network modernization projects.

–2%

LATIN AMERICA

In 2012, all major operators chose their 4G/LTE suppliers resulting in an estimated market share for Ericsson of more than 50% in 4G/LTE.

+0%

OTHER

Includes revenues generated across all regions, through licensing, sales of cables, broadcast services, power modules and other businesses.

+15%

KEY

ERICSSON GLOBAL SERVICE CENTER

ERICSSON SEGMENTS;
NETWORKS
GLOBAL SERVICES
MULTIMEDIA

+XX% PERCENTAGE REVENUE INCREASE

WESTERN AND CENTRAL EUROPE

Sales for Networks and Support Solutions declined due to cautious operator spending. Global Services sales increased slightly, driven by network modernization.

−8%

NORTHERN EUROPE AND CENTRAL ASIA

Lower operator investments during the year, primarily in Russia, impacted sales negatively.

−25%

NORTH EAST ASIA

Both Japan and South Korea are building country-wide 4G/LTE networks. In Japan sales grew during 2012, while sales in Korea were negatively impacted by lower 3G revenues. China had focus on the coming 4G/LTE rollouts and GSM sales declined.

−5%

MIDDLE EAST

2012 was characterized by political unrest in some countries which made operators more cautious. Operators focused on network performance and efficiency which drove sales for Global Services.

+1%

INDIA

India had a weak year, due to low activity levels with operator investments only in certain areas.

−34%

SOUTH EAST ASIA AND OCEANIA

Sales growth was driven by 3G deployments in Indonesia, Thailand and the Philippines. Global Services developed well in Australia during the year.

+9%

SUB-SAHARAN AFRICA

Sales increased in all segments mainly driven by rollout of 2G/GSM voice services. Mobile broadband penetration slowly increased with low-cost smartphone availability.

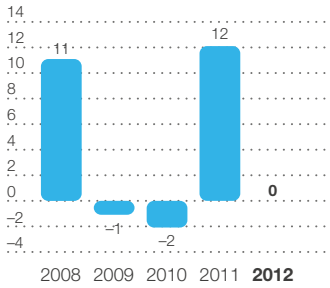
+12%

OUR PERFORMANCE

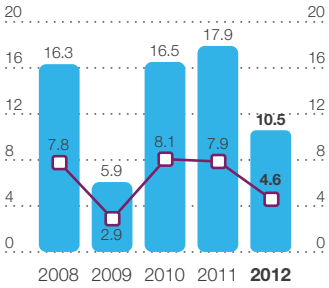
Our overall goal is to create shareholder value. We use a range of financial and non-financial targets to drive business performance.

	GROWING SALES FASTER THAN THE MARKET	BEST-IN-CLASS OPERATING MARGIN	STRONG CASH CONVERSION
What we aim for			
Why we measure it	Outperforming our market confirms the validity of our strategic direction.	A clear focus on operating margins demonstrates our commitment to profitable growth.	A strong cash position supports new business activity, enables appropriate acquisition opportunities and provides resilience to external economic volatility.
Our performance	**Revenue growth**	**Profitability**	**Capital efficiency**

Revenue growth
Percent

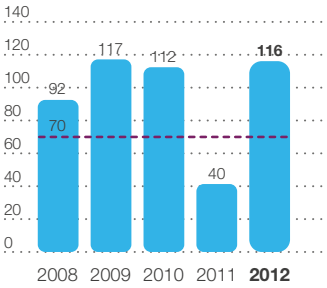


Profitability
SEK billion Percent



Operating income, including JV(s)
Operating margin, including JV(s)

Capital efficiency
Percent



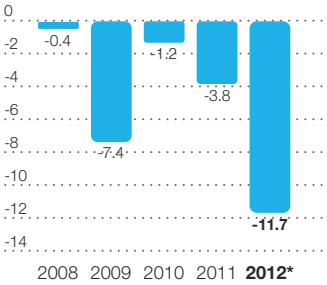
Cash conversion
Target

GROWTH IN JV EARNINGS

The modem technology has a strategic value to the wireless industry.

Share in earnings of JVs and associated companies

(SEK billion)



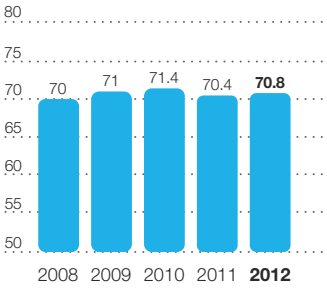
Share in earnings of Sony Ericsson included 2008–2011.

* 2012 includes a non-cash charge of SEK 8.0 billion.

CUSTOMER SATISFACTION

Customer satisfaction is a prerequisite for customer loyalty. We strive to ensure that our customers perceive us as a thought leader and their preferred business partner.

Customer satisfaction index



EMPLOYEE ENGAGEMENT

Engaged employees are motivated to contribute to the success of Ericsson and are willing to go the extra mile to meet the organization's goals.

Employee engagement index

77%

(2011: 77%)

Our score is 8 percentage points higher than external benchmark average, as measured across over 250 companies. We started to measure the engagement index in 2011.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Our approach to sustainability and corporate responsibility is integrated into our core business operations and in our relationship with stakeholders.

40%

We achieved our five-year target, to reduce carbon footprint intensity by 40%, one year ahead of time

SUSTAINABILITY

Sustainability is about the "triple bottom line":

- Social equity; communication is a basic human need and should be available to everyone
- Environmental performance; minimizing environmental impact and creating a low-carbon society
- Economic prosperity; contributions to social and economic development.

We have implemented strong social, ethical and environmental standards. This commitment generates positive business impacts, which in turn benefit society.

Reducing environmental impact

The energy use of products in operation remains our most significant environmental impact. We also work to reduce our own environmental impact. Focus is on product energy efficiency and materials management as well as business travel, facilities and transport of our products. We have set a five-year target to reduce Ericsson carbon footprint intensity by 40% for products in operation and for our own operations and we have achieved it one year ahead of time.

We work proactively with our customers to encourage network and site energy optimization.

One aspect of our sustainability strategy is the role broadband can play in helping to offset global CO_2 emissions.

70% of these are attributed to cities. We work on sustainable city solutions and are engaged in global climate policy.

Technology for Good

Our Technology for Good program is focused on applying Ericsson's expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world. We have used our technology and competence to help achieve the Millennium Development Goals for more than a decade.

Through our volunteer program Ericsson Response™, we have played an active role in humanitarian disaster relief efforts.

CORPORATE RESPONSIBILITY

Corporate Responsibility is about managing risks to secure that Ericsson remains a trusted partner among our stakeholders.

Conducting business responsibly

We actively support the UN Global Compact, and endorse its principles regarding human and labor rights, anti-corruption and environmental protection.

We have a Code of Business Ethics and a Code of Conduct which reflect responsible business practices. Promotion of these practices is reinforced by employee awareness training, workshops and monitoring.

Suppliers must comply with our Code of Conduct.

We continued to develop our anti-corruption program and broadened Ericsson's whistleblower procedure.

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2012 Annual Report.pdf

CHANGING LIVES

Mobile broadband helps people share information and ideas, and work more collaboratively. It changes the way we are entertained, and the way we communicate. It promotes social and economic progress and reduces environmental impact, improving quality of life in all parts of the world. It makes m-commerce possible anywhere, even in remote areas, and delivers public services effectively to billions. In all of these ways, Ericsson is shaping the world's future through its continuous technology leadership in mobile broadband.

x12

Global mobile data traffic is estimated to grow twelve fold by 2018.

Telcordia 0376

FIVE-YEAR SUMMARY

For definitions of the financial terms used, see Glossary, Financial Terminology and Exchange Rates.

Five-year summary

SEK million	2012	Change	2011	2010	2009	2008
Income statement items						
Net sales	227,779	0%	226,921	203,348	206,477	208,930
Operating income	10,458	–42%	17,900	16,455	5,918	16,252
Financial net	–276	–	221	–672	325	974
Net income	5,938	–53%	12,569	11,235	4,127	11,667
Year-end position						
Total assets	274,996	–2%	280,349	281,815	269,809	285,684
Working capital	100,619	–8%	109,552	105,488	99,079	99,951
Capital employed	176,653	–5%	186,307	182,640	181,680	182,439
Gross cash	76,708	–5%	80,542	87,150	76,724	75,005
Net cash	38,538	–2%	39,505	51,295	36,071	34,651
Property, plant and equipment	11,493	7%	10,788	9,434	9,606	9,995
Stockholders' equity	136,883	–4%	143,105	145,106	139,870	140,823
Non-controlling interest	1,600	–26%	2,165	1,679	1,157	1,261
Interest-bearing liabilities and post-employment benefits	38,170	–7%	41,037	35,855	40,653	40,354
Per share indicators						
Earnings per share, basic, SEK	1.80	–53%	3.80	3.49	1.15	3.54
Earnings per share, diluted, SEK	1.78	–53%	3.77	3.46	1.14	3.52
Cash flow from operating activities per share, SEK	6.85	120%	3.11	8.31	7.67	7.54
Cash dividends per share, SEK	2.75 [1]	10%	2.50	2.25	2.00	1.85
Stockholders' equity per share, SEK	42.51	–5%	44.57	45.34	43.79	44.21
Number of shares outstanding (in millions)						
end of period, basic	3,220	–	3,211	3,200	3,194	3,185
average, basic	3,216	–	3,206	3,197	3,190	3,183
average, diluted	3,247	–	3,233	3,226	3,212	3,202
Other information						
Additions to property, plant and equipment	5,429	9%	4,994	3,686	4,006	4,133
Depreciation and write-downs/impairments of property, plant and equipment	4,012	13%	3,546	3,296	3,502	3,105
Acquisitions/capitalization of intangible assets	13,247	–	2,748	7,246	11,413	1,287
Amortization and write-downs/impairments of intangible assets	5,877	7%	5,490	6,657	8,621	5,568
Research and development expenses	32,833	1%	32,638	31,558	33,055	33,584
as percentage of net sales	14.4%	–	14.4%	15.5%	16.0%	16.1%
Ratios						
Operating margin excluding joint ventures and associated companies	9.7%	–	9.6%	8.7%	6.5%	8.0%
Operating margin	4.6%	–	7.9%	8.1%	2.9%	7.8%
EBITA margin	6.6%	–	9.9%	11.0%	6.7%	9.4%
Cash conversion	116%	–	40%	112%	117%	92%
Return on equity	4.1%	–	8.5%	7.8%	2.6%	8.2%
Return on capital employed	6.7%	–	11.3%	9.6%	4.3%	11.3%
Equity ratio	50.4%	–	51.8%	52.1%	52.3%	49.7%
Capital turnover	1.3	–	1.2	1.1	1.1	1.2
Inventory turnover days	73	–	78	74	68	68
Trade receivables turnover	3.6	–	3.6	3.2	2.9	3.1
Payment readiness, SEK million	84,951	–2%	86,570	96,951	88,960	84,917
as percentage of net sales	37.3%	–	38.1%	47.7%	43.1%	40.6%
Statistical data, year-end						
Number of employees	110,255	5%	104,525	90,261	82,493	78,740
of which in Sweden	17,712	1%	17,500	17,848	18,217	20,155
Export sales from Sweden, SEK million	106,997	–8%	116,507	100,070	94,829	109,254

[1] For 2012, as proposed by the Board of Directors.

LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS

It is now almost two years since I assumed the role as Chairman of the Board of Ericsson, and looking back they have certainly been interesting years. The rapid pace of change of the industry and the transformative power of the technology are two reasons why I find this role so interesting and inspiring.

A year of strategy execution

During 2012, the Company continued to strengthen its core assets; technology and services leadership as well as global scale. A key event during the year was the completion of the divestment of Sony Ericsson. In addition, the Company has strengthened and streamlined its portfolio through a few strategic acquisitions and divestments.

Board discussions

During the year, the Board has closely monitored the overall market conditions for Ericsson such as macroeconomic development, customers' financial performance and strategy as well as the competitive landscape among ICT vendors. It is important for us to understand how potential moves by competitors, both commercial and technological, might change the landscape and the relative strength of the company.

A main focus area for the Board of Directors during the year has been Ericsson's financial performance and working capital development. Commercial management and the balance between market share gains and profitable growth have been key topics.

The Board has also closely monitored the work during the year to find the best solution for ST-Ericsson assets given the strategic options at hand.

Strong financial position

One of the Board's key areas of responsibility is to manage the Company's financial position. The Company has a strong balance sheet and we believe it is appropriate to remain fairly conservative considering the continued macroeconomic uncertainty in parts of the world. We will, as before, consider selective acquisitions but prefer to invest in further strengthening the Company's technology and services leadership and its offering to the market.

The Company's dividend policy takes into account last year's earnings and balance sheet structure, as well as coming years' business plans and expected economic development. Based on this, the Board proposes a dividend increase of 10%.

Importance of corporate governance

Good corporate governance is the basis for building a robust corporate culture. However, corporate governance is not only about efficient and reliable controls and procedures. It is also about adherence to strong principles of responsible business practice by all employees. Over time this strengthens the business, which in turn generates shareholder value. Ericsson has a strong portfolio for value creation at large, and strong social, environmental and governance standards supporting risk management.

I am proud to be Chairman of the Board of this Company with so many dedicated and competent people working hard every day, to stay the leader in this rapidly changing market.

Leif Johansson
Chairman of the Board of Directors

BOARD OF DIRECTORS' REPORT

CONTENTS

Trends and drivers	26
Business in 2012	27
Targets and performance	28
Financial results of operations	30
Financial position	32
Cash flow	34
Business results – region	35
Business results – segments	36
Corporate Governance	39
Material contracts	40
Risk management	40
Sourcing and supply	40
Sustainability and Corporate Responsibility	41
Legal proceedings	43
Parent Company	43
Post-closing events	45
Board assurance	45

TRENDS AND DRIVERS

Major industry trends in 2012 were operators focus on high-performance mobile broadband networks and their focus on increasing the operational efficiency. Tiered pricing and new business models continued to be high on our customers' agendas. In Europe, the network modernization projects continued the rapid implementation. In North America, Japan and Korea, major LTE rollouts took place.

Across the globe, operators continued to focus on increasing their operational efficiency and reducing their operating expenses. Their focus on operational efficiencies together with transformation activities in the voice, IP and OSS and BSS domains drove demand for consulting and systems integration as well as managed services.

When developing its internal plans, Ericsson looks at a number of parameters that have an impact on data traffic. These include:

- Smartphone subscriptions, as a percentage of total subscriptions
- Mobile broadband subscriptions, as a percentage of total mobile subscriptions
- Average data traffic and peaks in traffic.

Mobile subscriptions and smartphones

Today, 15–20% of the worldwide installed base of mobile phone subscriptions use smartphones. About 40% of all mobile phones sold during 2012 were smartphones, compared to around 30% for 2011. With less expensive smartphones being introduced, there is considerable room for further uptake.

Subscriptions

billion	2012	2018 Forecast
Mobile subscriptions	~6.3	~9
Mobile broadband subscriptions	~1.5	~6.5

Ericsson estimate

Mobile broadband subscriptions and population coverage

Mobile network coverage is constantly increasing. GSM/EDGE technology has the widest reach and covers more than 85% of the world population.

WCDMA/HSPA covers more than 50% of the world population. Further build out of WCDMA/HSPA coverage will be driven by factors such as demand for internet access and affordability of smartphones. By 2017, Ericsson estimates that 85% of the world's population will have access to WCDMA/HSPA.

All WCDMA networks deployed by Ericsson have been upgraded to HSPA of various speeds.

Despite being in the early days, LTE networks can already provide downlink peak rates of around 100 Mbps. There are around 60 LTE networks in commercial operation. By 2017, Ericsson estimates that 50% of the world's population will have LTE coverage.

Regions have different radio technology mixes dependent on maturity level. Less mature regions are dominated by 2G technologies while more mature regions are dominated by HSPA. LTE is growing strongly, particularly in North America, where LTE is forecasted to be the leading radio technology before 2018. The fast growth in LTE subscriptions is driven by strong competition and consumer demand, following CDMA operators' decisions to migrate to LTE.

Operators who have 2G or 3G-specific radio base stations will have to invest in new radio base stations in order to introduce 4G/LTE. The Ericsson multi-standard radio base station is an efficient way of doing so, being capable of all technologies; 2G, 3G and 4G/LTE.

Data traffic

Access to the internet from mobile devices continues to drive mobile traffic development. In 2012, mobile data traffic continued the trend of doubling each year. Ericsson estimates that mobile data traffic will grow 12 times between 2012 and 2018. The increasing data traffic will drive the need for more capacity in mobile broadband networks.

Data traffic per subscriber is partly dependent on the screen size of the user's device. Resolution is also a factor. On average, a mobile PC generates about seven times more data traffic than a smartphone.

Average mobile data traffic

	2012	2018 Forecast
Monthly data traffic per PC	3 GB	11 GB
Monthly data traffic per tablet	0.6 GB	2.7 GB
Monthly data traffic per smartphone	0.45 GB	1.9 GB

Ericsson estimate

BUSINESS IN 2012

Strong year for services

With strong growth in Global Services and Support Solutions in 2012, Ericsson took further steps in establishing itself as a leading ICT player. Networks sales declined 2012 following a strong 2011.

In the coming years, Ericsson expects software sales to gradually increase as radio expansions and upgrades, IP and OSS and BSS materialize. This development will result in more recurring revenues from software and services business as well as less capital utilization.

High share of coverage projects

Ericsson's gross margin and the amount of required capital employed vary with project type. When building network coverage, projects are often of a turnkey character. Generally there are more hardware and network rollout services in coverage projects, resulting in lower gross margin and a larger capital utilization.

During 2012, Ericsson was in a phase with a high share of coverage projects. Sales for 2012 showed a higher share of services and a lower share of hardware. This reflects the good momentum in services throughout the year, reduced CDMA infrastructure business and impact from network modernization projects in Europe.

Network modernization in Europe

The modernization of networks in Europe became an opportunity for the Company in mid-2010 when operators in Europe started to consider replacing old 2G and 3G equipment with multi-standard radio equipment.

Ericsson that had lost out on market share in 3G compared to its strong 2G position, identified this as an opportunity to regain footprint. Competition for new footprint is always tough and a strategic decision was taken to accept short-term profitability pressure to increase technology and services leadership. As a result, market share has increased and the Company has further strengthened its leading market position in Europe. Average project duration for these modernization projects is 18–24 months and the first projects were completed in late 2012. The negative impact from network modernization projects in Europe will continue to gradually decline during 2013 as projects are finalized.

Acquisitions, partnerships and divestments

The Company's strategy is to focus on organic growth and be selective with acquisitions. Acquisitions might be considered for three purposes: if there is a crucial opportunity to consolidate the Company's market position, to fill portfolio gaps, or to enter new growth areas. In 2012, the following activities were announced:

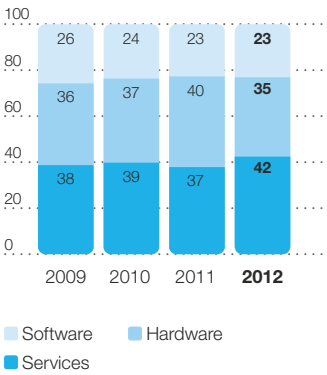
- Completion of the acquisition of Telcordia
- Completion of the divestment of the 50% stake in Sony Ericsson Mobile Communication AB to Sony in February. The divestment was effective on January 1, 2012
- Increased ownership in Ericsson-LG, now holding 75%
- Acquisition of Canadian telecom-grade Wi-Fi company BelAir Networks
- Acquisition of Technicolor's broadcast services division
- Divestment of EDA 1500 GPON portfolio to Calix, Inc.
- Acquisition of Canadian ConceptWave in the OSS and BSS domain
- Divestment of the multimedia brokering platform (IPX) to Gemalto.

Fair return on R&D investment

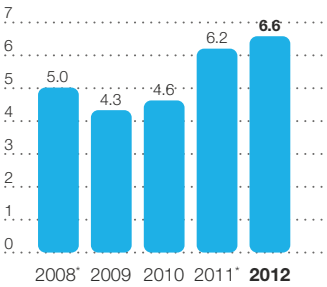
In the networked society, Ericsson envisions that anything that benefits from being connected will be connected.

In this scenario, Ericsson foresees new entrants to the connectivity markets, from device and equipment manufacturers as well as from other industries. Any company that provides wireless connectivity today is likely to require a license to Ericsson's patents. The Company believes it is the strongest holder of essential patents in the wireless industry. Ericsson has more than 100 patent license agreements and is a net receiver of royalties. The Company's product portfolio is well licensed, which is beneficial to its customers.

Software, hardware and services: share of total sales
Percent



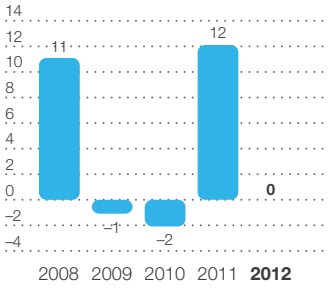
IPR revenue (net)
SEK billion



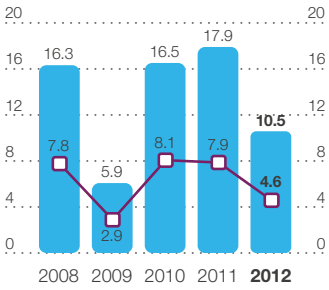
* One-off patent sales included

BOARD OF DIRECTORS' REPORT CONTINUED

Revenue growth
Percent



Profitability
SEK billion Percent



Operating income, including JV(s)
Operating margin, including JV(s)

*Ericsson's key network equipment market includes Radio, i.e. 2G, 3G, 4G RAN including CDMA, public WLAN access and OSS for mobile. IP and Transport includes IP Edge, packet core, microwave, opto metro and OSS for fixed. Core includes circuit-switched core, IMS, user data management and machine-to-machine.

Cash generation
A tight focus is kept on the cash generation of the Company and its working capital. Working capital decreased by –8% mainly due to lower inventories at year-end. The balance sheet is strong and the cash position sufficiently large to ensure the financial flexibility to invest in future growth and to capture business opportunities. The earnings and balance sheet structure makes it possible for the Board of Directors to propose to increase the dividend. This proposal reflects earnings and balance sheet structure in 2012, as well as coming years' business plans and expected economic development, according to Ericsson's dividend policy.

Cost and efficiency
The Board of Directors has paid extra attention to commercial management and the balance of market share gains with profitable growth. In addition, the Company has also taken a number of initiatives to reduce cost and increase capital efficiency. Among these is the multi-year program to reduce cost by industrializing service delivery, implementing more lean and agile ways of working in software development as well as improving the order-to-cash process. The Company will also continue to optimize capital expenditures and debt management.

TARGETS AND PERFORMANCE

Ericsson's overall goal is to create shareholder value. Management uses four financial metrics to evaluate the Company's long-term ambitions:

- Sales growth faster than the market
- Best-in-class operating margin
- Growth in joint ventures' earnings
- Strong cash conversion.

The Board of Directors has translated these metrics into three performance criteria in the Executive Performance Stock Plan, included in the Company's Long-Term Variable (LTV) remuneration program. These performance criteria have been approved by the Annual General Meeting.

Long-term ambitions
Grow faster than the market
Ericsson maintained its share of global installed base of radio base stations at close to 40%.

In 2012, Ericsson widened the definition* of the equipment market to also reflect the R&D investments during the past years. For the equipment market, which includes the key segment of Radio, IP and Transport as well as Core, preliminary market data indicates that the market share was 24%, down from 27% in 2011. The decline is due to a lower market share in the mobile network equipment market, at 35%, down from 38% in 2011, negatively impacted by the technology shift in China where investments are moving from GSM to other technology areas where Ericsson has limited presence.

Ericsson's global market share for LTE is twice as big as the largest competitor, measured in shipments for the full year 2012. This makes Ericsson the world's largest supplier of LTE. The LTE technology is still in an early build-out phase.

As expected, Ericsson's sales of CDMA equipment decreased by –40% in 2012, following operators' transition to LTE. All Ericsson CDMA customers are now Ericsson LTE customers.

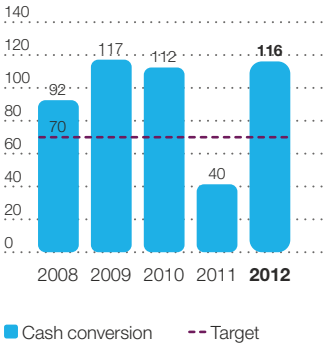
In telecom services, internal market data indicates that the Company increased its market share to 13% and is larger than any of its competitors in this fragmented market. After the acquisition of Telcordia, consolidated as from January 2012, Ericsson has a leading position in OSS and BSS.

Best-in-class operating margin
The Company's operating margin before share in JV earnings and gain from the sale of its share in Sony Ericsson was 6.4% (9.6%). Based on reported results for 2012, the operating margin remains the highest among the Company's traditional publicly listed telecom competitors.

Growth in JV earnings
The Ericsson share in earnings of joint ventures and associated companies was SEK –11.7 (–3.8) billion. The Company took a non-cash charge of SEK 8.0 billion, related to its 50% stake of ST-Ericsson. The charge included write-down of investments of SEK 4.7 billion to reflect the current best estimate of Ericsson's share of the fair market value of the JV. A provision of SEK 3.3 billion was also included, related to the available strategic options at hand for the future of the ST-Ericsson assets. Ericsson's share of the JV Sony Ericsson was divested in early 2012 resulting in a gain of SEK 7.7 billion, reported as Other operating income. The Company did not consolidate Sony Ericsson in 2012.

Capital efficiency

Percent



Cash conversion

The cash conversion rate was 116% (40%), driven by reduced working capital. The Company reached its target of a cash conversion rate above 70%. Cash conversion is defined as cash flow from operating activities divided by the sum of net income and adjustments to reconcile net income to cash.

Other performance indicators

Ericsson believes that satisfied customers and motivated employees are key to success.

Customer satisfaction

Every year, an independent customer satisfaction survey is performed. In 2012 about 15,000 representatives of Ericsson customers, in different positions around the world, were polled to assess their satisfaction with Ericsson, compared to its main competitors. Over the past five years, Ericsson has maintained a high level of excellence; a customer satisfaction index above 70. The goal is to further increase the customer satisfaction.

Employee engagement

In order to measure employee engagement, an annual survey is conducted by an independent company. In 2012, 94% (90%) of employees across the world responded to the survey.

The 2012 survey results show a continued strong employee engagement. The Employee Engagement index is 77%, which is unchanged from 2011 and 8%–points higher than the external benchmark average.

Executive Performance Stock Plan

The Company has a Long-Term Variable (LTV) remuneration program. It builds on a common platform, but consists of three separate plans; one targeting all employees, one targeting key contributors and one targeting senior management. The program is designed to encourage long-term value creation in alignment with shareholders' interests.

The aim of the plan for senior managers is to attract, retain and motivate executives in a competitive market through performance-based share-related incentives and to encourage the build-up of significant equity stakes. The performance criteria for senior management, i.e. the Executive Performance Stock Plan, are revised yearly and approved by the Annual General Meeting. Performance criteria for the 2013 Executive Performance Stock Plan will be communicated in the notice to the Annual General Meeting.

The targets for the 2011 and 2012 Executive Performance Stock Plans are shown in the illustration below. The performance criteria are:

- Up to one-third of the award will vest if the target for compound annual growth rate of consolidated net sales is achieved
- Up to one-third of the award will vest if the target for compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is achieved. For the 2011 plan, base year 2010 is excluding restructuring of SEK 6.8 billion.
- Up to one-third of the award will vest if cash conversion is at or above 70% during each of the years and vesting one-ninth of the award for each year the target is achieved. The target was reached in 2012 but not reached in 2011.

Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, reduce the number of performance shares.

Working capital targets

Ericsson's working capital targets are described on page 32. The targets remain for 2013.

Shareholder value creation

Long-term ambition	Executive Performance Stock Plan 2011 targets for 2011–2013 Base year 2010	Executive Performance Stock Plan 2012 targets for 2012–2014 Base year 2011
GROW FASTER THAN THE MARKET	Net sales growth 4–10% CAGR	Net sales growth 2–8% CAGR
BEST-IN-CLASS MARGINS	Operating income growth 5–15% CAGR including JV(s) and restructuring*	Operating income growth 5–15% CAGR including JV(s) and restructuring
GROWTH IN JV EARNINGS		
STRONG CASH CONVERSION	Cash conversion ≥ 70% annually	Cash conversion ≥ 70% annually

* Base year 2010 excl. restructuring

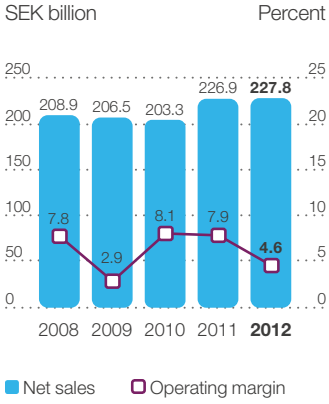
BOARD OF DIRECTORS' REPORT CONTINUED

FINANCIAL RESULTS OF OPERATIONS

Abbreviated income statement

	IFRS			Restructuring charges		
SEK billion	2012	2011	2010	2012	2011	2010
Net sales	227.8	226.9	203.3			
Cost of sales	–155.7	–147.2	–129.1	–2.2	–1.2	–3.4
Gross income	72.1	79.7	74.3		–1.2	–3.4
Gross margin %	31.6%	35.1%	36.5%			
Operating expenses	–58.9	–59.3	–58.6	–1.2	–2.0	–3.5
Operating expenses as % of sales	25.8%	26.1%	28.8%			
Other operating income and expenses	9.0	1.3	2.0	–	–	–
Operating income before share in earnings of JVs and associated companies	22.2	21.7	17.6	–3.4	–3.2	–6.8
Operating margin % before share in earnings of JVs and associated companies	9.7%	9.6%	8.7%			
Share in earnings of JVs and associated companies	–11.7	–3.8	–1.2	–0.3	–0.6	–0.5
Operating income	10.5	17.9	16.5	–3.8	–3.7	–7.3
Operating margin %	4.6%	7 9%	8.1%			
Financial income and expenses, net	–0.3	0.2	–0.7			
Taxes	–4.2	–5.6	–4.5			
Net income	5.9	12.6	11.2			
EPS diluted (SEK)	1.78	3.77	3.46			

Net sales and operating margin incl. JVs



Sales

2012 was a year with strong growth in Global Services and Support Solutions while Networks had a more challenging year. Sales for comparable units, adjusted for foreign currency exchange rates and hedging, decreased –2%. The acquired Telcordia operation added sales of SEK 4.2 billion, split 50/50 between the segments Global Services and Support Solutions.

In 2012, the Company continued to execute its strategy to leverage its strengths in the growth areas of mobile broadband, managed services as well as OSS and BSS. Due to the current technology cycle in which mobile broadband is being rolled out, the business mix in 2012 continued to include a higher share of coverage business than capacity business. Ericsson was also to a large extent engaged in network modernization projects in Europe with its lower margins.

Sales of CDMA equipment declined –40% to SEK 8.4 (14.0) billion. The decline in CDMA was expected and planned for, following operators migration to LTE. The growth in Global Services is primarily related to continued good momentum in managed services and consulting and systems integration as well as network rollout sales following a high share of coverage projects. The sales growth in Support Solutions is mainly driven by TV and media management, business support solutions (charging solutions) and the acquisition of Telcordia. The segments Global Services and Support Solutions together represented close to 50% of Group sales.

In 2012, five of our ten regions showed growth. The share of software sales was unchanged in 2012, at 23% (23%) of sales while the portion of hardware decreased to 35% (40%) and services increased to 42% (37%) of Group sales. Longer term, the software part is expected to increase following more expansions and upgrades of networks.

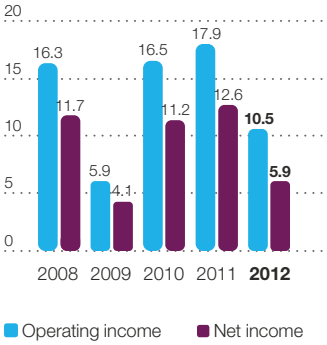
IPR (intellectual property rights) revenues showed a favorable development and amounted to SEK 6.6 (6.2) billion.

Seasonality

The Company's quarterly sales, income and cash flow from operations are seasonal in nature, generally lowest in the first quarter of the year and highest in the fourth quarter. This is mainly a result of the seasonal purchase patterns of network operators.

Operating income and net income

SEK billion



Most recent five-year average seasonality	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	–21%	7%	–2%	26%
Share of annual sales	23%	24%	24%	30%

Gross margin

Gross margin declined to 31.6% (35.1%). The decrease is due to increased share of Global Services sales, higher proportion of coverage than capacity projects and network modernization projects in Europe. Close to 50% of the gross margin decline is related to the increased services share.

With current visibility, the underlying business mix, with a higher share of coverage projects than capacity projects, is expected to gradually shift towards more capacity projects during the second half of 2013. The negative impact from the network modernization projects in Europe will continue to gradually decline during 2013.

Operating expenses

Total operating expenses declined slightly. Excluding acquisitions and restructuring charges, Group operating expenses amounted to SEK 55.1 billion, down –4% from 2011.

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses (see table below) increased slightly due to higher restructuring charges and acquisitions. Based on current portfolio and efficiencies in ways of working, R&D expenses for 2013 are expected to decrease somewhat.

Selling and administrative expenses represented 11.4% of sales compared to 11.8% in 2011.

Research and development	2012	2011	2010
Expenses (SEK billion)	32.8	32.6	31.6
As percent of Net sales	14.4%	14.4%	15.5%
Employees within R&D as of December 31 [1]	24,100	22,400	20,800
Patents [1]	33,000	30,000	27,000

[1] The number of employees and patents are approximate.

Operating margin before JVs

Operating margin before share in JV earnings was 9.7% (9.6%). Excluding the gain related to the divestment of the share of Sony Ericsson, operating margin was 6.4%. The negative impact was due to the business mix having more coverage business than capacity business as well as network modernization projects in Europe.

Share in earnings of JVs

ST-Ericsson reported a loss in 2012. Ericsson's share in ST-Ericsson's income before tax, adjusted to IFRS, was SEK –3.7 (–2.7) billion. The reported loss of SEK –11.7 billion includes a write-down of investments of SEK 4.7 billion and a provision of SEK 3.3 billion.

Other Operating income and expenses

Other operating income and expenses includes a gain of SEK 7.7 billion related to the divestment of Sony Ericsson. It also includes a gain of SEK 0.2 billion from the divestment of the Multimedia brokering (IPX) operation.

Financial net

The financial net decreased mainly due to negative currency exchange revaluation effects on financial investments and liabilities.

Taxes

The tax rate for the year was 42% (31%) of income after financial items. The high tax rate is due to product and market mix as well as a reduction in corporate tax rate for 2013, decided by the Swedish Parliament. The lower corporate tax rate in Sweden reduced the deferred tax assets with approximately SEK 0.5 billion. Over time, the lower tax rate in Sweden will have a positive impact on taxes.

Net income

Net income decreased primarily due to the negative impact from ST-Ericsson and lower contribution from Networks.

Earnings per share, diluted

Earnings per share decreased –53% to SEK 1.78 (3.77). Earnings per share, non-IFRS, decreased –42% to SEK 2.74 (4.72). The Board of Directors proposes a dividend of SEK 2.75 (2.50). This represents an increase of 10% over 2011.

Restructuring charges

Restructuring charges were SEK 3.4 (3.2) billion, excluding joint ventures. Restructuring charges mainly relate to continued execution of the service delivery strategy as well as other ongoing cost reduction measures. Cash outlays that have been provided for were SEK 1.2 (3.2) billion. At the end of the year, cash outlays of SEK 1.2 (1.3) billion remain to be made. Ericsson's share in ST-Ericsson's restructuring charges was SEK 0.3 (0.1) billion.

BOARD OF DIRECTORS' REPORT CONTINUED

FINANCIAL POSITION

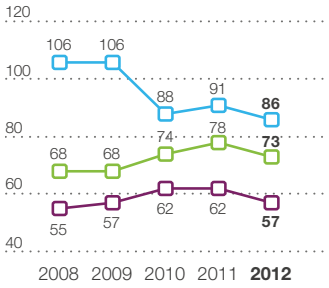
Consolidated balance sheet (abbreviated)

December 31, SEK billion	2012	2011	2010		2012	2011	2010
Assets				**Equity and liabilities**			
Non-current assets, total	81.7	81.5	83.4	Equity	138.5	145.3	146.8
of which intangible assets	49.4	44.0	46.8	Non-current liabilities	39.1	38.1	38.3
of which property, plant and equipment	11.5	10.8	9.4	*of which post-employment benefits*	9.5	10.0	5.1
of which financial assets	8.5	13.7	14.5	*of which borrowings*	23.9	23.3	27.0
of which deferred tax assets	12.3	13.0	12.7	*of which other non-current liabilities*	5.7	4.8	6.2
Current assets, total	193.3	198.8	198.4	Current liabilities	97.4	97.0	96.8
of which inventory	28.8	33.1	29.9	*of which provisions*	8.4	6.0	9.4
of which trade receivables	63.7	64.5	61.1	*of which current borrowings*	4.8	7.8	3.8
of which other receivables/financing	24.1	20.7	20.2	*of which trade payables*	23.1	25.3	25.0
of which short-term investments, cash and cash equivalents	76.7	80.5	87.2	*of which other current liabilities*	61.1	58.0	58.6
Total assets	275.0 [1]	280.3	281.8	Total equity and liabilities [1]	275.0	280.3	281.8

[1] Of which interest-bearing liabilities and post-employment benefits SEK 38.2 (41.0) billion.

Working capital

Days



- Days sales outstanding (Target is less than 90 days)
- Inventory days (Target is less than 65 days)
- Payable days (Target is more than 60 days)

Ericsson's strategy is to maintain a strong balance sheet, including a sufficiently large cash position to ensure the financial flexibility to invest in future growth and to capture business opportunities. This has been particularly important during the past years' difficult macroeconomic and financial market situation. By maintaining a strong cash position, the Company gains competitive advantages and can maintain an active strategy for selective acquisitions.

The Company's capital targets are to have an equity ratio above 40%, to generate a cash conversion rate above 70%, to have a positive net cash position and to achieve solid investment grade ratings.

An important focus area is the monitoring of working capital. Major efforts have been made during the year in order to reduce days sales outstanding and inventory turnover days as well as to increase payable days. The target for days sales outstanding was met, while the other two targets were not achieved. Efforts to further reduce working capital will continue in 2013 and the working capital targets are the same as previous years.

For 2011, the dividend was SEK 2.50 per share. The Board of Directors will propose to the Annual General Meeting 2013 a dividend of SEK 2.75 per share for 2012. This represents a total dividend of approximately SEK 9.1 (8.2) billion. The proposal reflects year 2012's earnings and balance sheet structure, as well as coming years' business plans and economic development, according to Ericsson's dividend policy.

Non-current assets

Intangible assets increased to SEK 49.4 (44.0) billion due to acquisitions during the year. Customer financing, current and non-current, increased to SEK 5.3 (4.2) billion.

Current assets

Inventory levels decreased at the end of the year. At year end, inventory was SEK 28.8 (33.1) billion. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2013.

Trade receivables: Days sales outstanding reached 86 (91) days at year end due to strong sales and good collections. The Company's credit losses have historically been low and continued to be so in 2012.

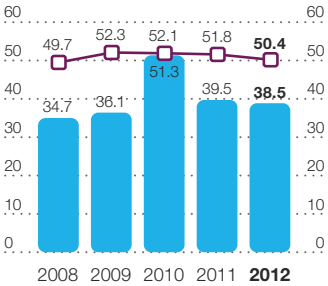
Net cash decreased by SEK 1.0 billion. For a more detailed discussion on changes in cash, see pages 34–35.

Equity

Equity decreased by SEK –6.8 billion primarily due to the non-cash charge of SEK 8.0 billion related to ST-Ericsson. The equity ratio was maintained at a healthy level of 50.4% (51.8%). Return on equity decreased to 4.1% (8.5%)

Net cash and equity ratio

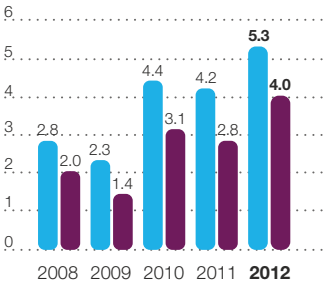
SEK billion Percent



Net cash Equity ratio

Customer financing

SEK billion



Customer financing net
Of which short-term

due to lower profitability. Return on capital employed (ROCE) was 6.7% (11.3%).

Non-current liabilities

Post-employment benefits related to defined benefit plans declined to SEK 9.5 (10.0) billion. In 2012 there was a decrease in discount rates, which was offset as plan assets yielded higher than expected.

Non-current borrowings was almost unchanged at SEK 23.9 (23.3) billion. In 2012, Ericsson performed refinancing activities to extend its average debt maturity profile and to further diversify funding sources:

- Issue of a USD-denominated 1 billion ten-year bond in order to refinance debt maturing in 2012 to 2014
- Repurchase of EUR 441 million related to the 2013 and 2014 EMTN bonds in order to reduce gross debt and optimize net interest
- Repayment of two SEK-denominated bonds with a total of SEK 3.5 billion at maturity
- Taken up a loan with the Nordic Investment Bank of EUR 0.15 billion (or the equivalent in USD). The loan is divided into two equal tranches with seven-year and nine-year maturities respectively.
- Signed loan agreement with the European Investment Bank of EUR 0.5 billion (or the equivalent in USD) with an option for disbursement until April 2014. The loan will mature seven years after disbursement
- The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.

Current liabilities

Provisions increased to SEK 8.4 (6.0) billion. SEK 1.2 (1.3) billion were related to restructuring. The cash outlays of provisions were SEK 3.5 (6.0) billion. The higher amount of provisions is due to a provision of SEK 3.3 billion related to ST-Ericsson. Provisions will fluctuate over time, depending on business mix, market mix and technology shifts.

Payable days decreased to 57 (62) days, reflecting the high level of network rollout where suppliers normally have shorter payment days. The target of payable days of more than 60 days was not met.

Credit ratings at "solid investment grade"

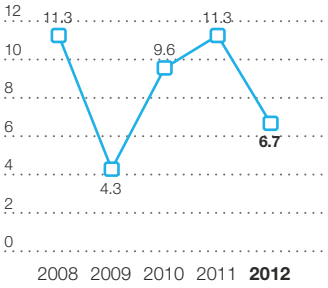
Moody's rate Ericsson A3 with a stable outlook and Standard & Poor's at BBB+ with stable outlook. The rating remained unchanged in 2012. In beginning of 2013 both rating institutes changed their outlook to negative.

Off-balance sheet arrangements

There are currently no material off-balance sheet arrangements that have, or would be reasonably likely to have, a current or anticipated effect on the Company's financial condition, revenues, expenses, result of operations, liquidity, capital expenditures or capital resources.

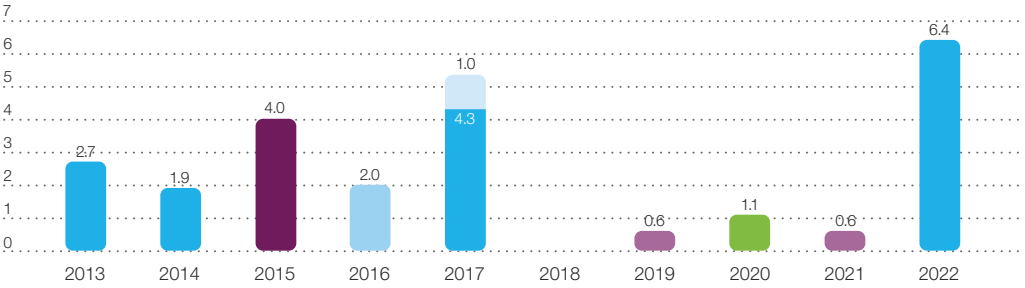
Return on capital employed

Percent



Debt maturity

SEK billion



Notes & bonds Financial Leases European Investment Bank Nordic Investment Bank
Loan from the Swedish Export Credit Corporation guaranteed by the Swedish Export Credit Guarantee Board
Loan from the Swedish Export Credit Corporation

BOARD OF DIRECTORS' REPORT CONTINUED

CASH FLOW

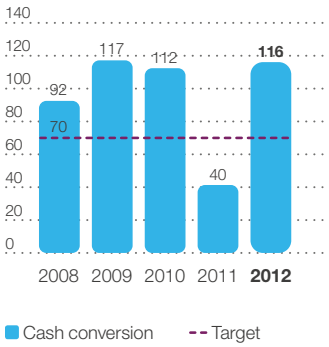
Cash flow (abbreviated) January 1 – December 31

SEK billion	2012	2011	2010
Net income	5.9	12.6	11.2
Income reconciled to cash	19.0	25.2	23.7
Changes in operating net assets	3.0	–15.2	2.9
Cash flow from operating activities	22.0	10.0	26.6
Cash flow from investing activities	–4.9	4.5	–12.5
of which capital expenditures, sales of PP&E, product development	–6.5	–6.1	–5.2
of which acquisitions/divestments, net	–2.1	–3.1	–2.8
of which short-term investments for cash management purposes and other investing activities	3.7	13.8	–4.5
Cash flow before financing activities	17.1	14.5	14.0
Cash flow from financing activities	–9.4	–6.5	–5.7
Cash conversion (Cash flow from operating activities divided by income reconciled to cash)	116%	40%	112%
Gross cash (Cash, cash equivalents and short-term investments)	76.7	80.5 [1]	87.2
Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)	38.5	39.5	51.3

[1] Including loan to ST-Ericsson of SEK 2.8 billion.

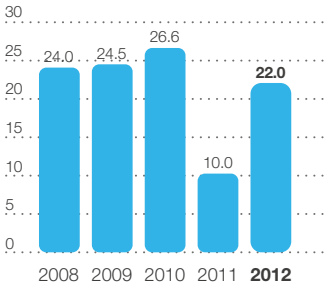
Cash conversion

Percent



Cash flow from operating activities

SEK billion



Cash conversion

Cash conversion was 116% (40%), above the target of 70%. Cash conversion in 2012 was positively impacted by lower working capital.

Cash flow from operating activities

The operating cash flow was positively impacted by reduced working capital.

Cash flow from investing activities

Cash outlays for regular investing activities increased to SEK –6.5 (–6.1) billion. Acquisitions and divestments during the year were net SEK –2.1 (–3.1) billion, with the major item being the USD 1.15 billion acquisition of Telcordia and the divestment of Sony Ericsson.

Cash flow from short-term investments for cash management purposes and other investing activities was net SEK 3.7 (13.8) billion, mainly attributable to changes between short-term investments and cash and cash equivalents.

Capital expenditures

Annual capital expenditures are normally around 2% of sales. This corresponds to the needs for keeping and maintaining the current capacity level, including the introduction of new technology and methods. Expenditures are largely related to test equipment in R&D units and network operations centers as well as manufacturing and repair operations.

The Board of Directors reviews the Company's investment plans and proposals. The Company believes it has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2013.

We believe that the Company's property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2012, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

Capital expenditures 2008–2012

SEK billion	2012	2011	2010	2009	2008
Capital expenditures	5.4	5.0	3.7	4.0	4.1
of which in Sweden	1.3	1.7	1.4	1.3	1.6
Share of annual sales	2.4%	2.2%	1.8%	1.9%	2.0%

Cash flow from financing activities

Cash flow from financing activities was SEK –9.4 (–6.5) billion, mainly impacted by dividend paid of SEK –8.6 (–7.5) billion. Other financing activities net amounted to SEK –0.8 (1.0) billion. However, substantial refinancing activities were performed during 2012 to extend the average debt maturity profile and to further diversify funding sources. For more information see section "Non-Current Liabilities", on previous page.

Cash held in countries with exchange controls

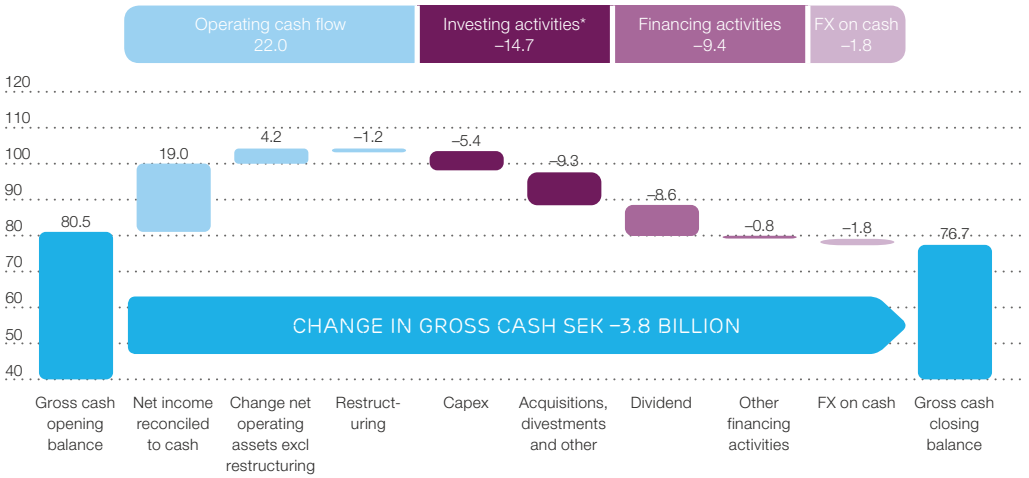
The Company holds cash or cash equivalents in countries where exchange controls or legal restrictions apply. These restrictions normally refer to approval procedures prior to cross-border cash transfers. The amount of cash and cash equivalents in such countries is SEK 10.6 (13.9) billion, of which SEK 9.2 (12.8) billion can be used for repayment of external and internal liabilities as well as other operating needs. Therefore, net cash and cash equivalents that are not readily available for use by the Group is SEK 1.4 (1.1) billion.

Gross cash and net cash

The change in gross cash of SEK 3.8 billion is related to ST-Ericsson where loans of SEK 5.0 billion were converted into investments. The net income reconciled to cash was SEK 19.0 (25.2) billion. Net operating assets was SEK 3.0 (–15.2) billion and investing activities SEK –14.7 (–9.9) billion. Dividends to shareholders amounted to SEK –8.6 (–7.5) billion. This resulted in a decrease in net cash of SEK 1.0 billion.

Change in gross cash

SEK billion



* As disclosed under Financial Terminology, Gross Cash is defined as cash, cash equivalents and short-term investments. Cash as presented in the balance sheet and related notes includes cash, cash equivalents and short-term investments of a maturity less than three months. Due to different treatment of cash in the above table and related foreign currency impact, the amounts differ from those in other presentations of cash flows.

BUSINESS RESULTS – REGIONS

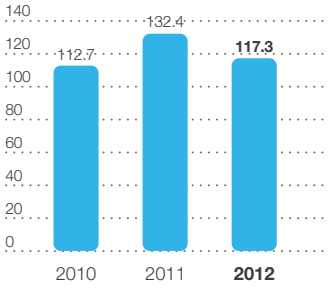
Sales per region and segment 2012 and percent change from 2011

	Networks		Global Services		Support Solutions			
SEK billion	2012	Percent change	2012	Percent change	2012	Percent change	Total 2012	Percent change
North America	30.5	6%	23.5	27%	2.7	103%	56.8	16%
Latin America	9.8	–15%	10.6	12%	1.6	65%	22.0	0%
Northern Europe and Central Asia	6.3	–35%	4.5	–10%	0.5	–6%	11.3	–25%
Western and Central Europe	6.2	–21%	10.6	3%	0.7	–27%	17.5	–8%
Mediterranean	9.5	–11%	13.0	10%	0.8	–42%	23.3	–2%
Middle East	6.8	–9%	7.3	7%	1.5	24%	15.6	1%
Sub-Saharan Africa	6.4	10%	3.9	14%	1.0	16%	11.3	12%
India	3.5	–42%	2.5	–22%	0.5	–14%	6.5	–34%
North East Asia	22.4	–19%	13.3	34%	0.5	0%	36.2	–5%
South East Asia and Oceania	8.0	6%	6.6	18%	0.5	–29%	15.1	9%
Other [1]	7.9	–14%	1.2	–844%	3.1	90%	12.3	15%
Total	117.3	–11%	97.0	16%	13.5	26%	227.8	0%
Share of total	51%		43%		6%		100%	

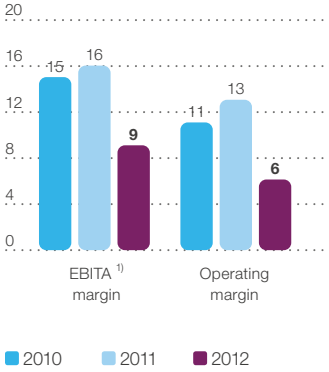
[1] Region "Other" includes licensing revenues, sales of cables, broadcast services, power modules and other businesses. In the regional dimension, all of the Telcordia sales are reported in the Support Solutions segment except for North America where it is split 50/50 between Global Services and Support Solutions. The acquired Technicolor Broadcast Service Division is reported in region "Other". Multimedia brokering (IPX) was previously reported in each region in segment Support Solutions. For the first three quarters 2012 it was part of region "Other". Multimedia brokering (IPX) was divested end of Sept. 2012.

BOARD OF DIRECTORS' REPORT CONTINUED

Networks sales
SEK billion

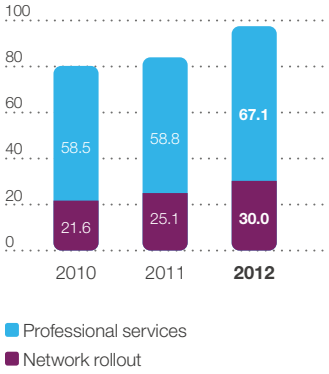


Networks profitability
Percent



[1] EBITA – Earnings before interest, tax, amortizations and write-downs of acquired intangibles

Global Services sales
SEK billion



BUSINESS RESULTS – SEGMENTS

Networks

Sales

Sales were SEK 117.3 (132.4) billion following a strong 2011. Organic and adjusted for foreign currency change effect, sales declined –12%. The decline is primarily related to lower sales in China, Russia, India and South Korea. North America grew despite the –40% decline in CDMA equipment sales. The IP portfolio developed favorably, especially packet core products.

The decline in sales of CDMA equipment was expected. Sales of CDMA equipment amounted to SEK 8.4 (14.0) billion. In CDMA, the priority has been to support customers' migration to Ericsson's LTE solution and excel in life-cycle management. Ericsson is today a key supplier to all four major operators in North America.

Profitability

Operating margin decreased due to lower sales as well as negative impact from a business mix with more coverage than capacity projects. In addition, modernization projects in Europe impacted profitability negatively.

Business in 2012

In 2012, Ericsson maintained its share of global installed base of radio base stations of close to 40%, which is almost the size of number two and three combined.

For the key market areas the Company addresses: Radio, IP and Transport as well as Core, preliminary market date indicates that the combined market share was 24%, down from 27% in 2011. The decline is due to a lower market share in the mobile network equipment market; from 38% in 2011 to 35% in 2012, negatively impacted by the technology shift in China, where investments are moving from GSM to other technology areas where Ericsson has limited presence.

Operators' focus on improving network performance and on service differentiation has been a main driver for mobile broadband investments throughout the year.

In 2012, AIR, the world's first commercially deployed antenna-integrated radio and part of the RBS 6000 family, met accelerating demand. AIR provides enhanced radio performance and ease of deployment.

After the initial large-scale LTE rollouts in the US, Korea and Japan, Ericsson is now starting to see other countries following. Late 2012, Latin America started LTE rollouts and after executing awarded contracts Ericsson will have a strong LTE footprint in Latin America, substantially higher than its 3G market share in the region.

Up until the end of 2011, Ericsson had won a total of 38 contracts for LTE on five continents.

At the end of 2012, Ericsson had won more than 120 contracts for LTE on six continents. More than 60 LTE networks were in commercial use.

Ericsson´s global market share for LTE was twice as big as the largest competitor, measured in shipments for full year 2012

In 2012, Ericsson put the world's first converged multi-standard radio base station for LTE FDD/TDD into commercial operation.

The demand for IMS is increasing as operators are preparing to launch Voice over LTE (VoLTE). Ericsson has a number of contracts for VoLTE.

The demand for circuit-switched core will continue to decline.

During the year, the Smart Services Router (SSR) gained good traction and 39 contracts were signed.

Competitors

In the Networks segment, Ericsson competes mainly with telecommunication equipment suppliers such as Alcatel-Lucent, Cisco, Huawei, Juniper, Nokia Siemens Networks, Samsung and ZTE. The Company also competes with local and regional manufacturers and providers of telecommunications equipment.

Global Services

Two subareas are reported in Global Services: Professional Services and Network Rollout. Professional Services includes Managed services, Customer Support as well as Consulting and Systems Integration.

Sales

Sales were SEK 97.0 (83.9) billion. Organic and adjusted for foreign currency change effect, sales increased 12%.

The growth in Professional Services is mainly related to continued good momentum in Managed Services as well as in Consulting and Systems Integration. Operators continue to focus on increasing operational efficiency

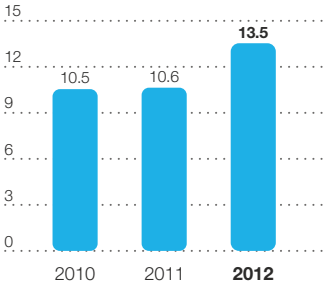
Global Services profitability

Percent

1) EBITA – Earnings before interest, tax, amortizations and write-downs of acquired intangibles

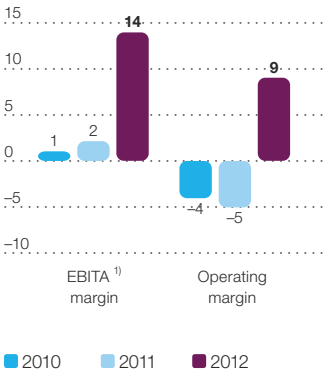
Support Solutions sales

SEK billion



Support Solutions profitability

Percent



1) EBITA – Earnings before interest, tax, amortizations and write-downs of acquired intangibles

and reducing operating expenses through transformation activities in the voice, IP and OSS and BSS domains which drive demand for managed services and consulting and systems integration. More than 60% of Professional Services sales were recurrent.

The increase in Network Rollout is related to major activities in North East Asia, North America and Europe reflecting the high coverage project activity.

Profitability

Global Services' operating margin development was stable, despite the continued loss in Network Rollout, due to continued efficiency gains and higher sales in Professional Services. Professional Services has over the past years shown an operating margin of 11–14%. Network Rollout is a low-margin business due to its high level of third-party suppliers for services such as civil works. The losses in 2012 are mainly a consequence of network modernization projects in Europe.

Restructuring charges from continuous transformation of the service delivery organization is a natural part of the services business.

Business in 2012

Market demand for services continued to grow in both subareas. Ericsson also strengthened its capabilities to address new markets and customers in areas such as IT Managed Services and Broadcast Services. The Company's capability to deliver services remotely from the four global services centers expanded with the establishment of two new global network operation centers in Asia and Latin America.

The telecom services market is highly fragmented with a few global, but many local suppliers. In telecoms services, internal market data indicates that the Company reached a market share of 13% and is larger than any of its competitors in this fragmented market.

During 2012, 52 (70) managed services contracts were signed of which 19 (32) were expansions or extensions. In 2012, 24 (34) significant consulting and systems integration contracts were signed. At year end, there were approximately 950 (900) million subscribers in networks managed by Ericsson. Approximately 550 (500) million subscribers were in network operations contracts.

The number of services professionals also increased during the year from 56,000 end of 2011 to 60,000 end of 2012. The strategy to industrialize the service delivery continues and the capability of remote delivery has now reached a level of 23% in 2012 compared with 17% in 2011. This increases capacity and provides economies of scale.

Competitors

Competition in services includes the traditional telecommunication equipment suppliers. The Company also competes with companies such as Accenture, HP, IBM, Oracle, Tata Consultancy Services and Tech Mahindra. Among the competition is also a large number of smaller but specialized companies operating on a local or regional basis.

Support Solutions

Sales

Sales were SEK 13.5 (10.6) billion. Organic and adjusted for foreign currency change effect, sales increased 9%. Sales development was good in all four strategic focus areas, i.e. OSS, BSS, TV and Media Management and M-Commerce.

The acquired Telcordia operation added sales of SEK 2.1 billion, representing 50% of Telcordias total sales. The divested Multimedia brokering business (IPX) contributed with sales of SEK 1.2 billion for the first nine months of the year.

Profitability

Increased sales and execution on the new strategy, as well as portfolio streamlining and efficiency improvement, generated a higher operating margin. The divestment of IPX generated a capital gain of SEK 0.2 billion.

Business in 2012

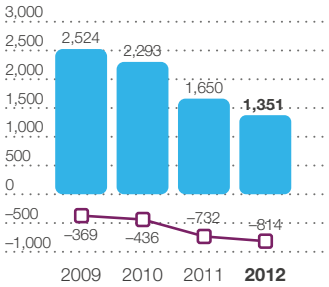
The segment changed name in 2012 from Multimedia to Support Solutions following a change of strategy. Focus is now on OSS and BSS solutions, TV and Media management and M-Commerce.

Ericsson has a leading position in both OSS and BSS.

In BSS, Ericsson has 280 charging and billing installations which at year end served two billion subscriptions. Ericsson's market share in prepaid is 31%.

BOARD OF DIRECTORS' REPORT CONTINUED

ST-Ericsson net sales and adjusted operating income
USD million



Net sales
Operating income adjusted for amortization of acquired intangibles and restructuring charges

All numbers in accordance with reported adjusted US GAAP numbers

In the media market, Ericsson is number one in broadcast video contribution, distribution and satellite direct-to-home. Customers include BSkyB, Chunghwa Telecom, Telekom A1, DirecTV, EBU and ESPN.

In M-Commerce, Ericsson is offering a mobile wallet platform and hosted services for interoperability between mobile and financial services. In 2012, the Company signed agreements for wallet payments with Western Union and MTN.

Competitors

The markets for BSS, OSS, TV and Media management and M-Commerce are fragmented with many local players. Competitors vary depending on the solution being offered. In the OSS and BSS market, they include many of the traditional telecommunication equipment suppliers as well as IT suppliers, such as Amdocs, Comverse and Oracle. Competition in the TV business includes Harmonic and Harris. Competition in M-Commerce includes Comviva, Sybase, Infosys and Gemalto.

The JV ST-Ericsson

ST-Ericsson is a 50/50 joint venture between STMicroelectronics and Ericsson, established in 2009. The Ericsson share of ST-Ericsson's results is accounted for according to the equity method. ST-Ericsson's main competitor is Qualcomm.

In December 2012, STMicroelectronics announced its intention to exit as a shareholder in ST-Ericsson. On the same day, Ericsson announced that it will continue to work together with STMicroelectronics to find a suitable strategic solution for ST-Ericsson. In December, Ericsson also stated that it will not acquire the full majority of ST-Ericsson and that the Company intends to write down investments and make a provision related to its 50% stake in ST-Ericsson.

This resulted in a non-cash charge of SEK 8.0 billion in 2012. The charge includes write-down of SEK 4.7 billion of investments to reflect the current best estimate of Ericsson's share of the fair market value of the joint venture. The charge also includes a provision of SEK 3.3 billion related to the available strategic options at hand for the future of the ST-Ericsson assets. As of year-end 2012, there are no more investments related to ST-Ericsson on Ericsson's balance sheet.

Ericsson continues to believe that the modem technology, which it originally contributed to the JV, has a strategic value to the wireless industry.

Business and financial performance in 2012

Early 2012, ST-Ericsson set a new strategic direction aiming at lowering its break-even point and introducing new technologies as well as developing competitive system solutions either directly or with partners.

During 2012, ST-Ericsson reached key maturity milestones with its advanced LTE modem. That is tested with customers and is anticipated to be commercialized in 2013. The NovaThor ModAp is the world's fastest integrated LTE modem and application processor platform. The ModAp delivers industry-leading performance while improving battery life.

ST-Ericsson sales in 2012 decreased –18% to USD 1.4 (1.7) billion. The operating loss for the year, adjusted for restructuring charges, was USD –0.8 (–0.7) billion. Adjustments for IFRS compliance mainly consist of capitalization of R&D expenses for hardware development.

ST-Ericsson's net financial position was USD 37 (–798) million at year-end, reflecting the cancellation of the parents' loan facility. Ericsson's share in ST-Ericsson's income before taxes, adjusted to IFRS, was SEK –11.7 (–2.7) billion including the non-cash charge of SEK 8.0 billion.

The JV Sony Ericsson

In February 2012, Ericsson announced the completion of the divestment of its 50% stake in Sony Ericsson Mobile Communications to Sony. The agreed cash consideration for the transaction was EUR 1.05 billion. The deal includes a broad IPR cross-licensing agreement. Sony Ericsson was consolidated until December 31, 2011, according to the equity method.

The divestment resulted in a gain of SEK 7.7 billion and a positive cash flow effect of SEK 9.1 billion.

CORPORATE GOVERNANCE

In accordance with the Annual Accounts Act ((SFS 1995:1554), Chapter 6, Sections 6 and 8) and the Swedish Corporate Governance Code (the "Code"), a separate Corporate Governance Report, including an Internal Control section, has been prepared. It is attached to this Annual Report.

Continued compliance with the Swedish Corporate Governance Code

Ericsson applies the Code and is committed to complying with best-practice corporate governance standards on a global level wherever possible. In 2012, Ericsson did not report any deviations from the Code.

High ethical standards

Ericsson's Code of Business Ethics summarizes the Group's basic policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to achieve and maintain its high ethical standards. There have been no amendments or waivers to Ericsson's Code of Business Ethics for any Director, member of management or other employee.

Board of Directors 2012/2013

The Annual General Meeting held on May 3, 2012, re-elected Leif Johansson Chairman of the Board. Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Hans Vestberg, Michelangelo Volpi and Jacob Wallenberg were re-elected and Alexander Izosimov was elected new member of the Board. Pehr Claesson, Kristina Davidsson and Karin Åberg were appointed employee representatives by the unions, with Rickard Fredriksson, Karin Lennartsson and Roger Svensson as deputies.

Management

Hans Vestberg has been President and CEO of the Group since January 1, 2010. The President and CEO is supported by the Group management, consisting of the Executive Leadership Team (ELT). During 2012, the ELT consisted of the President and CEO, the heads of Group functions, the heads of business units and two of the heads of Ericsson's regions.

A management system is in place to ensure that the business is well controlled and has the ability to fulfill the objectives of major stakeholders within established risk limits. The system also monitors internal control and compliance with applicable laws, listing requirements and governance codes.

Remuneration

Fees to the members of the Board of Directors and the remuneration to Group management, as well as the 2012 Guidelines for remuneration to Group Management, are reported in Notes to the consolidated financial statements – Note C28, "Information regarding members of the Board of Directors, the Group management and employees".

As of December 31, 2012, there were no loans outstanding from and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management.

The Board of Directors' proposal for guidelines for remuneration to Group management

The Board of Directors proposes the following guidelines for remuneration to Group management, consisting of the Executive Leadership Team, for the period up to the Annual General Meeting (AGM) 2014. Compared to the guidelines resolved by the AGM 2012, these guidelines have been amended to enable consecutive time-limited arrangements according to the third item in the list below. Information on estimated costs for variable remuneration has been removed from the guidelines and is instead appended to the AGM 2013 proposal.

Guidelines for remuneration to Group Management:
For Group Management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short- and long-term variable remuneration, pension and other benefits. The following guidelines apply for the remuneration to the Executive Leadership Team:

- Variable remuneration is through cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either Group or unit level, operational targets, employee engagement targets and customer satisfaction targets
- All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account. The retirement age is normally 60 to 65 years of age
- By way of exception, additional arrangements can be made when deemed necessary. An additional arrangement can be renewed but each such arrangement shall be limited in time and shall not exceed a period of 36 months and twice the remuneration that the individual concerned would have received had no additional arrangement been made
- The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months

BOARD OF DIRECTORS' REPORT CONTINUED

fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

MATERIAL CONTRACTS

Material contractual obligations are outlined in Note C31, "Contractual obligations." These were entered into in the ordinary course of business and were primarily related to operating leases for office and production facilities, purchase contracts for outsourced manufacturing, R&D and IT operations, and the purchase of components for the Company's own manufacturing.

Ericsson is party to certain agreements, which include provisions that may take effect or be altered or invalidated by a change in control of the Company as a result of a public takeover offer. However, none of the agreements currently in effect would entail any material consequence to Ericsson due to a change in control of the Company.

RISK MANAGEMENT

Risks are defined in both short-term and long-term perspective. They are categorized into industry and market risks, commercial risks, operational risks and compliance risks. Ericsson's risk management is based on the following principles, which apply universally across all business activities and risk types:

- Risk management is an integrated part of the Ericsson Group Management System
- Each operational unit is accountable for owning and managing its risks according to policies, directives and process tools. Decisions are made or escalated according to defined delegation of authority. Financial risks are coordinated through Group Function Finance
- Risks are dealt with during the strategy process, annual planning and target setting, continuous monitoring through monthly and quarterly steering group meetings and during operational processes (customer projects, customer bid/contract, acquisition, investment and product development projects). They are subject to various controls such as decision tollgates and approvals.

At least twice a year, in connection with the approval of strategy and targets, risks are reviewed by the Board of Directors.

A central security unit coordinates management of certain risks, such as business interruption, information security and physical security. The Crisis Management Council deals with events of a serious nature.

For information on risks that could impact the fulfillment of targets and form the basis for mitigating activities, see the other sections of the Board of Directors' report, Notes C2, "Critical accounting estimates and judgments", C14, "Trade receivables and customer finance", C19, "Interest-bearing liabilities", C20, "Financial risk management and financial instruments" and the chapter Risk factors.

SOURCING AND SUPPLY

Ericsson's hardware largely consists of electronics. For manufacturing, the Company purchases customized and standardized components and services from several global providers as well as from local and regional suppliers. Certain types of components, such as power modules and cables, are produced in-house.

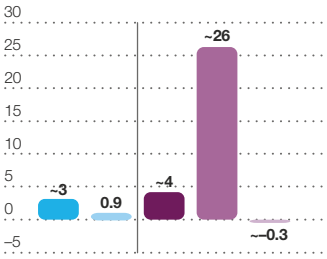
The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority are in low-cost countries. Production of radio base stations is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into complete units. Final assembly and testing are concentrated to a few sites. Ericsson has 16 manufacturing sites in Brazil, China, Estonia, India, Italy, Mexico and Sweden.

A number of suppliers design and manufacture highly specialized and customized components. The Company generally attempts to negotiate global supply agreements with its primary suppliers. Ericsson's suppliers are required to comply with the Code of Conduct.

Where possible, Ericsson relies on alternative supply sources and seeks to avoid single source supply situations. A need to switch to an alternative supplier may require allocation of additional resources. This process could take some time to complete.

Ericsson life-cycle assessment – carbon footprint 2012

Mtonnes CO_2e



Activities in 2012
- Supply chain
- Ericsson own activities

Future (lifetime) operation of products delivered in 2012
- Operator activities
- Products in operation
- End-of-life treatment

Carbon intensity – Ericsson own activities

- Facilities: Tonnes CO_2e/employee
- Transports: Tonnes CO_2e/tonne products
- Travel: Tonnes CO_2e/employee

Variations in market prices for raw materials generally have a limited effect on total cost of goods sold. For more information, see chapter Risk Factors.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

The Company has implemented strong social, environmental and ethical standards supporting value creation and risk management. This commitment generates positive business impacts, which in turn benefit society.

Ericsson's approach to Sustainability and Corporate Responsibility (CR) is integrated into its core business operations throughout its value chain. The Board of Directors considers these aspects in governance decision-making. Group policies and directives ensure consistency across global operations.

Ericsson publishes an annual Sustainability and Corporate Responsibility Report, which provides additional information.

Responsible business practices

Since 2000, Ericsson has actively supported the UN Global Compact, and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. The Ericsson Group Management System (EGMS) includes a Code of Business Ethics and a Code of Conduct (CoC), among other policies which reflect responsible business practices. Promotion of these practices is reinforced by employee awareness training, workshops and monitoring, including a global assessment plan run by an external assurance provider.

In 2012, Ericsson has continued to develop its anti-corruption program and expanded its whistleblower procedure.

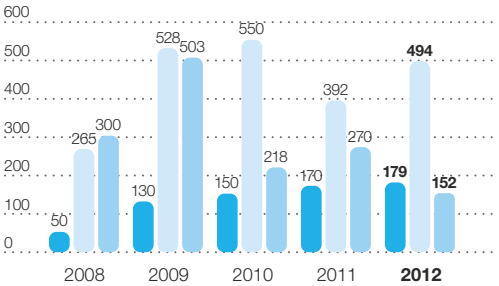
Human rights

In 2012, the Company updated its Code of Business Ethics to reflect the ongoing commitment to respect human rights, and the UN Guiding Principles on Business and Human Rights. Ericsson has worked actively to strengthen its internal governance processes including the Sales Compliance Board, which also considers potential negative human rights impacts in its decisions. The Company joined the Shift Business Learning Program to support human rights risk analysis capabilities.

Ericsson is part of the Burma (Myanmar) Human Rights and Business Framework, led by the Institute for Human Rights and Business and the Danish Human Rights Institute. Together with Deloitte, the Company launched a report, "The Potential Economic Impact of Mobile Communications in Myanmar," which shows the importance of mobile communications from both GDP and job-creation perspectives.

Supplier Code of Conduct

Audits and Assessments



- Number of auditors
- Number of audits
- Number of assessments

Supply chain

Suppliers must comply with Ericsson's CoC. Approximately 170 employees, covering all regions, are trained as supplier CoC auditors. The Company uses a risk-based approach to ensure that the high risk portfolio areas, and highest risk markets, are targeted first. For prioritized areas, Ericsson performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made. Training for suppliers is available in 13 languages.

To effectively address the issue of conflict minerals, including compliance with the US Dodd-Frank Act and the disclosure rule adopted by the U.S. Securities and Exchange Commission (SEC), Ericsson takes active measures in its sourcing and product management processes. Ericsson also participates in industry initiatives such as The Extractives Workgroup on conflict minerals, driven by the Global e-Sustainability Initiative (GeSI).

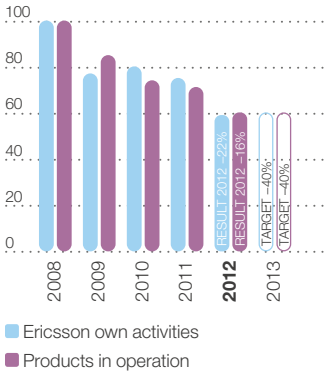
Reducing environmental impact

Energy use of products in operation remains the Company's most significant environmental impact. Ericsson works proactively with its customers to encourage network and site energy optimization, through innovative products, software, solutions and advisory services. Processes and controls are in place to ensure compliance with relevant product-related environmental, customer and regulatory requirements. The Company works actively to reduce its own environmental impact, with a focus on Design for Environment, which includes product energy efficiency and materials management.

A five-year target which aims to reduce the Ericsson carbon footprint intensity by 40% was set in 2009 (with a 2008 baseline). The target comprises two focus areas: Ericsson's own activities and the life-cycle impacts of products

BOARD OF DIRECTORS' REPORT CONTINUED

Carbon footprint intensity target
Percent



in operation. In 2012, Ericsson exceeded the annual 10% reduction target and, as a result, the target has been achieved in four years instead of five, with the following results:

- A 22% reduction in direct emission intensity from own activities was achieved during 2012, including facilities energy use, product transportation and business travel. This was achieved by
  - reducing absolute emissions from business travel by 16%
  - reducing absolute emissions from product transportation by 12%
  - decreasing facility energy consumption by approximately 3%. while related emissions increased by 13%
- A 16% reduction in indirect emission intensity from life-cycle impacts of products in operation was achieved in 2012.

Product take-back and recycling

Ericsson Ecology Management is a program to take responsibility for products at the end of their life and to treat them in an environmentally preferable way. The program also ensures that Ericsson fulfills its extended producer responsibility and is offered to all customers globally free of charge, not only in markets where it is mandatory.

Radio waves and health

Ericsson employs rigid product testing and installation procedures with the goal of ensuring that radio wave exposure levels from Ericsson products and network solutions are below established safety limits. The Company provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Since 1996, Ericsson has cosponsored over 90 studies related to electromagnetic fields and health. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

Ericsson has been cosponsoring the Swedish part of the international COSMOS study, which aims to carry out long-term health monitoring of more than 200,000 people to identify if there are any health issues linked to long-term mobile phone use. To assure scientific independence there is a firewall in place between the industrial sponsors and the researchers.

Climate change

Information and Communication Technology (ICT) represents about 2% of global CO_2 emissions, but can potentially offset 16% of the remaining 98% from other industries, according to GeSI's SMARTer2020 report. The report also shows that the abatement potential of ICT is over seven times its own emissions. Ericsson takes measures to ensure that its own carbon footprint intensity is continuously reduced.

Ericsson's sustainability strategy includes focus on the role broadband can play in helping to offset global CO_2 emissions, 70% of which are attributed to cities, according to UN-Habitat. Ericsson works on sustainable city solutions and is engaged in global climate policy. Ericsson's President and CEO Hans Vestberg leads the Climate Change Working Group of the Broadband Commission for Digital Development which launched the report "The Broadband Bridge: Linking ICT with climate action for a low-carbon economy."

Technology for Good

In 2011, Ericsson launched the Technology for Good program, focused on applying the Company's expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world. Mobile connectivity fuels economic growth, which is vital for billions of people living at the base of the economic pyramid. Ericsson has used its technology and competence to help achieve the Millennium Development Goals (MDGs) for more than a decade. Ericsson's President and CEO also joined the Leadership Council of the Sustainable Development Solutions Network, an initiative of the UN Secretary General, to contribute to the post-2015 development agenda and the Sustainable Development Goals. The Company engages in many Technology for Good projects globally, including Connect to Learn and Ericsson Response™.

Reporting according to GRI 3.0

Full key performance data is available on the Ericsson website and has achieved an A+ rating according to the Global Reporting Initiative (GRI). The performance data has been assured,

and the application level has been checked by a third party.

LEGAL PROCEEDINGS

On November 27, 2012, Ericsson filed two patent infringement lawsuits in the US District Court for the Eastern District of Texas against Samsung. Ericsson seeks damages and an injunction. Ericsson also asked the Court to adjudge that Samsung breached its commitment to license any standard-essential patents it owns on fair, reasonable, and non-discriminatory terms and to declare Samsung's allegedly standard essential patents to be unenforceable.

On November 30, 2012, Ericsson filed a complaint with the US International Trade Commission, ITC, seeking an exclusion order blocking Samsung from importing certain products into the USA. The ITC instituted an investigation of Ericsson's complaint on January 3, 2013.

On December 21, 2012, Samsung filed a complaint with the US International Trade Commission seeking an exclusion order blocking Ericsson from importing certain products into the USA. The ITC instituted an investigation of Samsung's complaint on January 25, 2013.

On October 1, 2012, Wi-LAN Inc. filed a complaint against Ericsson in the US District Court of Southern Florida alleging that Ericsson's LTE products infringe three of Wi-LAN's US patents. The parties are presently engaged in discovery. Ericsson was, on October 4, 2010, sued by Wi-LAN in another patent infringement law suit in the US District Court for the Eastern District of Texas. Wi-LAN alleged that Ericsson products, compliant with the 3GPP standard. Infringe three US patents assigned to Wi-LAN. A trial is scheduled for April 2013.

In February 2012, Airvana Networks Solutions Inc. sued Ericsson in the Supreme Court of the State of New York, alleging that Ericsson has violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Airvana is seeking damages of USD 330 million and to enjoin Ericsson from developing, deploying or commercializing Ericsson products allegedly based on Airvana's proprietary technology. In April 2012, the Court heard Airvana's request for preliminary injunction. The motion for preliminary injunction remains under consideration by the Court. The parties are presently engaged in further discovery.

In 2011, TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent, the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) in the US District Court for the Eastern District of Pennsylvania for purported federal antitrust violations. The complaint alleged that Ericsson , Qualcomm and Alcatel-Lucent illegally conspired to block the adoption of TruePosition's proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. In January 2012, the Court dismissed the complaint on a "without prejudice" basis. Following the dismissal, TruePosition filed an amended complaint in February 2012. The case is proceeding to discovery.

In 2007, H3G S.p.A. (H3G) filed arbitral proceedings in Italy against Ericsson. H3G claims compensation from Ericsson for alleged breach of contract. H3G claims approximately EUR 475 million plus default interest. In addition to denying the claim in substance, Ericsson made a number of formal objections to the claim and filed a motion for the case to be dismissed. Ericsson's formal objections were however dismissed by the Arbitral Tribunal in a partial award rendered in February 2012. The Tribunal has appointed experts to render an opinion on various substantive technical and financial issues. The final report was rendered in February 2013. The final arbitral award is expected to be rendered at the end of 2013.

In addition to the proceedings discussed above, the Company is, and in the future may be, involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business.

PARENT COMPANY

The Parent Company business consists mainly of corporate management, holding company functions and internal banking activities. It also handles customer credit management, performed on a commission basis by Ericsson Credit AB.

The Parent Company has 6 (6) branch offices. In total, the Group has 71 (70) branch and representative offices.

Financial information

Income after financial items was SEK –4.9 (4.4) billion. The Parent Company had no sales in 2012 or 2011 to subsidiaries, while 34% (31%) of total purchases of goods and services were from such companies.

Major changes in the Parent Company's financial position for the year included:

- Write-down of original investment in ST-Ericsson of SEK 8.6 billion. This write-down does not have any impact on Group level. Another write-down was made including the short-term credit facility to ST-Ericsson of SEK 5.0 billion. and a provision of SEK 3.3 billion relating to the strategic options at hand

BOARD OF DIRECTORS' REPORT CONTINUED

for ST-Ericsson assets. The total write-downs and provision related to ST-Ericsson amount to SEK 17.0 billion.
- Increased current and non-current receivables from subsidiaries of SEK 7.2 billion.
- Increased other current receivables of SEK 1.7 billion
- Increased cash, cash equivalents and short-term investments of SEK 1.3 billion
- Increased current and non-current liabilities to subsidiaries of SEK 8.7 billion
- Decreased other current liabilities of SEK 1.1 billion.

At year-end, cash, cash equivalents and short-term investments amounted to SEK 57.4 (56.1) billion.

Share information

As per December 31, 2012, the total number of shares in issue was 3,305,051,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,043,295,752 were Class B shares, each carrying one tenth of one vote. Both classes of shares have the same rights of participation in the net assets and earnings.

The Annual General Meeting (AGM) 2012 resolved to issue 31.7 million Class C shares for the Long-Term Variable Remuneration Program (LTV). In accordance with an authorization from the AGM, in the second quarter 2012, the Board of Directors resolved to repurchase the new issued shares, which were subsequently converted into Class B shares. The quotient value of the repurchased shares was SEK 5.00, totaling SEK 158.5 million, representing less than one percent of capital stock, and the acquisition cost was approximately SEK 158.7 million.

The two largest shareholders at year-end were Investor and Industrivärden holding 21.37% and 14.96% respectively of the voting rights in the Parent Company.

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 9,748,408 treasury shares were sold or distributed to employees in 2012. The quotient value of these shares was SEK 5.00, totaling SEK 48.7 million, representing less than 1% of capital stock, and compensation received for shares sold and distributed shares amounted to SEK 91.2 million.

The holding of treasury stock at December 31, 2012 was 84,798,095 Class B shares. The quotient value of these shares is SEK 5.00, totaling SEK 424.0 million, representing 2.6% of capital stock, and the related acquisition cost amounts to SEK 655.3 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 2.75 (2.50) per share be paid to shareholders duly registered on the record date April 12, 2013, and that the Parent Company shall retain the remaining part of non-restricted equity.

The Class B treasury shares held by the Parent Company are not entitled to receive dividend. Assuming that no treasury shares remain on the record date, the Board of Directors proposes that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 9,088,892,271
Amount to be retained by the Parent Company	SEK 16,535,096,753
Total non-restricted equity of the Parent Company	SEK 25,623,989,024

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company's and the Group's need for financial resources as well as the Parent Company's and the Group's liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 50% (52%) and a net cash amount of SEK 38.5 (39.5) billion

The Board of Directors has also considered the Parent Company's result and financial position and the Group's position in general. In this respect, the Board of Directors has taken into account known commitments that may have an impact on the financial positions of the Parent Company and its subsidiaries.

The proposed dividend does not limit the Group's ability to make investments or raise funds, and it is the Board of Directors' assessment that the proposed dividend is well-balanced considering the nature, scope and risks of the business activities as well as the capital requirements for the Parent Company and the Group in addition to coming years' business plans and economic development.

POST-CLOSING EVENTS

On January 10, 2013, Ericsson entered into an agreement with Unwired Planet whereby Ericsson will transfer 2,185 issued patents and patent applications to Unwired Planet. Ericsson will also contribute 100 additional patent assets annually to Unwired Planet commencing in 2014 through 2018. Unwired Planet will compensate Ericsson with certain ongoing rights in future revenues generated from the enlarged patent portfolio. Unwired Planet will also grant Ericsson a license to its patent portfolio.

On January 21, 2013, Ericsson announced its intention to acquire Devoteam Telecom & Media operations in France. Devoteam has employees in Europe, Middle East and Africa. The acquisition is in line with Ericsson's services strategy to broaden its IT capabilities.

In early 2013 Standard & Poor's changed the credit rating from BBB+ outlook stable to outlook negative and Moody's changed the credit rating from A3 with outlook stable to outlook negative.

In January, 2013, ST-Ericsson was granted a loan facility by their owners of USD 260 million. Ericsson's share of this credit facility is USD 130 million.

On January 10, 2013 Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25 Adaptix filed a complaint with the US International Trade Commission (ITC) against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications requesting that the commission open a patent infringement investigation of certain Ericsson products and further on January 29 Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two JP patents assigned to Adaptix. Adaptix seeks damages and an injunction.

BOARD ASSURANCE

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company's financial position and results of operations.

The Board of Directors' Report for the Ericsson Group and the Parent Company provides a fair view of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, March 5, 2013
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016-0680

Sverker Martin-Löf Deputy Chairman	**Leif Johansson** Chairman	**Jacob Wallenberg** Deputy Chairman
Roxanne S. Austin Member of the Board	**Sir Peter L. Bonfield** Member of the Board	**Börje Ekholm** Member of the Board
Alexander Izosimov Member of the Board	**Ulf J. Johansson** Member of the Board	**Nancy McKinstry** Member of the Board
Anders Nyrén Member of the Board	**Hans Vestberg** President, CEO and Member of the Board	**Michelangelo Volpi** Member of the Board
Pehr Claesson Member of the Board	**Kristina Davidsson** Member of the Board	**Karin Åberg** Member of the Board

Request for Proposal No. 2015-NPA-VENDOR-00-A-PICA-10
VQS Section C - Technical Requirements

SHAPING THE CITIES OF THE FUTURE

More than five million people each month move from the countryside to the world's cities. With this growing trend of urbanization, cities will increasingly need effective ICT strategies to meet some of our great societal challenges, such as healthcare, education, economic output, city efficiency and environmental performance. Ericsson is enabling this networked society with efficient real-time solutions that allow us all to study, work and live our lives more freely, in sustainable societies around the world.

60%

By 2017, urban and metro areas will generate 60% of all mobile traffic.

CONSOLIDATED FINANCIAL STATEMENTS WITH NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

Consolidated financial statements

Consolidated income statement and statement of comprehensive income	48
Consolidated balance sheet	49
Consolidated statement of cash flows	50
Consolidated statement of changes in equity	51

Notes to the consolidated financial statements

C1	Significant accounting policies	52
C2	Critical accounting estimates and judgments	60
C3	Segment information	62
C4	Net sales	65
C5	Expenses by nature	65
C6	Other operating income and expenses	65
C7	Financial income and expenses	66
C8	Taxes	66
C9	Earnings per share	67
C10	Intangible assets	68
C11	Property, plant and equipment	70
C12	Financial assets, non-current	71
C13	Inventories	72
C14	Trade receivables and customer finance	73
C15	Other current receivables	75
C16	Equity and Other comprehensive income	75
C17	Post-employment benefits	79
C18	Provisions	84
C19	Interest-bearing liabilities	85
C20	Financial risk management and financial instruments	86
C21	Other current liabilities	89
C22	Trade payables	89
C23	Assets pledged as collateral	89
C24	Contingent liabilities	90
C25	Statement of cash flows	90
C26	Business combinations	91
C27	Leasing	93
C28	Information regarding members of the Board of Directors, the Group management and employees	94
C29	Related party transactions	99
C30	Fees to auditors	100
C31	Contractual obligations	100
C32	Transfers of financial assets	100
C33	Events after the reporting period	100

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

January–December, SEK million	Notes	2012	2011	2010
Net sales	C3, C4	227,779	226,921	203,348
Cost of sales		–155,699	–147,200	–129,094
Gross income		72,080	79,721	74,254
Gross margin (%)		31.6%	35.1%	36.5%
Research and development expenses		–32,833	–32,638	–31,558
Selling and administrative expenses		–26,023	–26,683	–27,072
Operating expenses		–58,856	–59,321	–58,630
Other operating income and expenses	C6	8,965	1,278	2,003
Operating income before shares in earnings of joint ventures and associated companies		22,189	21,678	17,627
Operating margin before shares in earnings of joint ventures and associated companies (%)		9.7%	9.6%	8.7%
Share in earnings of joint ventures and associated companies	C3, C12	–11,731	–3,778	–1,172
Operating income		10,458	17,900	16,455
Financial income	C7	1,708	2,882	1,047
Financial expenses	C7	–1,984	–2,661	–1,719
Income after financial items		10,182	18,121	15,783
Taxes	C8	–4,244	–5,552	–4,548
Net income		5,938	12,569	11,235
Net income attributable to:				
Stockholders of the Parent Company		5,775	12,194	11,146
Non-controlling interest		163	375	89
Other information				
Average number of shares, basic (million)	C9	3,216	3,206	3,197
Earnings per share attributable to stockholders of the Parent Company, basic (SEK) [1]	C9	1.80	3.80	3.49
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK) [1]	C9	1.78	3.77	3.46

[1] Based on Net income attributable to stockholders of the Parent Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January–December, SEK million	Notes	2012	2011	2010
Net income		5,938	12,569	11,235
Other comprehensive income				
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions	C16	–451	–6,963	3,892
Revaluation of other investments in shares and participations				
Fair value remeasurement	C16	6	–	7
Cash Flow hedges				
Gains/losses arising during the period	C16	1,668	996	966
Reclassification adjustments for gains/losses included in profit or loss	C16	–568	–2,028	–238
Adjustments for amounts transferred to initial carrying amount of hedged items	C16	92	–	–136
Changes in cumulative translation adjustments	C16	–3,947	–964	–3,259
Share of other comprehensive income of joint ventures and associated companies	C16	–486	–262	–434
Tax on items relating to components of Other comprehensive income	C16	–422	2,158	–1,120
Total other comprehensive income		–4,108	–7,063	–322
Total comprehensive income		1,830	5,506	10,913
Total Comprehensive Income attributable to:				
Stockholders of the Parent Company		1,716	5,081	10,814
Non-controlling interest		114	425	99

CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2012	2011
Assets			
Non-current assets			
Intangible assets	C10		
Capitalized development expenses		3,840	3,523
Goodwill		30,404	27,438
Intellectual property rights, brands and other intangible assets		15,202	13,083
Property, plant and equipment	C11, C26, C27	11,493	10,788
Financial assets			
Equity in joint ventures and associated companies	C12	2,842	5,965
Other investments in shares and participations	C12	386	2,199
Customer finance, non-current	C12	1,290	1,400
Other financial assets, non-current	C12	3,964	4,117
Deferred tax assets	C8	12,321	13,020
		81,742	81,533
Current assets			
Inventories	C13	28,802	33,070
Trade receivables	C14	63,660	64,522
Customer finance, current	C14	4,019	2,845
Other current receivables	C15	20,065	17,837
Short-term investments	C20	32,026	41,866
Cash and cash equivalents	C25	44,682	38,676
		193,254	198,816
Total assets		274,996	280,349
Equity and liabilities			
Equity			
Stockholders' equity	C16	136,883	143,105
Non-controlling interest in equity of subsidiaries	C16	1,600	2,165
		138,483	145,270
Non-current liabilities			
Post-employment benefits	C17	9,503	10,016
Provisions, non-current	C18	211	280
Deferred tax liabilities	C8	3,120	2,250
Borrowings, non-current	C19, C20	23,898	23,256
Other non-current liabilities		2,377	2,248
		39,109	38,050
Current liabilities			
Provisions, current	C18	8,427	5,985
Borrowings, current	C19, C20	4,769	7,765
Trade payables	C22	23,100	25,309
Other current liabilities	C21	61,108	57,970
		97,404	97,029
Total equity and liabilities [1]		274,996	280,349

[1] Of which interest-bearing liabilities and post-employment benefits SEK 38,170 (41,037) million.

CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

CONSOLIDATED STATEMENT OF CASH FLOWS

January–December, SEK million	Notes	2012	2011	2010
Operating activities				
Net income		5,938	12,569	11,235
Adjustments to reconcile net income to cash	C25	13,077	12,613	12,490
		19,015	25,182	23,725
Changes in operating net assets				
Inventories		2,752	–3,243	–7,917
Customer finance, current and non-current		–1,259	74	–2,125
Trade receivables		–1,103	–1,700	4,406
Trade payables		–1,311	–1,648	5,964
Provisions and post-employment benefits		–1,920	–5,695	–2,739
Other operating assets and liabilities, net		5,857	–2,988	5,269
		3,016	–15,200	2,858
Cash flow from operating activities		22,031	9,982	26,583
Investing activities				
Investments in property, plant and equipment	C11	–5,429	–4,994	–3,686
Sales of property, plant and equipment		568	386	124
Acquisitions of subsidiaries and other operations	C25, C26	–11,529 [1]	–3,181	–3,286
Divestments of subsidiaries and other operations	C25, C26	9,452	53	454
Product development	C10	–1,641	–1,515	–1,644
Other investing activities		1,540	–900	–1,487
Short-term investments		2,151	14,692	–3,016
Cash flow from investing activities		–4,888	4,541	–12,541
Cash flow before financing activities		17,143	14,523	14,042
Financing activities				
Proceeds from issuance of borrowings		8,969	2,076	2,580
Repayment of borrowings		–9,670	–1,259	–1,449
Proceeds from stock issue		159	–	–
Sale/repurchase of own shares		–93	92	51
Dividends paid		–8,632	–7,455	–6,677
Other financing activities		–118	52	–175
Cash flow from financing activities		–9,385	–6,494	–5,670
Effect of exchange rate changes on cash		–1,752	–217	–306
Net change in cash		6,006	7,812	8,066
Cash and cash equivalents, beginning of period		38,676	30,864	22,798
Cash and cash equivalents, end of period	C25	44,682	38,676	30,864

[1] Includes payment of external loan of SEK -6.2 billion attributable to the acquisition of Telcordia.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Capital stock	Additional paid in capital	Retained earnings	Stockholders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2012		16,367	24,731	102,007	143,105	2,165	145,270
Total comprehensive income	C16	–	–	1,716	1,716	114	1,830
Transactions with owners							
Stock issue		159	–	–	159	–	159
Sale/Repurchase of own shares		–	–	–93	–93	–	–93
Stock Purchase Plans		–	–	405	405	–	405
Dividends paid		–	–	–8,033	–8,033	–599	–8,632
Transactions with non-controlling interest		–	–	–376	–376	–80	–456
December 31, 2012		**16,526**	**24,731**	**95,626**	136,883	**1,600**	138,483
January 1, 2011		16,367	24,731	104,008	145,106	1,679	146,785
Total comprehensive income	C16	–	–	5,081	5,081	425	5,506
Transactions with owners							
Sale of own shares		–	–	92	92	–	92
Stock Purchase Plans		–	–	413	413	–	413
Dividends paid		–	–	–7,207	–7,207	–248	–7,455
Transactions with non-controlling interest		–	–	–380	–380	309	–71
December 31, 2011		**16,367**	**24,731**	**102,007**	143,105	**2,165**	145,270
January 1, 2010		16,367	24,731	98,772	139,870	1,157	141,027
Total comprehensive income	C16	–	–	10,814	10,814	99	10,913
Transactions with owners							
Sale of own shares		–	–	52	52	–	52
Stock Purchase Plans		–	–	762	762	–	762
Dividends paid		–	–	–6,391	–6,391	–286	–6,677
Transactions with non-controlling interest		–	–	–	–	708	708
December 31, 2010		**16,367**	**24,731**	**104,008**	145,106	**1,679**	146,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C1 SIGNIFICANT ACCOUNTING POLICIES

Introduction

The consolidated financial statements comprise Telefonaktiebolaget LM Ericsson, the Parent Company, and its subsidiaries ("the Company") and the Company's interests in joint ventures and associated companies. The Parent Company is domiciled in Sweden at Torshamnsgatan 23, SE-164 83 Stockholm.

The consolidated financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 "Additional rules for Group Accounting", related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2012, the Company has applied IFRS as issued by the IASB (IFRS effective as per December 31, 2012) and without any early application. There is no difference between IFRS effective as per December 31, 2012, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS, for all periods presented.

The financial statements were approved by the Board of Directors on March 5, 2013. The balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2012:

- Amendment to IAS 12, income taxes: deferred tax: recovery of underlying assets
- Amendments to IFRS 7, Financial instruments Disclosures: Transfers of Financial Assets.

None of the new or amended standards and interpretations have had any significant impact on the financial result or position as well as disclosure of the Company.

For information on "New standards and interpretations not yet adopted", refer to the end of this Note.

Basis of presentation

The financial statements are presented in millions of Swedish Krona (SEK). They are prepared on a historical cost basis, except for certain financial assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and plan assets related to defined benefit pension plans.

Basis of consolidation

The consolidated financial statements are prepared in accordance with the purchase method. Accordingly, consolidated stockholders' equity includes equity in subsidiaries, joint ventures and associated companies earned only after their acquisition.

Subsidiaries are all companies in which Ericsson has an ownership interest, directly or indirectly, including effective potential voting rights, has the power to govern the financial and operating policies generally associated with ownership of more than one half of the voting rights or in which Ericsson by agreement has control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealized income and expense arising from intra-group transactions are fully eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

At the acquisition of a business, the cost of the acquisition, being the purchase price, is measured as the fair value of the assets given, and liabilities incurred or assumed at the date of exchange, including any cost related to contingent consideration. Transaction costs attributable to the acquisition are expensed as incurred. The acquisition cost is allocated to acquired assets, liabilities and contingent liabilities based upon appraisals made, including assets and liabilities that were not recognized on the acquired entity's balance sheet, for example intangible assets such as customer relations, brands, patents and financial liabilities. Goodwill arises when the purchase price exceeds the fair value of recognizable acquired net assets. In acquisitions with non-controlling interest full or partial goodwill can be recognized. Final amounts are established within one year after the transaction date at the latest.

In case there is a put option for non-controlling interest in a subsidiary a corresponding financial liability is recognized.

Non-controlling interest

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

At acquisition, there is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Joint ventures and associated companies

Both joint ventures and associated companies are accounted for in accordance with the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. If the Company's interest in an associated company or joint venture is nil the Company shall not, as prescribed by IFRS, recognize

its part of any future losses. Provisions related to obligations for such an interest shall, however, be recognized in relation to such an interest.

JVs are ownership interests where a joint influence is obtained through agreement.

Investments in associated companies, i.e. when the Company has significant influence and the power to participate in the financial and operating policy decisions of the associated company, but is not control or joint control over those policies. Normally this is the case when voting stock interest, including effective potential voting rights, is at least 20% but not more than 50%.

Ericsson's share of income before taxes is reported in item "Share in earnings of joint ventures and associated companies", included in Operating Income. This is due to that these interests are held for operating rather than investing or financial purposes. Ericsson's share of income taxes related to joint ventures and associated companies is reported under the line item Taxes in the income statement.

Unrealized gains on transactions between the Company and its associated companies and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Shares in earnings of joint ventures and associated companies included in consolidated equity which are undistributed are reported in Retained earnings in the balance sheet.

Impairment testing as well as recognition or reversal of impairment of investments in each joint venture is performed in the same manner as for intangible assets other than goodwill. The entire carrying amount of each investment, including goodwill, is tested as a single asset. See also description under "Intangible assets other than goodwill" below.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In Note C2, "Critical Accounting Estimates and Judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Foreign currency remeasurement and translation

Items included in the financial statements of each entity of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Swedish Krona (SEK), which is the Parent Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless deferred in Other comprehensive income (OCI) under the hedge accounting practices as described below.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in OCI.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates
- All resulting net exchange differences are recognized as a separate component of OCI.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are accounted for in OCI. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in OCI are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

There is no significant impact due to a currency of a hyperinflationary economy.

Statement of cash flows

The statement of cash flow is prepared in accordance with the indirect method. Cash flows in foreign subsidiaries are translated at the average exchange rate during the period. Payments for subsidiaries acquired or divested are reported as cash flow from investing activities, net of cash and cash equivalents acquired or disposed of, respectively.

Cash and cash equivalents consist of cash, bank, and short-term investments that are highly liquid monetary financial instruments with a remaining maturity of three months or less at the date of acquisition.

Revenue recognition

Background

The Company offers a comprehensive portfolio of telecommunication and data communication systems, professional services, and multimedia solutions. Products, both hardware and software as well as services are in general standardized. The impact of this is that any acceptance terms are normally only formal requirements. In Note C3, "Segment information", the Company offer is disclosed more in detail as per operating segment.

The Company's products and services are generally sold under delivery-type or multi-year recurring services contracts. The delivery type contracts often have content from more than one segment.

Accounting treatment

Sales are based on fair values of consideration received and recorded net of value added taxes, goods returned and estimated trade discounts. Revenue is recognized when risks and rewards have been transferred to the customer, with reference to all significant contractual terms when:

- The product or service has been delivered
- The revenue amount is fixed or determinable
- Customer has received and activation has been made of separately sold software
- Collection is reasonably assured.

Estimation of contractual performance criteria impact the timing and amounts of revenue recognized and may therefore defer revenue recognition until the performance criteria are met. The profitability of contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

Allocation and/or timing criteria specific per type of contract are:

- Delivery-type contracts. These contracts relate to delivery, installation, integration of products and providing of related services,

normally under multiple elements contracts. Under multiple elements contracts the accounting is based on that the revenue recognition criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Support Solutions have contracts that relate to this type of contracts.

- Contracts for services. Relate to multi-year service contracts such as support – and managed service contracts and other types of recurring services. Revenue is recognized when the services have been provided, generally pro rata over the contract period. Global Services has contracts that relate to this type of contracts.
- Contracts generating license fees from third parties for the use of the Company's intellectual property rights. License fees are normally measured as percentage on sales or currency amount per unit and recognized over the license period as the amount of the consideration becomes reasonably certain. Networks and Support Solutions have contracts that relate to this type of contracts.

For sales between consolidated companies, associated companies, joint ventures and segments, the Company applies arm's length pricing.

In Note C2, "Critical accounting estimates and judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Earnings per share

Basic earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the weighted average number of shares outstanding (total number of shares less treasury stock) during the year.

Diluted earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company, when appropriate adjusted by the sum of the weighted average number of ordinary shares outstanding and dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

Stock options and rights to matching shares are considered dilutive when the actual fulfillment of any performance conditions as of the reporting date would give a right to ordinary shares. Furthermore, stock options are considered dilutive only when the exercise price is lower than the period's average share price.

Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognized if any rights and obligations are created or retained in the transfer.

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates. Valuations of Foreign exchange options and Interest Rate Guarantees (IRG) are made by using a Black-Scholes formula. Inputs to the valuations are market prices for implied volatility, foreign exchange and interest rates.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Gains or losses arising from changes in the fair values of the "financial assets at fair value through profit or loss"-category (excluding derivatives) are presented in the income statement within Financial income in the period in which they arise. Derivatives are presented in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent with the transaction.

Loans and receivables

Receivables, including those that relate to customer financing, are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer as well as amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectability of the receivables is assessed for purposes of initial revenue recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Dividends on available-for-sale equity instruments are recognized in the income statement as part of financial income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in OCI. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in OCI. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized in OCI are included in the income statement.

Impairment

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an evidence that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from OCI and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

Financial Liabilities

Financial liabilities are recognized when the Company becomes bound to the contractual obligations of the instrument.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent of the transaction.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value at trade date and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

a) Fair value hedge: a hedge of the fair value of recognized liabilities
b) Cash flow hedge: a hedge of a particular risk associated with a highly probable forecast transaction; or
c) Net investment hedge: a hedge of a net investment in a foreign operation.

At the inception of the hedge, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note C20, "Financial risk management and financial instruments". Movements in the hedging reserve in OCI are shown in Note C16, "Equity and other comprehensive income".

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains and losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognized in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the remaining period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense.

Amounts deferred in OCI are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place), either in Net Sales or Cost of Sales. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in OCI are transferred from OCI and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of Sales in case of inventory or in Depreciation in case of fixed assets. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss which at that time remains in OCI is recognized in the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within financial income or expense.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI. A gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense. Gains and losses deferred in OCI are included in the income statement when the foreign operation is partially disposed of or sold.

Financial guarantees

Financial guarantee contracts are initially recognized at fair value (i.e. usually the fee received). Subsequently, these contracts are measured at the higher of:

- The amount determined as the best estimate of the net expenditure required to settle the obligation according to the guarantee contract
- The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method.

The best estimate of the net expenditure comprises future fees and cash flows from subrogation rights.

Inventories

Inventories are measured at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis.

Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

A significant part of Inventories is Contract work in Progress (CWIP). Recognition and de recognition of CWIP relates to the Company´s revenue recognition principles meaning that costs incurred under a customer contract are recognized as CWIP. When revenue is recognized CWIP is derecognized and is instead recognized as Cost of Sales.

In Note C2, "Critical accounting estimates and judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Intangible assets

Intangible assets other than goodwill

Intangible assets other than goodwill comprise capitalized development expenses and acquired intangible assets, such as patents, customer relations, trademarks and software. At initial recognition, capitalized development expenses are stated at cost while acquired intangible assets related to business combinations are stated at fair value. Subsequent to initial recognition, both capitalized development expenses and acquired intangible assets are stated at initially recognized amounts less accumulated amortization and any impairment. Amortization and any impairment losses are included in Research and development expenses, mainly for capitalized development expenses and patents, in Selling and administrative expenses, mainly for customer relations and brands, and in Cost of sales.

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economical feasibility has been established until the product is available for sale or use. These capitalized expenses are mainly generated internally and include direct labor and directly attributable overhead. Amortization of capitalized development expenses begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development expenses directly related to orders from customers are accounted for as a part of Cost of sales. Other research and development expenses are charged to income as incurred.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight-line method over their estimated useful lives, not exceeding ten years. However, if the economic benefit related to an item of intangible assets is front-end loaded the amortization method reflects this. Thus, the amortization for such an item is amortized on a digressive curve basis and the asset value decreases with higher amounts in the beginning of the useful life compared to the end.

The Company has not recognized any intangible assets with indefinite useful life other than goodwill.

Impairment tests are performed whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Application of after tax amounts in calculation, both in relation to cash flows and discount rate is applied due to that available models for calculating discount rate include a tax component. The after tax discounting, applied by the Company is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

Corporate assets have been allocated to cash-generating units in relation to each unit's proportion of total net sales. The amount related to corporate assets is not significant. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts and if the recoverable amount is higher than the carrying value. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortization, which would have been reported if no impairment loss had been recognized.

In Note C2, "Critical accounting estimates and judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Goodwill

As from the acquisition date, goodwill acquired in a business combination is allocated to each cash-generating unit (CGU) of the Company expected to benefit from the synergies of the combination. Ericsson's four operating segments have been identified as CGUs. Goodwill is assigned to three of them, Networks, Global Services and Support Solutions.

An annual impairment test for the CGUs to which goodwill has been allocated is performed in the fourth quarter, or when there is an indication of impairment. Impairment testing as well as recognition of impairment of goodwill is performed in the same manner as for intangible assets other than goodwill, see description under "Intangible assets other than goodwill" above. An impairment loss in respect of goodwill is not reversed.

Additional disclosure is required in relation to goodwill impairment testing, see Note C2, "Critical accounting estimates and judgments", below and in Note C10, "Intangible assets".

Property, plant and equipment

Property, plant and equipment consist of real estate, machinery and other technical assets, other equipment, tools and installation and construction in process and advance payment, they are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is charged to income, generally on a straight-line basis, over the estimated useful life of each component of an item of property, plant and equipment, including buildings. Estimated useful lives are, in general, 25–50 years for real estate and 3–10 years for machinery and equipment. Depreciation and any impairment charges are included in Cost of sales, Research and development or Selling and administrative expenses.

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing a component and derecognizes the residual value of the replaced component.

Impairment testing as well as recognition or reversal of impairment of property, plant and equipment is performed in the same manner as for intangible assets other than goodwill, see description under "Intangible assets other than goodwill" above.

Gains and losses on disposals are determined by comparing the proceeds less cost to sell with the carrying amount and are recognized within Other operating income and expenses in the income statement.

Leasing

Leasing when the Company is the lessee

Leases on terms in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset, although the depreciation period must not exceed the lease term.

Other leases are operating leases, and the leased assets under such contracts are not recognized on the balance sheet. Costs under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Leasing when the Company is the lessor

Leasing contracts with the Company as lessor are classified as finance leases when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases. Under a finance lease, a receivable is recognized at an amount equal to the net investment in the lease and revenue is recognized in accordance with the revenue recognition principles.

Under operating leases the equipment Is recorded as property, plant and equipment and revenue as well as depreciation is recognized on a straight-line basis over the lease term.

Income taxes

Income taxes in the consolidated financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity or OCI. For those items, the related income tax is also reported directly in equity or OCI. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognized for temporary differences between the book values of assets and liabilities and their tax values and for tax loss carry forwards. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carry forwards can be utilized. In the recognition of income taxes, the Company offsets current tax receivables against current tax liabilities and deferred tax assets against deferred tax liabilities in the balance sheet, when the Company has a legal right to offset these items and the intention to do so. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and for differences related to investments in subsidiaries when it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognized in the income statement, unless it relates to a temporary difference earlier recognized directly in equity or OCI, in which case the adjustment is also recognized in equity or OCI.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization. The largest amounts of tax loss carry forwards relate to Sweden, with indefinite period of utilization.

In Note C2, “Critical accounting estimates and judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Provisions and contingent liabilities

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to warranty commitments, restructuring, customer projects and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer finance guarantees.

Product warranty commitments consider probabilities of all material quality issues based on historical performance for established products and expected performance for new products, estimates of repair cost per unit, and volumes sold still under warranty up to the reporting date.

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Other provisions include provisions for unresolved tax issues, litigations, supplier claims, customer finance and other provisions. The Company provides for estimated future settlements related to patent infringements based on the probable outcome of each infringement. The actual outcome or actual cost of settling an individual infringement may vary from the Company’s estimate.

The Company estimates the outcome of any potential patent infringement made known to the Company through assertion and through the Company’s own monitoring of patent-related cases in the relevant legal systems. To the extent that the Company makes the judgment that an identified potential infringement will more likely than not result in an outflow of resources, the Company records a provision based on the Company’s best estimate of the expenditure required to settle with the counterpart.

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other unresolved claims, including proceedings under laws and government regulations and other matters. These matters are often resolved over a long period of time. The Company regularly assesses the likelihood of any adverse judgments in or outcomes of these matters, as well as potential ranges of possible losses. Provisions are recognized when it is probable that an obligation has arisen and the amount can be reasonably estimated based on a detailed analysis of each individual issue.

Certain present obligations are not recognized as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities. For further detailed information, see Note C24, “Contingent liabilities”.

In Note C2, “Critical accounting estimates and judgments”, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Post-employment benefits

Pensions and other post-employment benefits are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company's only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognized as expenses during the period when the employee provides service.

Under a defined benefit plan, it is the Company's obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The discount rate for each country is determined by reference to market yields on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The calculations are based upon actuarial assumptions, assessed on a quarterly basis, and are as a minimum prepared annually. Actuarial assumptions are the Company's best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it is possible that the actual results will differ from the estimated results or that the actuarial assumptions will change from one period to another. These differences are reported as actuarial gains and losses. They are for example caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes, changes in the discount rate and differences between actual and expected return on plan assets. Actuarial gains and losses are recognized in OCI in the period in which they occur. The Company's net liability for each defined benefit plan consists of the present value of pension commitments less the fair value of plan assets and is recognized net on the balance sheet. When the result is a net benefit to the Company, the recognized asset is limited to the total of any cumulative past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The net of return on plan assets and interest on pension liabilities is reported as financial income or expense, while the current service cost and any other items in the annual pension cost are reported as operating income or expense.

Payroll taxes related to actuarial gains and losses are included in determining actuarial gains and losses.

In Note C2, "Critical accounting estimates and judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Share-based compensation to employees and the Board of Directors

Share-based compensation is related to remuneration to all employees, including key management personnel and the Board of Directors.

Under IFRS, a company shall recognize compensation costs for share-based compensation programs based on a measure of the value to the company of services received under the plans.

This value is based on the fair value of, for example free shares at grant date, measured as stock price as per each investment date. The value at grant date is charged to the income statement as any other remuneration over the service period. For example, value at grant date is 90. Given the normal service period of three years within Ericsson, 30 are charged per year during the service period.

The amount charged to the income statement is reversed in equity each time of the income statement charge.

The reason for this accounting principle of IFRS is that compensation cost is a cost with no direct cash flow impact. The purpose of share-based accounting according to IFRS (IFRS 2) is to present an impact of share-based programs, being part of the total remuneration, in the income statement.

Compensation to employees

Stock purchase plans

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the Ericsson share at the employee's investment date. The fair value is based upon the share price at investment date, adjusted for the fact that no dividends will be received on matching shares prior to matching and other features that are non-vesting conditions. The employee pays a price equal to the share price at investment date for the investment shares. The investment date is considered as the grant date. In the balance sheet, the corresponding amounts are accounted for as equity. Vesting conditions are non-market based and affect the number of shares that Ericsson will match. Other features of a share-based payment are non-vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services. In the period when an employee takes a refund of previously made contributions (and stops making further contributions) all remaining compensation expense is recognized. Non-vesting conditions would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. When calculating the compensation costs for shares under performance-based matching programs, the Company at each reporting date assesses the probability that the performance targets are met. Compensation expenses are based on estimates of the number of shares that will match at the end of the vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, estimated amounts for such social security charges are expensed and accrued.

Compensation to the Board of Directors

During 2008, the Parent Company introduced a share-based compensation program as a part of the remuneration to the Board of Directors. The program gives non-employed Directors elected by the General Meeting of Shareholders a right to receive part of their remuneration as a future payment of an amount which corresponds to the market value of a share of class B in the Parent Company at the time of payment, as further disclosed in Note C28, "Information regarding members of the Board of Directors, the Group management and employees". The cost for cash settlements is measured and recognized based on the estimated costs for the program on a pro rata basis during the service period, being one year. The estimated costs are remeasured during and at the end of the service period.

Segment reporting

An operating segment is a component of a company whose operating results are regularly reviewed by the Company's chief operating decision maker, (CODM), to make decisions about resources to be allocated to the segment and assess its performance. Within the Company, the Group Management Team is defined as the CODM function.

The segment presentation, as per each segment is based on the Company's accounting policies as disclosed in this note. The arm's length principle is applied in transactions between the segments.

The Company's segment disclosure about geographical areas is based on in which country transfer of risks and rewards occur.

New standards and interpretations not yet adopted

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012 and have not been applied in preparing these consolidated financial statements.

Below is a list of standards/interpretations that have been issued, except for amendments related to IFRS 1, 'First time adoption of International Financial Reporting Standards' and are effective for the periods starting as from January 1, 2013 (except IAS 32 and IFRS 9).

These amendments effective as from January 1, 2013, are not expected to have a significant impact on the Company's financial result or position.

- **Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income**
  The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- **Amendment to IAS 19,'Employee benefits'**
  These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Company implemented the immediate and full recognition of actuarial gains/losses in other comprehensive income in 2006, meaning that the corridor method has not been applied by the Company as from that date and therefore the transition to the revised IAS19 applicable starting January 1, 2013 will not have a significant effect on the present obligation. The main issue to address will be the implementation of the net interest cost/gain, which integrates the interest cost and expected return on assets to be based on a common discount rate. An analysis of fiscal year 2012 in relation to this amendment indicates an impact on pension costs for 2012 with an increase of approximately SEK 0.4 (–0.1) billion. The Company will also need to address the taxes to be incorporated into the defined benefit obligation. This amendment relates to the Swedish special payroll taxes to be reclassified from Other current liabilities to Post-employment benefits with an estimated amount of SEK 1.8 (1.8) billion as per December 31, 2012. The amendment also includes additional disclosure requirements on financial and demographic assumptions, sensitivity analysis, duration and multi-employer plans.
- **Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting**
  This amendment requires disclosure of gross amounts related to financial instruments for which off set has been made.
- **IFRS 10, 'Consolidated financial statements'**
  The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. An entity controls an investee if the entity has power over the investee, has the ability to use the power and is exposed to variable returns. It also sets out the accounting requirements for the preparation of consolidated financial statements.
- **IFRS 11, 'Joint arrangements'**
  IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The Company does not apply the proportionate consolidation method.
- **IFRS 12, 'Disclosures of interests in other entities'**
  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- **IFRS 13, 'Fair value measurement'**
  IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.
- **IAS 27 (revised 2011), 'Separate financial statements'**
  IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- **IAS 28 (revised 2011), 'Associates and joint ventures'**
  IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Below are standards that have been issued and are effective for the periods starting as from later than 1 January, 2013:

- **Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting**
  These amendments are related to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective as from 1 January, 2014.
- **IFRS 9, 'Financial instruments'**
  IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. This amendment is expected to be effective as from 1 January, 2015. The EU has not yet endorsed IFRS 9, 'Financial instruments'.

These amendments effective as from later than January 1, 2013, are not expected to have a significant impact on the Company's financial result or position.

Effective date for IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 is January 1, 2013. EU has in its endorsement decision allowed listed companies in the EU to adopt these standards as from January 1, 2014. The Company will adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 as from January 1, 2013.

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

The information in this note is grouped as per:

- Key sources of estimation uncertainty
- Judgments management has made in the process of applying the Company's accounting policies.

Revenue recognition

Key sources of estimation uncertainty

Examples of estimates of total contract revenue and cost that are necessary are the assessing of customer possibility to reach conditional purchase volumes triggering contractual discounts to be given to the customer, the impact on the Company revenue in relation to performance criteria and whether any loss provisions shall be made.

Judgments made in relation to accounting policies applied

Parts of the Company's sales are generated from large and complex customer contracts. Managerial judgment is applied regarding, among other aspects, conformance with acceptance criteria and if transfer of risks and rewards to the buyer has taken place to determine if revenue and costs should be recognized in the current period, degree of completion and the customer credit standing to assess whether payment is likely or not to justify revenue recognition.

Trade and customer finance receivables

Key sources of estimation uncertainty

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2012, were SEK 1.1 (1.0) billion or 1.5% (1.4%) of gross trade and customer finance receivables.

Credit risks for outstanding customer finance credits are regularly assessed as well, and allowances are recorded for estimated losses.

Inventory valuation

Key sources of estimation uncertainty

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2012, amounted to SEK 3.5 (3.3) billion or 11% (9%) of gross inventory.

Investments in joint ventures and associated companies

Key sources of estimation uncertainty

Impairment testing of total carrying value of each item of "Equity in joint ventures and associated companies" is performed after initial recognition, whenever there is an indication of impairment. Information regarding information used for impairment tests is provided by respective joint venture and associated company. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. An impairment in a JV or associated company may not always affect the Company in the same way depending on accounting standard used, initial recognition of assets and liabilities or other differences.

At December 31, 2012, the amount of joint ventures and associated companies amounted to SEK 2.8 (6.0) billion.

Deferred taxes

Key sources of estimation uncertainty

Deferred tax assets and liabilities, are recognized for temporary differences and for tax loss carry-forwards. Deferred tax is recognized net of valuation allowances. The valuation of temporary differences and tax loss carry-forwards, is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized.

The largest amounts of tax loss carry-forwards are reported in Sweden, with an indefinite period of utilization (i.e. with no expiry date). For further detailed information, please refer to Note C8, "Taxes".

At December 31, 2012, the value of deferred tax assets amounted to SEK 12.3 (13.0) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

Accounting for income-, value added- and other taxes

Key sources of estimation uncertainty

Accounting for these items is based upon evaluation of income-, value added- and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgments regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

Acquired intellectual property rights and other intangible assets, including goodwill

Key sources of estimation uncertainty

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition, impairment testing is performed whenever there is an indication of impairment, except for goodwill for which impairment testing is performed at least once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. One source of uncertainty related to future cash flows is long-term movements in exchange rates.

For further discussion on goodwill, see Note C1, "Significant accounting policies" and Note C10, "Intangible assets". Estimates related to acquired intangible assets are based on similar assumptions and risks as for goodwill.

At December 31, 2012, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 45.6 (40.5) billion, including goodwill of SEK 30.4 (27.4) billion. The Company recognized goodwill in ST-Ericsson of SEK 0.0 (1.3) billion, as disclosed in Note C12, "Financial assets, non-current".

Judgments made in relation to accounting policies applied

At initial recognition and subsequent remeasurement, management judgments are made, both for key assumptions and regarding impairment indicators. In the purchase price allocation made for each acquisition, the purchase price shall be assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill. This allocation requires management judgment as well as the definition

of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

Provisions

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2012, amounted to SEK 1.6 (1.9) billion.

Provisions other than warranty provisions

Key sources of estimation uncertainty

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2012, provisions other than warranty commitments amounted to SEK 7.0 (4.4) billion. For further detailed information, see Note C18, “Provisions”.

Judgments made in relation to accounting policies applied

Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and management’s judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.

Contingent liabilities

Key sources of estimation uncertainty

As disclosed under ‘Provisions other than warranty provisions’ there are uncertainties in the estimated amounts. The same type of uncertainty exists for contingent liabilities.

Judgments made in relation to accounting policies

As disclosed under Note C1, “Significant accounting policies” a potential obligation that is not probable to result in an economic outflow is classified as a contingent liability, with no impact on the Company’s financial statements. Should, however, an obligation in a later period be deemed to be probable, then a provision shall be recognized, impacting the financial statements.

Pension and other post-employment benefits

Key sources of estimation uncertainty

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company’s pension plans. Expected returns on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2012, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 52.0 (36.4) billion and fair value of plan assets to SEK 44.6 (28.0) billion. For more information on estimates and assumptions, see Note C17, “Post-employment benefits”.

Financial instruments, hedge accounting and foreign exchange risks

Key sources of estimation uncertainty

Foreign exchange risk in highly probable sales and purchases in future periods are hedged using foreign exchange derivative instruments designated as cash-flow hedges. Forecasts are based on estimations of future transactions. A forecast is therefore per definition uncertain to some degree.

Judgments made in relation to accounting policies applied

Establishing highly probable sales and purchases volumes involve gathering and evaluating sales and purchases estimates for future periods as well as analyzing actual outcome versus estimates on a regular basis in order to fulfill effectiveness testing requirements for hedge accounting. Changes in estimates of sales and purchases might result in that hedge accounting is discontinued.

For further information regarding risks in financial instruments, see Note C20, “Financial risk management and financial instruments”.

C3 SEGMENT INFORMATION

Operating segments

When determining Ericsson's operating segments, consideration has been given to which markets and what type of customers the products and services aim to attract as well as the distribution channels they are sold through. Commonality regarding technology, research and development has also been taken into account. To best reflect the business focus and to facilitate comparability with peers, four operating segments are reported:

- Networks
- Global Services
- Support Solutions
- ST-Ericsson

Ericsson's share in Sony Ericsson was divested in February 2012, with effective date on January 1.

Networks delivers products and solutions for mobile access, IP and transport networks and core networks. The offering includes:

- Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs. The RBS 6000 supports all major standardized mobile technologies
- IP and transport solutions based on the SSR 8000 family of products as well as transmission/backhaul including microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks
- Switching and IMS solutions, based on Ericsson Blade Server platform, for core networks
- Operations Support Systems (OSS), supporting operators' management of existing networks and introduction of new technologies and services.

Global Services delivers managed services, product-related services and consulting and systems integration services. The offering includes:

- Managed Services; Solutions for designing, building, operating and managing the day-to-day operations of the customer's network or solution, maintenance, network sharing solutions as well as shared solutions such as hosting of platforms and applications. Ericsson also offers broadcast services and managed services of IT environments.
- Product-related services: Services to expand, upgrade, restructure or migrate networks, network-rollout services, customer support and network optimization services.
- Consulting and Systems Integration: Technology and operational consulting, integration of multi-vendor equipment, design and integration of new solutions and transforming programs. Industry-specific solutions for vertical industries are also included.

Support Solutions (name changed from Multimedia during 2012) provides enablers and applications for operators. The offering includes:

- Operations Support Systems: plan, build and optimize, service fulfillment and service assurance.
- Business Support Systems: revenue management (prepaid, post-paid, convergent charging and billing), mediation and customer care solutions.
- TV solutions: a suite of open, standards-based solutions and products for the creation, management and delivery of evolved TV experiences on any device over any network. Includes a multi-screen TV platform with consumer experience creation, video content management, on-demand video delivery, advanced video compression and video-optimized delivery network infrastructure.
- M-Commerce solutions for money transfer; payment transactions and services between mobile subscribers and operators or other service providers.

ST-Ericsson, the joint venture, offers modems and ModAps (integrated modem and application processor platforms) for device manufacturers.

ST-Ericsson's results are reported according to the equity method under "Share in earnings of joint ventures and associated companies" in the income statement.

On December 10, 2012, STMicroelectronics announced its intention to exit as a shareholder in ST-Ericsson. On December 20, 2012, the Company announced that it would take a non-cash charge in the fourth quarter of 2012 related to its 50% stake in ST-Ericsson. The charge includes write-down of investments to reflect the current best estimate of the Company's share of the fair market value of the joint venture and a provision related to the strategic options at hand for ST-Ericsson assets. In total, the Company has made write-downs of SEK –4.7 billion of ST-Ericsson investments and taken a provision of SEK –3.3 billion. In addition, the Company's share in ST-Ericsson's operating loss amounted to SEK –3.7 (–0.8) billion. For more information, see Note C12, "Financial assets, non-current" and Note C18 "Provisions".

As of December 31, 2012 there are no remaining investments related to ST-Ericsson on the Company's balance sheet. Costs and cash related to implementation of strategic options at hand will be booked against provisions.

Sony Ericsson, was up until 2012, a joint venture delivering mobile phones and accessories. In February 2012, Ericsson completed the divestment of its 50% stake in Sony Ericsson to Sony. Sony Ericsson has not been consolidated by the Company during 2012. The sale resulted in a gain of SEK 7.7 billion.

Unallocated

Some revenues, costs, assets and liabilities are not identified as part of any operating segment and are therefore not allocated. Examples of such items are costs for corporate staff, IT costs and general marketing costs.

Regions

The Regions are the Company's primary sales channel. The Company operates worldwide and reports its operations divided into eleven regions. Region China and North East Asia has changed name to North East Asia.

- North America
- Latin America
- Northern Europe & Central Asia
- Western and Central Europe
- Mediterranean
- Middle East
- Sub-Saharan Africa
- India
- North East Asia
- South East Asia & Oceania
- Other.

Region "Other" includes licensing revenues, sales of cables, broadcast services, power modules and other businesses.

The acquired Technicolor Broadcast Service Division is reported in region "Other". Multimedia brokering (IPX) was previously reported in each region in segment Support Solutions. For the first three quarters 2012 it was part of region "Other". Multimedia brokering (IPX) was divested at the end of the third quarter 2012.

Major customers

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company's total revenues for the years 2012, 2011 or 2010.

We derive most of the sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of approximately 400, mainly network operators, the 10 largest customers account for 46% (44%) of net sales. The largest customer accounted for approximately 7% (7%) of sales in 2012. For more information, see Risk Factors, "Market, Technology and Business Risks".

Marketing channels

Marketing in a business-to-business environment is expanding, from being primarily through personal meetings, to on-line forums, expert blogs and social media. Ericsson performs marketing through:

- Customer engagement with a consultative approach
- Selective focus on events and experience centers for customer experience and interaction
- Continuous dialogue with customers and target audiences through social and other digital media (including virtual events)
- Activation of the open social and digital media landscape to strengthen message reach and impact
- Execution of solutions-driven programs, aligned globally and regionally.

Operating segments

2012	Networks	Global Services	Support Solutions	Sony Ericsson	ST-Ericsson	Total Segments	Unallo-cated	Elimi-nations [1]	Group
Segment sales	117,185	97,009	13,445	–	8,457	236,096	–	–8,457	227,639
Inter-segment sales	100	34	6	–	634	774	–	–634	140
Net sales	**117,285**	**97,043**	**13,451**	**–**	**9,091**	**236,870**	**–**	**–9,091**	227,779
Operating income	**7,057**	**6,226**	**1,150**	**8,026** [2]	**–15,447** [3]	**7,012**	**–267**	**3,713**	10,458
Operating margin (%)	6%	6%	9%		–170%	3%			5%
Financial income									1,708
Financial expenses									–1,984
Income after financial items									10,182
Taxes									–4,244
Net income									5,938
Other segment items									
Share in earnings of joint ventures and associated companies	–59	45	–20	–	–11,734 [3]	–11,768	37	–	–11,731
Amortization	–3,832	–853	–809	–	–322	–5,816	–	322	–5,494
Depreciation	–3,035	–727	–290	–	–741	–4,793	–	741	–4,052
Impairment losses	–385	–9	–1	–	– [4]	–395	–	–	–395
Reversals of impairment losses	39	9	4	–	–	52	–	–	52
Write-down of investment		–	–	–	–4,684	–4,684	–	–	–4,684
Restructuring expenses	–1,253	–1,930	–246	–	–624	–4,053	–18	624	–3,447
Gains/losses from divestments	–59	1	216	8,026 [2]	–	8,184	152	–	8,336

Revenue from the acquired Telcordia business operation is reported 50/50 between segments Global Services and Support Solutions.
[1] All segment sales are presented, but as ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.
[2] Includes a gain from the divestment of Sony Ericsson of SEK 7.7 billion.
[3] Includes a write-down of SEK –4.7 billion of ST-Ericsson investment, a provision of SEK –3.3 billion and the Company's share in ST-Ericsson's operating loss of SEK –3.7 billion.
[4] Impairment losses included in Write-down of investment.

Operating segments

2011	Networks	Global Services	Support Solutions	Sony Ericsson	ST-Ericsson	Total Segments	Unallo-cated	Elimi-nations [1]	Group
Segment sales	131,596	83,854	10,629	46,866	9,232	282,177	–	–56,098	226,079
Inter-segment sales	799	30	13	126	1,461	2,429	–	–1,587	842
Net sales	**132,395**	**83,884**	**10,642**	**46,992**	**10,693**	**284,606**	**–**	**–57,685**	226,921
Operating income	**17,295**	**5,544**	**–504**	**–1,854**	**–5,461**	**15,020**	**–501**	**3,381**	17,900
Operating margin (%)	13%	7%	–5%	–4%	–51%	5%			8%
Financial income									2,882
Financial expenses									–2,661
Income after financial items									18,121
Taxes									–5,552
Net income									12,569
Other segment items									
Share in earnings of joint ventures and associated companies	87	28	4	–1,199	–2,730	–3,810	32	–	–3,778
Amortization	–4,192	–481	–792	–1	–867	–6,333	–	868	–5,465
Depreciation	–2,783	–532	–184	–647	–823	–4,969	–	1,470	–3,499
Impairment losses	–50	–23	–12	–	–283	–368	–	283	–85
Reversals of impairment losses	12	–	1	–	–	13	–	–	13
Restructuring expenses	–1,600	–1,363	–143	–838	–280	–4,224	–78	1,118	–3,184
Gains/losses from divestments	–6	–	–	–	–	–6	164	–	158

[1] All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

Operating segments

2010	Networks	Global Services	Support Solutions	Sony Ericsson	ST-Ericsson	Total Segments	Unallo-cated	Elimi-nations [1]	Group
Segment sales	111,459	80,117	10,504	60,118	13,116	275,314	–	–73,234	202,080
Inter-segment sales	1,249	6	13	60	3,403	4,731	–	–3,463	1,268
Net sales	**112,708**	**80,123**	**10,517**	**60,178**	**16,519**	**280,045**	**–**	**–76,697**	203,348
Operating income	**12,481**	**6,513**	**–643**	**1,523**	**–3,527**	**16,347**	**–805**	**913**	16,455
Operating margin (%)	11%	8%	–6%	3%	–21%	6%	–	–	8%
Financial income									1,047
Financial expenses									–1,719
Income after financial items									15,783
Taxes									–4,548
Net income									11,235
Other segment items									
Share in earnings of joint ventures and associated companies	–64	–17	–2	664	–1,763	–1,182	10	–	–1,172
Amortization	–4,554	–303	–806	–25	–930	–6,618	–	955	–5,663
Depreciation	–2,600	–555	–144	–731	–1,022	–5,052	–	1,753	–3,299
Impairment losses	–675	–276	–52	–	–61	–1,064	–	61	–1,003
Reversals of impairment losses	9	2	1	–	–	12	–	–	12
Restructuring expenses	–3,915	–2,675	–207	–402	–536	–7,735	–17	938	–6,814
Gains/losses from divestments	154	53	92	–	–	299	59	–	358

[1] All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

Regions

	Net sales			Non-current assets [3]		
	2012	2011	2010	2012	2011	2010
North America	56,749	48,785	49,473	15,058	6,296	7,251
Of which the United States	*56,698*	*46,519*	*46,104*	*6,101*	*6,020*	*6,977*
Latin America	22,006	21,982	17,882	2,084	2,268	1,998
Northern Europe & Central Asia [1) 2)]	11,345	15,225	12,171	38,335	41,008	42,112
Western & Central Europe [2)]	17,478	19,030	19,868	2,922	5,097	8,629
Mediterranean	23,299	23,807	22,628	1,099	1,395	1,523
Middle East	15,556	15,461	15,099	32	42	84
Sub-Saharan Africa	11,349	10,163	9,194	119	79	51
India	6,460	9,762	8,626	460	355	262
North East Asia	36,196	38,209	25,965	3,371	3,939	3,795
Of which China	*12,637*	*17,546*	*14,633*	*1,399*	*1,496*	*1,013*
South East Asia & Oceania	15,068	13,870	14,902	301	318	351
Other [1) 2)]	12,273	10,627	7,540	–	–	–
Total	227,779	226,921	203,348	63,781	60,797	66,056
[1)] *Of which Sweden*	*5,033*	*3,882*	*4,237*	*37,718*	*40,415*	*41,683*
[2)] *Of which EU*	*44,230*	*43,960*	*43,707*	*41,546*	*44,786*	*46,563*

[3] Total non-current assets excluding financial instruments, deferred tax assets, and post-employment benefit assets.

For employee information, see Note C28, “Information regarding members of the Board of Directors, the Group management and employees”.

C4
NET SALES

Net sales

	2012	2011	2010
Sales of products and network rollout services	154,068	161,882	140,222
Of which:			
Delivery-type contracts	*154,068*	*161,882*	*140,156*
Construction-type contracts	–	–	*66*
Professional Services sales	67,092	58,834	58,529
License revenues	6,619	6,205	4,597
Net sales	227,779	226,921	203,348
Export sales from Sweden	106,997	116,507	100,070

C5
EXPENSES BY NATURE

Expenses by nature

	2012	2011	2010
Goods and services	137,769	142,221	130,725
Employee remuneration	64,100	58,905	57,183
Amortization and depreciation	9,546	8,964	8,962
Impairments and obsolescence allowances, net of reversals	1,999	1,363	966
Financial expenses	1,984	2,661	1,719
Taxes	4,244	5,552	4,548
Expenses incurred	219,642	219,666	204,103
Inventory changes [1]	–2,782	3,417	8,465
Additions to Capitalized development	1,641	1,515	1,647
Expenses charged to the Income Statement	220,783	214,734	193,991

[1] The inventory changes are based on changes of gross inventory values prior to obsolescence allowances.

Total restructuring charges in 2012 were SEK 3.4 (3.2) b.
Restructuring charges are included in the expenses presented above.

Restructuring charges by function

	2012	2011	2010
Cost of sales	2,225	1,231	3,354
R&D expenses	852	561	1,682
Selling and administrative expenses	370	1,392	1,778
Total restructuring charges	3,447	3,184	6,814

C6
OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

	2012	2011	2010
Gains on sales of intangible assets and PP&E	12	65	301
Losses on sales of intangible assets and PP&E	–261	–64	–422
Gains on sales of investments and operations	8,462 [1]	210	577
Losses on sales of investments and operations	–126	–52	–219
Capital gains/losses, net	8,087	159	237
Other operating revenues	878	1,119	1,766
Total other operating income and expenses	8,965	1,278	2,003

[1] Includes a gain from the divestment of Sony Ericsson of SEK 7.7 billion.

C7 FINANCIAL INCOME AND EXPENSES

Financial income and expenses

	2012		2011		2010	
	Financial income	Financial expenses	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest on financial assets	1,685	–	1,940	–	811	–
Of which on financial assets at fair value through profit or loss	*1,308*	–	*1,381*	–	*304*	–
Contractual interest on financial liabilities	–	–1,734	–	–1,706	–	–1,315
Net gain/loss on:						
Instruments at fair value through profit or loss [1]	142	54	1,062	–591	295	–206
Of which included in fair value hedge relationships	–	*–129*	–	*–175*	–	*151*
Loans and receivables	–127	–	–132	–	–68	–
Liabilities at amortized cost	–	–133	–	–105	–	–4
Other financial income and expenses	8	–171	12	–259	9	–194
Total	1,708	–1,984	2,882	–2,661	1,047	–1,719

[1] Excluding net gain from operating assets and liabilities, SEK 1,299 million (net gain of SEK 51 million in 2011, SEK 1,528 million in 2010), reported as Cost of sales.

C8 TAXES

The Company's tax expense for 2012 was SEK –4,244 (–5,552) million or 41.7% (30.6%) of income after financial items. The tax rate may vary between years depending on business and geographical mix. The effective tax rate excluding joint ventures and associated companies as well as the gain due to the divestment of Sony Ericsson was 30.5% (26.4%). The corporate tax in Sweden was reduced from 26.3% to 22.0% from January 1, 2013. This resulted in a reduction of deferred tax assets and an increase of tax expense of SEK –0.5 billion.

Income taxes recognized in the income statement

	2012	2011	2010
Current income taxes for the year	–5,795	–4,642	–4,635
Current income taxes related to prior years	–241	283	–35
Deferred tax income/expense (+/–)	1,697	–1,433	307
Sub total	*–4,339*	*–5,792*	*–4,363*
Share of taxes in joint ventures and associated companies	95	240	–185
Tax expense	–4,244	–5,552	–4,548

A reconciliation between reported tax expense for the year and the theoretical tax expense that would arise when applying statutory tax rate in Sweden, 26.3%, on the consolidated income before taxes, is shown in the table below.

Reconciliation of Swedish income tax rate with effective tax rate

	2012	2011	2010
Expected tax expense at Swedish tax rate 26.3%	–2,678	–4,767	–4,150
Effect of foreign tax rates	–581	–1,126	–405
Of which joint ventures and associated companies	*–778*	*–754*	*–467*
Current income taxes related to prior years	–241	283	–35
Remeasurement of tax loss carry-forwards	134	224	–257
Remeasurement of deductible temporary differences	468	81	172
Tax effect of non-deductible expenses	–3,430	–768	–830
Tax effect of non-taxable income	2,573	521	880
Tax effect of changes in tax rates	–489	–	77
Tax expense	–4,244	–5,552	–4,548
Effective tax rate	*41.7%*	*30.6%*	*28.8%*

Deferred tax balances

Deferred tax assets and liabilities are derived from the balance sheet items as shown in the table below.

Tax effects of temporary differences and tax loss carry-forwards

	Deferred tax assets	Deferred tax liabilities	Net balance
2012			
Intangible assets and property, plant and equipment	941	4,579	
Current assets	2,388	293	
Post-employment benefits	2,600	614	
Provisions	1,512	48	
Other	3,487	432	
Loss carry-forwards	4,239	–	
Deferred tax assets/liabilities	15,167	5,966	9,201
Netting of assets/liabilities	–2,846	–2,846	
Deferred tax balances, net	**12,321**	**3,120**	**9,201**
2011			
Intangible assets and property, plant and equipment	968	2,941	
Current assets	3,193	100	
Post-employment benefits	2,233	618	
Provisions	1,441	23	
Other	3,423	64	
Loss carry-forwards	3,258	–	
Deferred tax assets/liabilities	14,516	3,746	10,770
Netting of assets/liabilities	–1,496	–1,496	
Deferred tax balances, net	**13,020**	**2,250**	**10,770**

Changes in deferred taxes, net

	2012	2011
Opening balance, net	10,770	10,166
Recognized in net income	1,697	–1,433
Recognized in Other comprehensive income	–422	2,158
Acquisitions/disposals of subsidiaries	–2,309	53
Currency translation differences	–535	–174
Closing balance, net	**9,201**	10,770

Tax effects reported directly in Other comprehensive income amount to SEK –422 (2,158) million, of which actuarial gains and losses related to pensions SEK –57 (1,809) million, cash flow hedges SEK –363 (350) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK –2 (–1) million.

Deferred tax assets are only recognized in countries where the Company expects to be able to generate corresponding taxable income in the future to benefit from tax reductions.

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly Sweden and Germany. Of the total SEK 4,239 million recognized deferred tax assets related to tax loss carry-forwards, SEK 2,840 million relates to Sweden with indefinite periods of utilization. Due to the Company's strong current financial position and taxable income during 2012, Ericsson has been able to utilize part of its tax loss carry-forwards during the year. The assessment is that Ericsson will be able to generate sufficient income in the coming years to also utilize the remaining part of the recognized amounts.

Deferred tax assets for ST-Ericsson are not included, as they are recognized in accordance with the equity method.

Tax loss carry-forwards

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilized, as described below.

As of December 31, 2012, the recognized tax loss carry-forwards amounted to SEK 17,081 (12,657) million. The tax value of these tax loss carry-forwards is reported as an asset.

The final years in which the recognized loss carry-forwards can be utilized are shown in the following table.

Tax loss carry-forwards year of expiration

Year of expiration	Tax loss carry-forwards	Tax value
2013	19	5
2014	8	2
2015	43	13
2016	54	16
2017	327	78
2018 or later	16,630	4,125
Total	**17,081**	**4,239**

Tax loss carry-forwards of ST-Ericsson are not included as they are recognized in accordance with the equity method.

In addition to the table above there are loss carry-forwards of SEK 4,737 million at a tax value of SEK 1,432 million that have not been recognized due to judgments of the possibility to be used against future taxable profits in the respective jurisdictions. The majority of these loss carry-forwards have an expiration date in excess of five years.

C9
EARNINGS PER SHARE

Earnings per share 2010–2012

	2012	2011	2010
Basic			
Net income attributable to stockholders of the Parent Company (SEK million)	5,775	12,194	11,146
Average number of shares outstanding, basic (millions)	3,216	3,206	3,197
Earnings per share, basic (SEK)	1.80	3.80	3.49
Diluted			
Net income attributable to stockholders of the Parent Company (SEK million)	5,775	12,194	11,146
Average number of shares outstanding, basic (millions)	3,216	3,206	3,197
Dilutive effect for stock purchase plans	31	27	29
Average number of shares outstanding, diluted (millions)	3,247	3,233	3,226
Earnings per share, diluted (SEK)	1.78	3.77	3.46

C10
INTANGIBLE ASSETS

Intangible assets 2012

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
		For internal use						
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Cost								
Opening balance	8,125	2,213	1,478	11,816	27,455	14,188	25,689	39,877
Acquisitions/capitalization	1,641	–	–	1,641	–	538	103	641
Balances regarding acquired businesses [1]	–	–	–	–	4,293	4,517	2,155	6,672
Sales/disposals	–	–	–	–	–20	–158	–137	–295
Reclassification	–	–	–	–	94	–	–94	–94
Translation difference	–	–	–	–	–1,400	–490	–300	–790
Closing balance	**9,766**	**2,213**	**1,478**	13,457	30,422	**18,595**	**27,416**	**46,011**
Accumulated amortization								
Opening balance	–3,187	–1,975	–1,318	–6,480	1	–5,502	–16,078	–21,580
Amortization	–840	–131	–87	–1,058	–	–2,023	–2,413	–4,436
Sales/disposals	–	–	–	–	–1	46	124	170
Translation difference	–	–	–	–	–	202	166	368
Closing balance	**–4,027**	**–2,106**	**–1,405**	–7,538	–	**–7,277**	**–18,201**	**–25,478**
Accumulated impairment losses								
Opening balance	–1,721	–55	–37	–1,813	–18	–	–5,214	–5,214
Impairment losses	–266	–	–	–266	–	–	–117	–117
Closing balance	**–1,987**	**–55**	**–37**	–2,079	–18	**–**	**–5,331**	–5,331
Net carrying value	**3,752**	**52**	**36**	3,840	30,404	**11,318**	**3,884**	15,202

[1] For more information on acquired businesses, see Note C26, "Business combinations".

Intangible assets 2011

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
		For internal use						
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Cost								
Opening balance	6,610	2,213	1,478	10,301	27,151	13,582	25,330	38,912
Acquisitions/capitalization	1,515	–	–	1,515	–	237	354	591
Balances regarding acquired businesses	–	–	–	–	260	382	–	382
Sales/disposals	–	–	–	–	–2	–20	–20	–40
Translation difference	–	–	–	–	46	7	25	32
Closing balance	**8,125**	**2,213**	**1,478**	11,816	27,455	**14,188**	**25,689**	39,877
Accumulated amortization								
Opening balance	–2,526	–1,775	–1,184	–5,485	–	–3,937	–13,103	–17,040
Amortization	–661	–200	–134	–995	–	–1,538	–2,932	–4,470
Sales/disposals	–	–	–	–	1	15	13	28
Translation difference	–	–	–	–	–	–42	–56	–98
Closing balance	**–3,187**	**–1,975**	**–1,318**	–6,480	1	**–5,502**	**–16,078**	–21,580
Accumulated impairment losses								
Opening balance	–1,714	–55	–37	–1,806	–	–	–5,214	–5,214
Impairment losses	–7	–	–	–7	–18	–	–	–
Closing balance	**–1,721**	**–55**	**–37**	–1,813	–18	**–**	**–5,214**	–5,214
Net carrying value	**3,217**	**183**	**123**	3,523	27,438	**8,686**	**4,397**	13,083

The goodwill is allocated to the operating segments Networks SEK 16.2 (16.7) billion, Global Services SEK 4.2 (4.1) billion and Support Solutions SEK 10.0 (6.6) billion.

The recoverable amounts for cash-generating units are established as the present value of expected future cash flows. Estimation of future cash flows includes assumptions mainly for the following key financial parameters:

- Sales growth
- Development of operating income (based on operating margin or cost of goods sold and operating expenses relative to sales)
- Development of working capital and capital expenditure requirements.

The assumptions regarding industry specific market drivers and market growth are approved by group management and each operating segment's management. These assumptions are based on industry sources as input to the projections made within the Company for the development 2012–2017 for key industry parameters:

- The number of global mobile subscriptions is estimated to grow from around 6.3 billion by the end of 2012 to around 9 billion by the end of 2017. Of these, around 5-6 billion will be mobile broadband subscriptions. Around three-quarters of a billion of these mobile broadband subscriptions will use mobile PC/tablets/mobile routers, but the vast majority will still use mobile phones to access the internet.
- Fixed broadband subscriptions are estimated to grow from around 600 million by the end of 2012 to around 750 million in 2017. Fixed broadband includes Fiber, Cable and xDSL.
- Mobile data traffic volume is estimated to increase around 9 times 2012–2017, while the fixed Internet traffic is estimated to increase around 4 times 2012–2017, however from a much larger base.

The growth in network equipment is mainly driven by a shift in investments from voice to data. The end user requirements for "app-coverage" drives deployment of heterogeneous networks and small cells.

The demand for support solutions is driven by the opportunities for new types of service offerings enabled by IP technology and high-speed broadband. There is strong IPTV subscriber growth, rapid growth in digital viewing and on-demand services. The development and build out of Mobile Broadband networks and increasing number of mobile broadband subscriptions drives growth in service introduction and traffic. This puts high demand on plan to provision, implementation and systems integration services as well as real time payment systems. The Business Support Systems' growth is driven by introduction of new services, new business models and price plans.

The demand for professional services is also driven by an increasing business and technology complexity. Therefore, operators review their business models and look for vendor partners that can take on a broader responsibility, including outsourcing of network operations.

The assumptions are also based upon information gathered in the Company's long-term strategy process, including assessments of new technology, the Company's competitive position and new types of business and customers, driven by the continued integration of telecom, data and media industries.

The impairment testing is based on specific estimates for the first five years and with a reduction of nominal annual growth rate to an average GDP growth of 3% (3%) per year thereafter. The impairment tests for goodwill did not result in any impairment.

A number of sensitivity tests have been made, for example applying lower levels of revenue and operating income. Also when applying these estimates no goodwill impairment is indicated.

An after-tax discount rate of 8% (8%) has been applied for all cash generating units for the discounting of projected after-tax cash flows. The assumptions for 2011 are disclosed in Note C10, "Intangible assets" in the Annual Report of 2011.

The Company's discounting is based on after-tax future cash flows and after-tax discount rates. This discounting is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

In Note C1, "Significant accounting policies", and Note C2, "Critical accounting estimates and judgments", further disclosures are given regarding goodwill impairment testing.

C11
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2012

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,641	5,235	20,663	1,302	31,841
Additions	640	370	2,521	1,898	5,429
Balances regarding divested/acquired businesses	2	46	432	–	480
Sales/disposals	–476	–373	–1,296	–242	–2,387
Reclassifications	381	–380	1,458	–1,459	–
Translation difference	–203	–152	–745	–48	–1,148
Closing balance	**4,985**	**4,746**	**23,033**	**1,451**	34,215
Accumulated depreciation					
Opening balance	–2,165	–3,485	–15,094	–	–20,744
Depreciation	–354	–428	–3,270	–	–4,052
Balances regarding divested businesses	–	–	3	–	3
Sales/disposals	68	347	1,228	–	1,643
Reclassifications	7	–13	6	–	–
Translation difference	89	90	504	–	683
Closing balance	**–2,355**	**–3,489**	**–16,623**	**–**	–22,467
Accumulated impairment losses					
Opening balance	–43	–148	–118	–	–309
Impairment losses	–4	–8	–	–	–12
Reversals of impairment losses	–	22	30	–	52
Sales/disposals	–	6	–	–	6
Translation difference	2	4	2	–	8
Closing balance	**–45**	**–124**	**–86**	**–**	–255
Net carrying value	**2,585**	**1,133**	**6,324**	**1,451**	11,493

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2012, amounted to SEK 184 (226) million.
The reversal of impairment losses have been reported under Cost of sales.

Property, plant and equipment 2011

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,238	5,004	18,576	814	28,632
Additions	265	400	1,910	2,419	4,994
Balances regarding divested/acquired businesses	146	37	75	–	258
Sales/disposals	–147	–354	–952	–524	–1,977
Reclassifications	142	169	1,116	–1,427	–
Translation difference	–3	–21	–62	20	–66
Closing balance	**4,641**	**5,235**	**20,663**	**1,302**	31,841
Accumulated depreciation					
Opening balance	–1,869	–3,377	–13,695	–	–18,941
Depreciation	–415	–571	–2,513	–	–3,499
Balances regarding divested businesses	–	–	1	–	1
Sales/disposals	74	435	1,085	–	1,594
Reclassifications	36	–4	–32	–	–
Translation difference	9	32	60	–	101
Closing balance	**–2,165**	**–3,485**	**–15,094**	**–**	–20,744
Accumulated impairment losses					
Opening balance	–43	–95	–119	–	–257
Impairment losses	–	–48	–12	–	–60
Reversals of impairment losses	–	–	13	–	13
Sales/disposals	–	–	1	–	1
Translation difference	–	–5	–1	–	–6
Closing balance	**–43**	**–148**	**–118**	**–**	–309
Net carrying value	**2,433**	**1,602**	**5,451**	**1,302**	10,788

C12
FINANCIAL ASSETS, NON-CURRENT

Equity in joint ventures and associated companies

	Joint ventures		Associated companies		Total	Total
	2012	2011	2012	2011	2012	2011
Opening balance	4,663	8,648	1,302	1,155	5,965	9,803
Share in earnings	–8,399	–3,929	3	151	–8,396	–3,778
Contributions to joint ventures and associated companies	5,029	–	–	109	5,029	109
Taxes	106	241	–11	–1	95	240
Translation difference	–111	–126	42	66	–69	–60
Change in hedge reserve	65	4	–	–	65	4
Pensions	–	–175	–	–	–	–175
Dividends	–	–	–133	–177	–133	–177
Divestments	–1,353	–	–	–	–1,353	–
Reclassification	–	–	1,639 [2]	–1	1,639	–1
Closing balance	–	4,663 [1]	2,842 [3]	1,302 [3]	2,842	5,965

[1] Including goodwill for ST-Ericsson of SEK 1.3 billion.
[2] Reclassification from Other investments in shares and participations.
[3] Goodwill, net, amounts to SEK 12.2 (13.5) million.

Ericsson's share of assets, liabilities and income in associated company Ericsson Nikola Tesla d.d. [1]

	2012	2011	2010
Non-current assets	84	113	92
Current assets	588	574	749
Non-current liabilities	–	1	2
Current liabilities	262	197	209
Net assets	410	489	630
Net sales	1,085	693	784
Income after financial items	80	13	17
Income taxes	–8	3	–1
Net income	72	16	16
Assets pledged as collateral	4	4	4
Contingent liabilities	17	80	43

[1] The Company's share is 49.07%.

Ericsson's share of assets, liabilities and income in joint venture ST-Ericsson

	2012	2011	2010
Non-current assets	1,097	6,855	6,673
Current assets	1,006	1,514	2,249
Non-current liabilities	370	397	214
Current liabilities	1,339	4,695	2,519
Net assets	394	3,277	6,189
Net sales	4,545	5,346	8,260
Income after financial items	–2,503	–2,730	–1,762
Income taxes	–400	156	50
Net income	–2,903	–2,574	–1,712
Assets pledged as collateral	–	3	3
Contingent liabilities	–	–	–

The table above consists of amounts considered by the Company when applying the equity method in relation to ST-Ericsson.

Ericsson's Share of assets, liabilities and income in associated company Rockstar Consortium [1]

	2012
Total assets	1,561
Total liabilities	6
Net assets	1,555
Net sales	–
Income after financial items	–80
Income taxes	–
Net income	–80
Assets pledged as collateral	–
Contingent liabilities	–

[1] The Company's share is 21.26%.

Ericsson's Share of assets, liabilities and income in joint venture Sony Ericsson Mobile Communications AB

	2012	2011	2010
Non-current assets	–	5,040	3,622
Current assets	–	8,745	9,904
Non-current liabilities	–	285	592
Current liabilities	–	12,172	10,533
Net assets	–	1,328	2,401
Net sales	–	23,496	30,089
Income after financial items	–	–1,095	705
Income taxes	–	85	–231
Net income	–	–1,010	474
Assets pledged as collateral	–	1	–
Contingent liabilities	–	37	16

All companies apply IFRS in the reporting to the Company as issued by IASB.

On December 10, 2012, STMicroelectronics announced its intention to exit the joint venture ST-Ericsson. On December 20, 2012 the Company announced its decision not to acquire the full majority. This, together with other factors such as no change in governance rights, no change in funding responsibilities etc, means that the Company continues to not be in control of ST-Ericsson.

Due to the status of ST-Ericsson, the Company has made a non-cash charge related to its 50% stake in ST-Ericsson. For further information, see Note C3, "Segment information" and Note C18, "Provisions". The charge includes a write-down of investments of SEK –4.7 billion. The Company's share in ST-Ericsson's operating loss amounted to SEK –3.7 (–0.8) billion.

The Company has divested its 50% stake in Sony Ericsson Mobile Communications to Sony. The divestment was effective on January 1, 2012.

Other financial assets, non-current

	Other investments in shares and participations		Customer finance, non-current		Derivatives, non-current		Other financial assets, non-current	
	2012	2011	2012	2011	2012	2011	2012	2011
Cost								
Opening balance	3,576	1,607	1,661	1,474	816	–	4,633	4,382
Additions	45	1,930	5,249	1,875	–	–	313	422
Disposals/repayments/deductions	–63	–68	–5,331	–1,699	–	–	–136	–97
Change in value in funded pension plans [1]	–	–	–	–	–	–	776	42
Reclassifications	–1,639 [2]	–	–	–	–	–	–1,018 [3]	–
Revaluation	–	–	–	–	9	816	–	–
Translation difference	–161	107	–41	11	–	–	–154	–116
Closing balance	1,758	3,576	1,538	1,661	825	816	4,414	4,633
Accumulated impairment losses/ allowances								
Opening balance	–1,377	–1,388	–261	–193	–	–	–1,332	–1,303
Impairment losses/allowance	–51	–54	–26	–91	–	–	–14	–47
Disposals/repayments/deductions	–	63	35	19	–	–	–	–
Reclassifications	–	–	–	–	–	–	26 [3]	–
Translation difference	56	2	4	4	–	–	45	18
Closing balance	–1,372	–1,377	–248	–261	–	–	–1,275	–1,332
Net carrying value	386	2,199	1,290	1,400	825	816	3,139	3,301

[1] This amount includes asset ceiling. For further information, see Note C17, "Post-employment benefits".
[2] Reclassification to Equity in associated companies.
[3] Reclassification to Short-term investments.

C13 INVENTORIES

Inventories

	2012	2011
Raw materials, components, consumables and manufacturing work in progress	7,351	8,772
Finished products and goods for resale	10,981	13,525
Contract work in progress	10,470	10,773
Inventories, net	28,802	33,070

Contract work in progress includes amounts related to delivery-type contracts and service contracts with ongoing work in progress.

Reported amounts are net of obsolescence allowances of SEK 3,473 (3,343) million.

Movements in obsolescence allowances

	2012	2011	2010
Opening balance	3,343	3,090	2,961
Additions, net	1,403	918	250
Utilization	–1,140	–683	–165
Translation difference	–133	18	–46
Balances regarding acquired/ divested businesses	–	–	90
Closing balance	3,473	3,343	3,090

The amount of inventories recognized as expense and included in Cost of sales was SEK 56,842 (60,544) million.

C14
TRADE RECEIVABLES AND CUSTOMER FINANCE

Trade receivables and customer finance

	2012	2011
Trade receivables excluding associated companies and joint ventures	64,015	64,740
Allowances for impairment	–655	–567
Trade receivables, net	63,360	64,173
Trade receivables related to associated companies and joint ventures	300	349
Trade receivables, total	63,660	64,522
Customer finance credits	5,731	4,671
Allowances for impairment	–422	–426
Customer finance credits, net	5,309	4,245
Of which current	*4,019*	*2,845*
Credit commitments for customer finance	5,933	8,569

Days sales outstanding (DSO) were 86 (91) in December 2012.

Movements in allowances for impairment

	Trade receivables			Customer finance		
	2012	2011	2010	2012	2011	2010
Opening balance	567	766	924	426	321	772
Additions	229	198	282	101	162	25
Utilized	–116	–266	–285	–9	–31	–87
Reversal of excess amounts	–30	–43	–169	–112	–27	–359
Reclassification	21	–69	33	–	–	–
Translation difference	–16	–19	–19	16	1	–30
Closing balance	655	567	766	422	426	321

Aging analysis as per December 31

	Total	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals: less than 90 days	Of which past due in the following time intervals: 90 days or more	Of which past due and impaired in the following time intervals: less than 90 days	Of which past due and impaired in the following time intervals: 90 days or more
2012							
Trade receivables excluding associated companies and joint ventures	64,015	57,526	25	2,459	1,431	779	1,795
Allowances for impairment	–655	–	–15	–	–	–70	–570
Customer finance credits	5,731	4,549	845	21	15	70	231
Allowances for impairment	–422	–	–146	–	–	–45	–231
2011							
Trade receivables excluding associated companies and joint ventures	64,740	56,480	184	4,126	1,072	850	2,028
Allowances for impairment	–567	–	–16	–	–	–50	–501
Customer finance credits	4,671	3,369	763	238	45	41	215
Allowances for impairment	–426	–	–176	–	–	–35	–215

Credit risk

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk, see Note C20, “Financial risk management and financial instruments”.

Credit risk in trade receivables

Credit risk in trade receivables is governed by a policy applicable for all legal entities in the Company. The purpose of the policy is to:

- Avoid credit losses through establishing internal standard credit approval routines in all the Company’s legal entities
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers
- Ensure efficient credit management within the Company and thereby improve Days sales outstanding and Cash flow
- Ensure payment terms are commercially justifiable
- Define escalation path and approval process for payment terms and customer credit limits.

The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to the Company are mitigated.

Trade receivables amounted to SEK 64,015 (64,740) million as of December 31, 2012. Provisions for expected losses are regularly assessed and amounted to SEK 655 (567) million as of December 31, 2012. The Company's nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of the Company's sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represented 27% (30%) of the total trade receivables in 2012.

Customer finance credit risk

All major commitments to finance customers are made only after the approval by the Finance Committee of the Board of Directors according to the established credit approval process.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating of each transaction (for political and commercial risk). The credit risk analysis is made by using an assessment tool, where the political risk rating is identical to the rating used by all Export credit agencies within the OECD. The commercial risk is assessed by analyzing a large number of parameters, which may affect the level of the future commercial credit risk exposure. The output from the assessment tool for the credit rating also include an internal pricing of the risk. This is expressed as a risk margin per annum over funding cost. The reference pricing for political and commercial risk, on which the tool is based, is reviewed using information from Export credit agencies and prevailing pricing in the bank loan market for structured financed deals. The objective is that the internally set risk margin shall reflect the assessed risk and that the pricing is as close as possible to the current market pricing. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

Risk provisions related to customer finance risk exposures are only made upon events which occur after the financing arrangement has become effective and which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. a borrower's deteriorated creditworthiness.

As of December 31, 2012, the Company's total outstanding exposure related to customer finance was SEK 5,731 (4,671) million. As of December 31, 2012, the Company also had unutilized customer finance commitments of SEK 5,933 (8,569) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2012, there were a total of 78 (80) customer finance arrangements originated by or guaranteed by the Company. The five largest facilities represented 57% (41%) of the total credit exposure in 2012.

Total outstanding customer finance exposure per region as of December 31

Percent	2012	2011
North America	26	1
Latin America	4	4
Northern Europe & Central Asia	8	8
Western & Central Europe	1	1
Mediterranean	9	11
Middle East	17	24
Sub-Saharan Africa	19	29
India	9	14
North East Asia	7	7
South East Asia and Oceania	–	1
Other	–	–
Total	100	100

The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net negative impact of SEK 33 million in 2012 compared to a negative impact of SEK 114 million in 2011. Credit losses amounted to SEK 16 (62) million in 2012.

Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests. If available, third-party risk coverage is as a rule arranged. "Third-party risk coverage" means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk transfer under a sub participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover. A credit risk cover from a third party may also be issued by an insurance company. During 2012, the Company did not take possession of any collateral it holds as security or called on any other credit enhancement.

Information about guarantees related to customer finance is included in Note C24, "Contingent liabilities", and information about leasing is included in Note C27, "Leasing".

The table below summarizes the Company's outstanding customer finance as of December 31, 2012 and 2011.

Outstanding customer finance

	2012	2011
Total customer finance	5,731	4,671
Accrued interest	96	68
Less third-party risk coverage	–187	–480
Ericsson's risk exposure	5,640	4,259

Transfers of financial assets

In previous years, the Company disclosed information in this note about assets transferred where the Company continues to recognize a part of such assets. As required by IFRS, as from fiscal year 2012 this information is disclosed in a separate note, see Note C32, "Transfers of financial assets".

C15
OTHER CURRENT RECEIVABLES

Other current receivables

	2012	2011
Prepaid expenses	2,623	2,056
Accrued revenues	2,305	2,486
Advance payments to suppliers	1,060	1,697
Derivatives with a positive value [1]	3,068	2,003
Taxes	7,727	5,633
Other	3,282	3,962
Total	20,065	17,837

[1] See also Note C20, "Financial risk management and financial instruments".

C16
EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2012

Capital stock at December 31, 2012, consisted of the following:

Capital stock

Parent Company	Number of shares	Capital stock (SEK million)
Class A shares	261,755,983	1,309
Class B shares	3,043,295,752	15,217
Total	**3,305,051,735**	**16,526**

The capital stock of the Parent Company is divided into two classes: Class A shares (quota value SEK 5.00) and Class B shares (quota value SEK 5.00). Both classes have the same rights of participation in the net assets and earnings. Class A shares, however, are entitled to one vote per share while Class B shares are entitled to one tenth of one vote per share.

At December 31, 2012, the total number of treasury shares was 84,798,095 (62,846,503 in 2011 and 73,088,516 in 2010) Class B shares. Ericsson repurchased 31.7 million shares in 2012 in relation to the Long-Term Variable Remuneration Program.

Reconciliation of number of shares

	Number of shares	Capital stock (SEK million)
Number of shares Jan 1, 2012	3, 273,351,735	16,367
Number of shares Dec 31, 2012	3, 305,051,735	16,526

For further information about number of shares, see chapter Share Information.

Dividend proposal

The Board of Directors will propose to the Annual General Meeting 2013 a dividend of SEK 2.75 per share (SEK 2.50 in 2012 and SEK 2.25 in 2011).

Additional paid in capital

Relates to payments made by owners and includes share premiums paid.

Retained earnings

Retained earnings, including net income for the year, comprise the earned profits of the Parent Company and its share of net income in subsidiaries, joint ventures and associated companies. Retained earnings also include:

Remeasurements related to post-employment benefits

Actuarial gains and losses resulting from experience-based events and changes in actuarial assumptions, fluctuations of the effect of the asset ceiling, and adjustments related to the Swedish special payroll taxes.

Revaluation of other investments in shares and participations

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

Cash flow hedges

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation adjustments

The cumulative translation adjustments comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and changes regarding revaluation of excess value in local currency as well as from the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Equity and Other comprehensive income 2012

2012	Capital stock	Additional paid in capital	Retained earnings	Stock-holders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2012	16,367	24,731	102,007	**143,105**	2,165	**145,270**
Net income						
Group	–	–	17,411	**17,411**	163	**17,574**
Joint ventures and associated companies	–	–	–11,636	**–11,636**	–	**–11,636**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	–451	**–451**	–	**–451**
Joint ventures and associated companies	–	–	50	**50**	–	**50**
Revaluation of other investments in shares and participations						
Group	–	–	6	**6**	–	**6**
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	1,668	**1,668**	–	**1,668**
Joint ventures and associated companies	–	–	–25	**–25**	–	**–25**
Reclassification adjustments for gains/losses included in profit or loss	–	–	–568 [1]	**–568**	–	**–568**
Adjustments for amounts transferred to initial carrying amount of hedged items	–	–	92	**92**	–	**92**
Changes in cumulative translation adjustments						
Group	–	–	–3,898 [2]	**–3,898**	–49	**–3,947**
Joint ventures and associated companies	–	–	–511	**–511**	–	**–511**
Tax on items relating to components of OCI [3]	–	–	–422	**–422**	–	**–422**
Total other comprehensive income	–	–	–4,059	**–4,059**	–49	**–4,108**
Total comprehensive income	**–**	**–**	**1,716**	**1,716**	**114**	**1,830**
Transactions with owners						
Stock issue	159	–	–	**159**	–	**159**
Sale/Repurchase of own shares	–	–	–93	**–93**	–	**–93**
Stock Purchase Plans						
Group	–	–	405	**405**	–	**405**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Dividends paid	–	–	–8,033	**–8,033** [4]	–599	**–8,632**
Transactions with non-controlling interest	–	–	–376	**–376**	–80	**–456**
December 31, 2012	**16,526**	**24,731**	**95,626**	**136,883**	**1,600**	**138,483**

[1] SEK –172 million is recognized in Net Sales, SEK –232 million is recognized in Cost of Sales, SEK 67 million is recognized in R&D expenses and SEK –231 million is recognized in Other operating income and expenses.
[2] Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK –1,400 million (SEK 46 million in 2011, SEK –1,480 million in 2010), gain/loss from hedging activities of foreign entities, SEK 0 million (SEK 9 million in 2011, SEK 385 in 2010), and realized gain/losses net from sold/liquidated companies SEK –461 million (SEK 192 million in 2011, SEK 140 million in 2010).
[3] For further disclosures, see Note C8, "Taxes".
[4] Dividends paid per share amounted to SEK 2.50 (SEK 2.25 in 2011 and SEK 2.00 in 2010).

Equity and Other comprehensive income 2011

2011	Capital stock	Additional paid in capital	Retained earnings	Stock-holders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2011	16,367	24,731	104,008	**145,106**	1,679	**146,785**
Net income						
Group	–	–	15,727	**15,727**	375	**16,102**
Joint ventures and associated companies	–	–	–3,533	**–3,533**	–	**–3,533**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	–6,963	**–6,963**	–	**–6,963**
Joint ventures and associated companies	–	–	–212	**–212**	–	**–212**
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	996	**996**	–	**996**
Joint ventures and associated companies	–	–	11	**11**	–	**11**
Reclassification adjustments for gains/losses included in profit or loss	–	–	–2,028	**–2,028**	–	**–2,028**
Changes in cumulative translation adjustments						
Group	–	–	–1,014	**–1,014**	50	**–964**
Joint ventures and associated companies	–	–	–61	**–61**	–	**–61**
Tax on items relating to components of OCI [3]	–	–	2,158	**2,158**	–	**2,158**
Total other comprehensive income	–	–	–7,113	**–7,113**	50	**–7,063**
Total comprehensive income	**–**	**–**	**5,081**	**5,081**	**425**	**5,506**
Transactions with owners						
Sale of own shares	–	–	92	**92**	–	**92**
Stock Purchase Plans						
Group	–	–	413	**413**	–	**413**
Joint ventures and associated companies	–	–	–	**–**	–	**–**
Dividends paid	–	–	–7,207	**–7,207**	–248	**–7,455**
Transactions with non-controlling interest	–	–	–380	**–380**	309	**–71**
December 31, 2011	**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**

Equity and Other comprehensive income 2010

2010	Capital stock	Additional paid in capital	Retained earnings	Stock-holders' equity	Non-controlling interest (NCI)	Total equity
January 1, 2010	16,367	24,731	98,772	139,870	1,157	141,027
Net income						
Group	–	–	12,503	12,503	89	12,592
Joint ventures and associated companies	–	–	–1,357	–1,357	–	–1,357
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group	–	–	3,892	3,892	–	3,892
Joint ventures and associated companies	–	–	–27	–27	–	–27
Revaluation of other investments in shares and participations						
Fair value remeasurement						
Group	–	–	7	7	–	7
Joint ventures and associated companies	–	–	–	–	–	–
Cash flow hedges						
Gains/losses arising during the year						
Group	–	–	966	966	–	966
Joint ventures and associated companies	–	–	31	31	–	31
Reclassification adjustments for gains/losses included in profit or loss	–	–	–238	–238	–	–238
Adjustments for amounts transferred to initial carrying amount of hedged items	–	–	–136	–136	–	–136
Changes in cumulative translation adjustments						
Group	–	–	–3,269	–3,269	10	–3,259
Joint ventures and associated companies	–	–	–438	–438	–	–438
Tax on items relating to components of OCI	–	–	–1,120	–1,120	–	–1,120
Total other comprehensive income	–	–	–332	–332	10	–322
Total comprehensive income	**–**	**–**	**10,814**	10,814	**99**	10,913
Transactions with owners						
Sale of own shares	–	–	52	52	–	52
Stock Purchase Plans						
Group	–	–	762	762	–	762
Joint ventures and associated companies	–	–	–	–	–	–
Dividends paid	–	–	–6,391	–6,391	–286	–6,677
Transactions with non-controlling interest	–	–	–	–	708	708
December 31, 2010	**16,367**	**24,731**	**104,008**	145,106	**1,679**	146,785

C17
POST-EMPLOYMENT BENEFITS

Ericsson sponsors a number of post-employment benefit plans throughout the Company, which are in line with market practice in each country. The year 2012 was characterized by the overall decrease in discount rates and a positive development of plan assets. Consequently, the Company experienced a decrease in the net pension liability. The acquisition of Telcordia resulted in an overfunded provision for post-employment benefits.

CONTENTS

Amount recognized in the Consolidated balance sheet 79
Total pension expenses recognized in the Income statement 80
Change in the Defined benefit obligation (DBO) 81
Change in the plan assets 82
Actuarial gains and losses reported directly in Other comprehensive income 83
Actuarial assumptions 83
Information on issues affecting the net pension liability for the year 83

Amount recognized in the Consolidated balance sheet

Amount recognized in the Consolidated balance sheet

	Sweden	EU	US	Other	Total
2012					
Defined benefit obligation (DBO) [1]	21,432	10,935	16,472	3,119	51,958
Fair value of plan assets [2]	15,375	10,275	16,263	2,729	44,642
Deficit/Surplus (+/–)	6,057	660	209	390	7,316
Unrecognized past service costs	–	–3	–	–25	–28
Closing balance	6,057	657	209	365	7,288
Plans with net surplus excluding asset ceiling [3]	–	1,028	738	449	2,215
Provision for post-employment benefits [4]	**6,057**	**1,685**	**947**	**814**	9,503
2011					
Defined benefit obligation (DBO) [1]	20,643	9,994	3,133	2,605	36,375
Fair value of plan assets [2]	13,490	9,415	2,337	2,777	28,019
Deficit/Surplus (+/–)	7,153	579	796	–172	8,356
Unrecognized past service costs	–	–	–	–47	–47
Closing balance	7,153	579	796	–219	8,309
Plans with net surplus excluding asset ceiling [3]	–	953	–	754	1,707
Provision for post-employment benefits [4]	**7,153**	**1,532**	**796**	**535**	10,016

[1] For details on DBO, please refer to section "Change in the defined benefit obligation, DBO" of this note.
[2] For details on plan assets, please refer to section "Change in the plan assets" of this note.
[3] Plans with a net surplus, i.e. where plan assets exceed DBO, are reported as Other financial assets, non-current, see Note C12, "Financial assets". Asset ceiling amounted to SEK 217 (483) million.
[4] Plans with net liabilities are reported in the balance sheet as Post-employment benefits, non-current.

Total pension expenses recognized in the income statement

The expenses for post-employment benefits within Ericsson are distributed between defined contribution plans and defined benefit plans, with a trend toward defined contribution plans.

Pension costs for defined contribution plans and defined benefit plans

	Sweden	EU	US	Other	Total
2012					
Pension cost for defined contribution plans	977	520	404	181	2,082
Pension cost for defined benefit plans [1]	936	56	–454	142	680
Total	**1,913**	**576**	**–50**	**323**	2,762
Total pension cost expressed as a percentage of wages and salaries					5.7%
2011					
Pension cost for defined contribution plans	2,039	458	360	185	3,042
Pension cost for defined benefit plans [1]	621	38	42	146	847
Total	**2,660**	**496**	**402**	**331**	3,889
Total pension cost expressed as a percentage of wages and salaries					8.9%
2010					
Pension cost for defined contribution plans	1,037	528	244	192	2,001
Pension cost for defined benefit plans [1]	762	312	30	–14	1,090
Total	**1,799**	**840**	**274**	**178**	3,091
Total pension cost expressed as a percentage of wages and salaries					7.1%

[1] See cost details in table below.

Cost details for defined benefit plans recognized in the income statement

	Sweden	EU	US	Other	Total
2012					
Current service cost	777	169	140	194	1,280
Interest cost	717	475	752	176	2,120
Expected return on plan assets	–579	–483	–1,060	–235	–2,357
Past service cost	–	13	–1	8	20
Curtailments, settlements and other	21	–118	–285	–1	–383
Total	**936**	**56**	**–454**	**142**	680
2011					
Current service cost	547	227	26	157	957
Interest cost	714	461	151	169	1,495
Expected return on plan assets	–558	–474	–135	–243	–1,410
Past service cost	6	10	–	9	25
Curtailments, settlements and other	–88	–186	–	54	–220
Total	**621**	**38**	**42**	**146**	847
2010					
Current service cost	631	290	32	140	1,093
Interest cost	643	496	159	172	1,470
Expected return on plan assets	–511	–463	–130	–253	–1,357
Past service cost	–	33	–	9	42
Curtailments, settlements and other	–1	–44	–31	–82	–158
Total	**762**	**312**	**30**	**–14**	1,090

The following sections focus on the defined benefit plans.

Change in the defined benefit obligation (DBO)

The DBO is the gross pension liability.

Change in the defined benefit obligation

	Sweden	EU	US	Other	Total
2012					
Opening balance	20,643	9,994	3,133	2,605	36,375
Current service cost	777	169	140	194	1,280
Interest cost	717	475	752	176	2,120
Employee contributions	–	15	–	7	22
Pension payments	–282	–195	–871	–130	–1,478
Actuarial gain/loss (–/+)	–436	634	1,875	394	2,467
Settlements	–22	129	–55	–2	50
Curtailments	–	–31	–	–	–31
Business combinations [1]	–	13	12,565	–	12,578
Other	35	–3	–263	159	–72
Translation difference	–	–265	–804	–284	–1,353
Closing balance	**21,432**	**10,935**	**16,472**	**3,119**	51,958
Of which medical benefit schemes	–	–	*423*	–	*423*
2011					
Opening balance	14,980	8,600	2,693	2,437	28,710
Current service cost	547	227	26	157	957
Interest cost	714	461	151	169	1,495
Employee contributions	–	15	–	1	16
Pension payments	–220	–228	–149	–144	–741
Actuarial gain/loss (–/+)	4,705	1,030	329	120	6,184
Settlements	–	–	–	–	–
Curtailments	–88	–183	–	–	–271
Business combinations	–	2	–	–	2
Other	5	1	22	15	43
Translation difference	–	69	61	–150	–20
Closing balance	**20,643**	**9,994**	**3,133**	**2,605**	36,375
Of which medical benefit schemes	–	–	*658*	–	*658*

[1] Business combinations in 2012 are related to the acquisition of Telcordia.

Funded Status

The funded ratio, defined as total plan assets in relation to the total DBO, was 85.9% in 2012, compared to 77.0% in 2011.

The following table summarizes the value of the DBO per geographical area based on whether there are plan assets wholly or partially funding each pension plan.

Value of the defined benefit obligation

	Sweden	EU	US	Other	Total
2012					
DBO, closing balance	21,432	10,935	16,472	3,119	51,958
Of which partially or fully funded	*20,916*	*9,623*	*15,895*	*2,441*	*48,875*
Of which unfunded	*516*	*1,312*	*577*	*678*	*3,083*
2011					
DBO, closing balance	20,643	9,994	3,133	2,605	36,375
Of which partially or fully funded	*20,118*	*8,847*	*2,447*	*2,118*	*33,530*
Of which unfunded	*525*	*1,147*	*686*	*487*	*2,845*

Change in the plan assets

A majority of pension plans have assets managed by local Pension Trust funds, whose sole purpose is to secure the future pension payments to the employees.

Change in the plan assets

	Sweden	EU	US	Other	Total
2012					
Opening balance	13,490	9,415	2,337	2,777	28,019
Expected return on plan assets	579	483	1,060	235	2,357
Actuarial gain/loss (+/–)	377	219	994	44	1,634
Employer contributions	1,183	332	115	121	1,751
Employee contributions	–	15	–	7	22
Pension payments	–247	–153	–817	–94	–1,311
Settlements	–17	220	–47	–	156
Business combinations [1]	–	–	13,417	–	13,417
Other	10	–23	–7	–22	–42
Translation difference	–	–233	–789	–339	–1,361
Closing balance	**15,375**	**10,275**	**16,263**	**2,729**	44,642
2011					
Opening balance	12,389	8,205	2,048	2,793	25,435
Expected return on plan assets	558	474	135	243	1,410
Actuarial gain/loss (+/–)	–358	437	155	–84	150
Employer contributions	1,086	397	54	125	1,662
Employee contributions	–	15	–	1	16
Pension payments	–185	–187	–98	–102	–572
Other	–	–15	–	–4	–19
Translation difference	–	89	43	–195	–63
Closing balance	**13,490**	**9,415**	**2,337**	**2,777**	28,019

[1] Business combinations in 2012 are related to the acquisition of Telcordia.

Refunds from or reductions in future contributions to plan assets are recognized if they are available and firmly decided.

Actual return on plan assets

	Sweden	EU	US	Other	Total
2012	956	702	2,054	279	3,991
2011	200	911	289	160	1,560

Asset Allocation

	Sweden	EU	US	Other	Total
2012					
Equities	4,867	3,168	5,103	319	13,457
Interest-bearing securities	9,665	5,900	10,042	1,727	27,334
Other	843	1,207	1,118	683	3,851
Total	**15,375**	**10,275**	**16,263**	**2,729**	44,642
Of which Ericsson securities	–	–	–	–	–
2011					
Equities	4,503	3,014	1,062	356	8,935
Interest-bearing securities	8,239	5,265	1,210	1,846	16,560
Other	748	1,136	65	575	2,524
Total	**13,490**	**9,415**	**2,337**	**2,777**	28,019
Of which Ericsson securities	–	–	–	–	–

Equity instruments amount to 30% (32%) of the total assets, interest bearing instruments amount to 61% (59%) of the total assets, and other instruments amount to 9% (9%) of the total assets.

The contributions to the defined benefit plans for the upcoming year will be based on the development of the financial markets as well as on the growth of the pension liability, and how these developments affect the target funding ratio of the Company.

Actuarial gains and losses reported directly in Other comprehensive income

Since January 1, 2006, the Company applies immediate recognition of actuarial gains and losses directly in the statement of Other comprehensive income. Actuarial gains and losses may arise from either a change in actuarial assumptions or in deviations between estimated and actual outcome.

Multi-year summary

	2012	2011	2010	2009	2008
Plan assets	44,642	28,019	25,435	23,206	19,037
DBO	51,958	36,375	28,710	30,717	28,010
Deficit/Surplus (–/+)	–7,316	–8,356	–3,275	–7,511	–8,973
Actuarial gains and losses (–/+)					
Experience-based adjustments of pension obligations	–362	–463	177	310	57
Experience-based adjustments of plan assets	–1,634	–150	–653	–1,191	2,952

Actuarial gains and losses reported directly in Other comprehensive income

	2012	2011
Cumulative gain/loss (–/+) at beginning of year	7,911	1,849
Recognized gain/loss (–/+) during the year	833	6,034
Translation difference	–48	28
Cumulative gain/loss (–/+) at end of year	8,696	7,911

Total remeasurements in Other comprehensive income related to post-employment benefits

	2012	2011
Actuarial gains and losses (+/–)	–833	–6,034
The effect of asset ceiling	266	208
Swedish special payroll taxes	116	–1,137
Total	–451	–6,963
Actuarial gains and losses for joint ventures and associated companies	50	–212

Actuarial assumptions

Financial and demographic actuarial assumptions

	Sweden	EU [1]	US [1]	Other [1]
2012				
Discount rate	3.50%	4.55%	4.00%	7.24%
Expected return on plan assets for the year	4.33%	5.11%	7.00%	9.06%
Future salary increases	3.25%	3.63%	4.50%	5.57%
Inflation	2.00%	2.20%	2.50%	1.35%
Health care cost inflation, current year	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	22	22	19	19
Life expectancy after age 65 in years, females	24	24	21	22
2011				
Discount rate	3.50%	4.90%	5.23%	8.18%
Expected return on plan assets for the year	4.55%	5.73%	7.00%	9.27%
Future salary increases	3.25%	3.71%	4.50%	6.07%
Inflation	2.00%	2.74%	2.50%	3.43%
Health care cost inflation, current year	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	22	22	19	19
Life expectancy after age 65 in years, females	24	24	21	22

[1] Weighted average for disclosure purposes only. Land specific assumptions were used for each actuarial calculation.

- Actuarial assumptions are assessed on a quarterly basis
- The discount rate for each country is determined by reference to market yields on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds are used.
- The overall expected long-term return on plan assets is a weighted average of each asset category's expected rate of return. The expected return on interest-bearing investments is set in line with each country's market yield. Expected return on equities is derived from each country's risk free rate with the addition of a risk premium.
- Salary increases are partially affected by fluctuations in inflation rate.
- The net periodic pension cost and the present value of the DBO for current and former employees are calculated using the Projected Unit Credit (PUC) actuarial cost method, where the objective is to spread the cost of each employee's benefits over the period that the employee works for the Company.

Sensitivity analysis for medical benefit schemes

A one percent change in the assumed trend rate of medical cost would have the following effect (in SEK million):

Sensitivity analysis for medical benefit schemes

	1% increase	1% decrease
Net periodic post-employment medical cost	3	–3
Accumulated post-employment benefit obligation for medical costs	32	–28

Information on issues affecting the net pension liability for the year

Sweden

The defined benefit obligation has been calculated using a discount rate based on yields of covered bonds, which is higher than a discount rate based on yields of government bonds. The Swedish covered bonds are considered high-quality bonds, mainly AAA-rated, as they are secured with assets, and the market for covered bonds is considered deep and liquid, thereby meeting IAS19 requirements.

As before, Ericsson has secured the disability and survivors' pension part of the ITP Plan through an insurance solution with the insurance company Alecta. Although this part of the plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient

information to apply defined benefit accounting, and therefore, it has been accounted for as a defined contribution plan.

Alecta has a collective funding ratio which is a buffer for its insurance commitments to protect against fluctuations in investment return and insurance risks. Alecta's target ratio is 140% and reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions, which are different from those in IAS 19. Alecta's collective funding ratio was 129% (113%) as of December 31, 2012.

Contingent liabilities include the Company's mutual responsibility as a credit insured company of PRI Pensionsgaranti in Sweden. This mutual responsibility can only be imposed in case PRI Pensionsgaranti has consumed all of their assets, and it amounts to a maximum of 2% of the company's pension liability in Sweden.

C18 PROVISIONS

Provisions

	Warranty	Restructuring	Project related	Other	Total
2012					
Opening balance	1,888	1,327	718	2,332	6,265
Additions	1,088	1,234	278	4,411	7,011
Reversal of excess amounts	–157	–150	–234	–532	–1,073
Negative effect on Income Statement					*5,938*
Cash out/utilization	–1,188	–1,170	–376	–741	–3,475
Balances regarding divested/acquired businesses	48	–	10	82	140
Reclassification	1	11	4	–38	–22
Translation differences	–85	–34	–22	–67	–208
Closing balance	**1,595**	**1,218**	**378**	**5,447**	8,638
2011					
Opening balance	2,469	3,230	1,105	2,940	9,744
Additions	1,433	1,806	563	1,005	4,807
Reversal of excess amounts	–440	–407	–164	–908	–1,919
Negative effect on Income Statement					*2,888*
Cash out/utilization	–1,527	–3,223	–662	–575	–5,987
Balances regarding divested/acquired businesses	21	–	–	2	23
Reclassification	–	–48	–111	–87	–246
Translation differences	–68	–31	–13	–45	–157
Closing balance	**1,888**	**1,327**	**718**	**2,332**	6,265

Provisions will fluctuate over time depending on business mix, market mix and technology shifts. Risk assessment in the ongoing business is performed monthly to identify the need for new additions and reversals. Management uses its best judgment to estimate provisions based on this assessment. In certain circumstances, provisions are no longer required due to more favorable outcomes than anticipated, which affect the provisions balance as a reversal. In other cases the outcome can be negative, and if so, a charge is recorded in the income statement.

For 2012, new or additional provisions amounting to SEK 7.0 billion were made, and SEK 1.1 billion were reversed. The actual cash outlays for 2012 were SEK 3.5 billion compared with the estimated SEK 3.5 billion. The main part of the total cash out for 2012 is warranty provisions of SEK 1.2 billion and restructuring provisions of SEK 1.2 billion. The expected total cash outlays in 2013 is approximately SEK 7 billion.

Of the total provisions, SEK 211 (280) million are classified as non-current. For more information, see Note C1, "Significant accounting policies" and Note C2, "Critical accounting estimates and judgments".

Warranty provisions

Warranty provisions are based on historic quality rates for established products as well as estimates regarding quality rates for new products and costs to remedy the various types of faults predicted. Provisions amounting to SEK 1.1 billion were made and due to more favorable outcomes in certain cases reversals of SEK 0.2 billion were made. The actual cash outlays for 2012 were SEK 1.2 billion and in line with the expected SEK 1 billion. The cash outlays of warranty provisions during year 2013 are estimated to approximately SEK 1 billion.

Restructuring provisions

In 2012 SEK 1.2 billion in provision were made and SEK 0.1 billion were reversed due to a more favorable outcome than expected. The cash outlays were SEK 1.2 billion for the full year and in line with the expected SEK 1 billion. SEK 0.6 billion were related to restructuring programs before 2011. The cash outlays for 2013 are estimated to approximately SEK 1 billion.

Project related provisions

Project provisions relate to estimated losses on onerous contracts, including probable contractual penalties. Provisions amounting to SEK 0.3 billion were made and SEK 0.2 billion were reversed due to a more favorable outcome than expected. The cash outlays of project related provisions were SEK 0.4 billion and in line with the estimated SEK 0.5 billion. The cash outlays for 2013 are estimated to approximately SEK 0.4 billion.

Other provisions

Other provisions include provisions for tax issues, litigations, supplier claims, and other. During 2012, new provisions amounting to SEK 4.4 billion were made, of which 3.3 billion was related to ST-Ericsson, for further information, see Note C3, "Segment information". SEK 0.5 billion were reversed during 2012 due to a more favorable outcome. The cash outlays were SEK 0.7 billion in 2012 compared to the estimate of SEK 1 billion. For 2013, the cash outlays are estimated to approximately SEK 5 billion.

C19
INTEREST-BEARING LIABILITIES

As of December 31, 2012, the Company's outstanding interest-bearing liabilities were SEK 28.7 (31.0) billion.

Interest-bearing liabilities

	2012	2011
Borrowings, current		
Current part of non-current borrowings [1]	3,018	4,314
Other current borrowings	1,751	3,451
Total current borrowings	4,769	7,765
Borrowings, non-current		
Notes and bond loans	16,519	17,197
Other borrowings, non-current	7,379	6,059
Total non-current interest-bearing liabilities	23,898	23,256
Total interest-bearing liabilities	28,667	31,021

[1] Including notes and bond loans of SEK 2,671 (3,461) million.

All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium-Term Note (EMTN) program or under its SEC Registered program. Bonds issued at a fixed interest rate are normally swapped to a floating interest rate using interest rate swaps leaving a maximum of 50% of outstanding loans at fixed interest rates. It resulted in a weighted average interest rate of 4.69% (4.21%). These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

In May 2012 the Company placed a US dollar denominated 1 billion 10-year bond with a fixed coupon rate of 4.125%. The offer was made pursuant to the Company's shelf registration statement filed with the SEC in April 2012, and a prospectus supplement thereto. This was the Company´s debut issue on the US bond market.

In June 2012 the Company repurchased notes with a nominal value of EUR 286.79 million from the EUR 600 million 5% Notes due 2013 and notes with a nominal value of EUR 154.52 million from the EUR 375 million Floating Rate Notes due 2014 pursuant to a tender offer process.

In July 2012 the Company signed a loan of EUR 150 million with the Nordic Investment Bank (NIB). The loan is divided into two equal tranches with respective seven- and nine-year maturity and was disbursed in December 2012. The loan supports the Company's R&D activities to develop the next generation radio and IP technology supporting Mobile Broadband build-out globally.

In October 2012 the Company signed a loan agreement with the European Investment Bank (EIB). The loan amount is EUR 500 million (or the equivalent in USD), and the Company has an option for disbursement until April 2014. This loan facility currently remains undrawn. The loan will mature seven years after disbursement. The loan supports the Company's R&D activities to further develop the next generation radio and IP technology that supports mobile broadband build-out globally.

Notes, bonds and bilateral loans

Issued–maturing	Nominal amount	Coupon	Currency	Book value (SEK m.)	Maturity date	Unrealized hedge gain/loss (included in book value)
Notes and bond loans						
2007–2014	220	0.484%	EUR	1,891	Jun 27, 2014 [1]	
2007–2017	500	5.375%	EUR	5,117 [2]	Jun 27, 2017	–799
2009–2013	313	5.000%	EUR	2,671 [2]	Jun 24, 2013	–30
2009–2016 [3]	300		USD	1,952	Jun 23, 2016	
2010–2020 [4]	170		USD	1,106	Dec 23, 2020	
2012–2022	1,000	4.125%	USD	6,453	May 15, 2022	
Total notes and bond loans				**19,190**		**–829**
Bilateral loans						
2008–2015 [5]	4,000		SEK	4,000	Jul 15, 2015	
2012–2019 [6]	98		USD	636	Sep 30, 2019	
2012–2021 [7]	98		USD	637	Sep 30, 2021	
Total bilateral loans				**5,273**		

[1] Next contractual repricing date March 27, 2013 (quarterly).
[2] Interest rate swaps are designated as fair value hedges.
[3] Private Placement, Swedish Export Credits Guarantee Board (EKN) / Swedish Export Credit Corporation (SEK).
[4] Private Placement, Swedish Export Credit Corporation (SEK).
[5] European Investment Bank (EIB), R&D project financing.
[6] Nordic Investment Bank (NIB), R&D project financing.
[7] Nordic Investment Bank (NIB), R&D project financing.

C20 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's financial risk management is governed by a policy approved by the Board of Directors. The Finance Committee of the Board of Directors is responsible for overseeing the capital structure and financial management of the Company and approving certain matters (such as investments, customer finance commitments, guarantees and borrowing) and is continuously monitoring the exposure to financial risks.

The Company defines its managed capital as the total Company equity. For the Company, a robust financial position with a strong equity ratio, investment grade rating, low leverage and ample liquidity is deemed important. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

The Company's overall capital structure should support the financial targets: to grow faster than the market, deliver best-in-class margins and generate a healthy cash flow. The capital structure is managed by balancing equity, debt financing and liquidity in such a way that the Company secure funding of operations at a reasonable cost of capital. Regular borrowings are complemented with committed credit facilities to give additional flexibility to manage unforeseen funding needs. The Company strive to finance growth, normal capital expenditures and dividends to shareholders by generating sufficient positive cash flows from operating activities.

The Company's capital objectives are:

- An equity ratio above 40%
- A cash conversion rate above 70%
- To maintain a positive net cash position
- To maintain a solid investment grade rating by Moody's and Standard & Poor's.

Capital objectives related information, SEK billion

	2012	2011
Capital	138	145
Equity ratio	50%	52%
Cash conversion rate	116%	40%
Positive net cash	38.5	39.5
Credit rating		
Moody's	A3	A3
Standard & Poor's	BBB+	BBB+

The Company has a treasury function with the principal role to ensure that appropriate financing is in place through loans and committed credit facilities, to actively manage the Company's liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures in a manner consistent with underlying business risks and financial policies. Hedging activities, cash management and insurance management are largely centralized to the treasury function in Stockholm.

The Company also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to the Company. To the extent customer loans are not provided directly by banks, the Parent Company provides or guarantees vendor credits. The customer finance function monitors the exposure from outstanding vendor credits and credit commitments.

The Company classifies financial risks as:

- Foreign exchange risk
- Interest rate risk
- Credit risk
- Liquidity and refinancing risk
- Market price risk in own and other equity instruments.

The Board of Directors has established risk limits for defined exposures to foreign exchange and interest rate risks as well as to political risks in certain countries.

For further information about accounting policies, see Note C1, "Significant accounting policies".

Foreign exchange risk

The Company is a global company with sales mainly outside Sweden. Revenues and costs are to a large extent in currencies other than SEK and therefore the financial results of the Company are impacted by currency fluctuations.

The Company reports the financial accounts in SEK and movements in exchange rates between currencies will affect:

- Specific line items such as Net sales and Operating income
- The comparability of our results between periods
- The carrying value of assets and liabilities
- Reported cash flows.

Net sales and Operating income are affected by changes in foreign exchange rates from two different kinds of exposures, translation exposure and transaction exposure. In the Operating income we are primarily exposed to transaction exposure which is partially addressed by hedging.

Currency exposure, SEK billion

Exposure currency	Translation exposure	Transaction exposure	Net exposure	Net exposure, percent of total
Net sales				
SEK	43.2	–40.5	2.7	1%
USD	57.2	38.9	96.1	42%
EUR	29.7	11.4	41.1	18%
CNY	12.1	–0.2	11.9	5%
JPY	17.5	0.5	18.0	8%
INR	6.1	0.0	6.1	3%
BRL	7.0	–0.3	6.7	3%
GBP	6.3	–1.3	5.0	2%
Other	48.5	–8.5	40.0	18%
Pre-hedge total			227.6	**100%**
Hedge			0.2	
Total Net sales			227.8	
Net cost				
SEK	–43.4	–29.9	–73.3	33%
USD	–57.9	–12.6	–70.5	32%
EUR	–27.4	–4.7	–32.1	15%
CNY	–11.5	0.7	–10.8	5%
JPY	–16.1	11.5	–4.6	2%
INR	–5.1	2.4	–2.7	1%
BRL	–6.5	0.7	–5.8	3%
GBP	–5.9	0.3	–5.6	3%
Other	–43.9	31.6	–12.3	6%
Pre-hedge total			–217.7	**100%**
Hedge			0.4	
Total Net cost			–217.3	
Operating income			10.5	

Translation exposure

Translation exposure relates to Sales and Cost of sales in foreign entities when translated into SEK upon consolidation. These exposures can not be addressed by hedging, but as the Income Statement is translated using average rate (average rate gives a good approximation), the impact of volatility in foreign currency rates is reduced.

Transaction exposure

Transaction exposure relates to Sales and Cost of sales in non-reporting currencies in individual group companies. Foreign exchange risk is as far as possible concentrated to Swedish group companies, primarily Ericsson AB. Sales to foreign subsidiaries are normally denominated in the functional currency of the customers and are normally denominated in USD or other foreign currency. In order to limit the exposure toward exchange rate fluctuations on future revenues and costs, committed and forecasted future sales and purchases in major currencies are hedged with 7% of 12-month forecast monthly. This corresponds to approximately 5–6 months of an average forecast.

According to Company policy, transaction exposure in subsidiaries' balance sheets (i.e. trade receivables and payables and customer finance receivables) should be fully hedged, except for non-tradable currencies.

Foreign exchange exposures in balance sheet items are hedged through offsetting balances or derivatives.

As of December 31, 2012, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of SEK 1.1 (–0.5) billion. The market value is partly deferred in the hedge reserve in other comprehensive income to offset the gains/losses on hedged future sales in foreign currency.

Cash flow hedges

The purpose of hedging forecasted revenues and costs is to reduce volatility in the income statement. Hedging is done by selling or buying foreign currencies against the functional currency of the hedging entity using foreign exchange forwards.

Hedging is done based on a rolling 12-month exposure forecast. The Company uses a layered hedging approach, where the closest quarters are hedged to a higher degree than later quarters. Each consecutive quarter is hereby hedged on several occasions and is covered by an aggregate of hedging contracts initiated at various points in time, which supports the objective of reducing volatility in the income statement from changes in foreign exchange rates.

Translation exposure in net assets

The Company has many subsidiaries operating outside Sweden with other functional currencies than SEK. The results and net assets of such companies are exposed to exchange rate fluctuations, which affect the consolidated income statement and balance sheet when translated to SEK. Translation risk related to forecasted results from foreign operations can not be hedged, but net assets can be addressed by hedging.

Translation exposure in foreign subsidiaries is hedged according to the following policy established by the Board of Directors:

Translation risk related to net assets in foreign subsidiaries is hedged up to 20% in selected companies. The translation differences reported in Other comprehensive income during 2012 were negative, SEK –3.9 (–1.0) billion, including hedging gain/loss of SEK 0.0 (0.0) billion.

Interest rate risk

The Company is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position was SEK 38.5 (39.5) billion at the end of 2012, consisting of cash, cash equivalents and short-term investments of SEK 76.7 (80.5) billion and interest-bearing liabilities and post-employment benefits of SEK 38.2 (41.0) billion.

The Company manages the interest rate risk by (i) matching fixed and floating interest rates in interest-bearing balance sheet items and (ii) avoiding significant fixed interest rate exposure in the Company's net cash position. The policy is that interest-bearing assets shall have an average interest duration between 10 and 14 months, taking derivative instruments into consideration. Interest-bearing liabilities do not have a duration target as the duration of the fixed rate portion will be determined by markets conditions when liabilities are issued, Group Treasury has a mandate to deviate from the asset management benchmark given by the Board and take foreign exchange positions up to an aggregated risk of VaR SEK 45 million given a confidence level of 99% and a 1-day horizon.

Interest duration, SEK billion

	< 3M	<1Y	1-3Y	3-5Y	>5Y	Total
Interest Bearing Trading	4.7	–5.4	1.0	0.0	–0.3	**0**
Interest Bearing Assets	58.2	2.6	11.5	3.6	0.8	**76.7**
Interest Bearing Liabilities	–11.7	–5.1	0.0	–4.2	–7.7	**–28.7**

When managing the interest rate exposure, the Company uses derivative instruments, such as interest rate swaps. Derivative instruments used for converting fixed rate debt into floating rate debt are designated as fair value hedges.

Fair value hedges

The purpose of fair value hedges is to hedge the variability in the fair value of fixed-rate debt (issued bonds) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk/spread is not hedged.

The fixed leg of the IRS is matched against the cash flows of the hedged bond. Hereby the fixed-rate bond/debt is converted into a floating-rate debt in accordance with the policy.

Outstanding derivatives [1]

	2012		2011	
Fair value	Asset	Liability	Asset	Liability
Currency derivatives				
Maturity within 3 months	**976**	**60**	557	881
Maturity between 3 and 12 months	**611**	**10**	364	393
Maturity 1 to 3 years	**4**	**–**	–	–
Total	**1,591**	**70**	921	1,274
Of which designated in cash flow hedge relations	***816***	***6***	*333*	*638*
Of which designated in net investment hedge relations	**–**	**–**	–	–
Interest rate derivatives				
Maturity within 3 months	**–**	**–**	–	5
Maturity between 3 and 12 months	**487**	**285**	324	367
Maturity 1 to 3 years	**565**	**681**	380	618
Maturity 3 to 5 years	**1,212**	**739**	416	815
Maturity more than 5 years	**38**	**–**	778	161
Total	**2,302** [2]	**1,705**	1,898 [2]	1,966
Of which designated in fair value hedge relations	***969***	**–**	*1,002*	–

[1] Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current derivatives due to hedge accounting.
[2] Of which SEK 825 (816) million is reported as non-current assets.

Sensitivity analysis

The Company uses the VaR methodology to measure foreign exchange and interest rate risks in portfolios managed by Treasury. This statistical method expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time. For the VaR measurement, the Company has chosen a probability level of 99% and a 1-day time horizon. The daily VaR measurement uses market volatilities and correlations based on historical daily data (one year).

The average VaR calculated for 2012 was SEK 9.8 (20.6) million for the combined mandates. No VaR-limits were exceeded during 2012.

Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. This exposure arises in the investments in cash, cash equivalents, short-term investments and from derivative positions with positive unrealized results against banks and other counterparties.

The Company mitigates these risks by investing cash primarily in well-rated securities such as treasury bills, government bonds, commercial papers, and mortgage covered bonds with short-term ratings of at least A-1/P-1 and long-term ratings of AAA. Separate credit limits are assigned to each counterpart in order to minimize risk concentration. We have had no sub-prime exposure in our investments. All derivative transactions are covered by ISDA netting agreements to reduce the credit risk. No credit losses were incurred during 2012, SEK 0.0 (0.0) billion, neither on external investments nor on derivative positions.

At December 31, 2012, the credit risk in financial cash instruments was equal to the instruments' carrying value. Credit exposure in derivative instruments was SEK 3.9 (2.8) billion.

Liquidity risk

Liquidity risk is that the Company is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves.

The Company minimizes the liquidity risk by maintaining a sufficient net cash position. This is managed through centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. For information about contractual obligations, please see Note C31, "Contractual obligations". The current cash position is deemed to satisfy all short-term liquidity requirements.

During 2012, cash and bank and short-term investments decreased by SEK 3.8 billion to SEK 76.7 billion.

Cash, cash equivalents and short-term investments

	Remaining time to maturity				
SEK billion	< 3 months	< 1 year	1–5 years	>5 years	Total
Bank Deposits	40.6	0.2	–	–	40.8
Type of issuer/counterpart					
Governments	3.4	4.5	10.8	0.8	19.5
Corporations	3.1	–	–	–	3.1
Mortgage institutes	–	0.1	13.2	–	13.3
2012	47.1	4.8	24.0	0.8	76.7
2011	44.7	4.0	29.8	2.0	80.5

The instruments are either classified as held for trading or as assets available for sale with maturity less than one year and are therefore short-term investments. Cash, Cash equivalents and short-term investments are mainly held in SEK unless off-set by EUR-funding.

Refinancing risk

Refinancing risk is the risk that the Company is unable to refinance outstanding debt at reasonable terms and conditions, or at all, at a given point in time.

Repayment schedule of non-current borrowings [1]

Nominal amount (SEK billion)	Current maturities of long- term debt	Notes and bonds (non-current)	Liabilities to financial institutions (non-current)	Total
2013	3.0	–	–	3.0
2014	–	1.9	–	1.9
2015	–	–	5.1	5.1
2016	–	2.0	–	2.0
2017	–	4.3	–	4.3
2018	–	–	–	–
2019	–	–	0.6	0.6
2020	–	1.1	–	1.1
2021	–	–	0.6	0.6
2022	–	6.4	–	6.4
Total	**3.0**	**15.7**	**6.3**	**25.0**

[1] Excluding finance leases reported in Note C27, "Leasing".

Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

Bank financing is used for certain subsidiary funding and to obtain committed credit facilities.

Funding programs [1]

	Amount	Utilized	Unutilized
Euro Medium-Term Note program (USD million)	5,000	1,833	3,167
SEC Registered program (USD Million)	– [2]	1,000	–
Long-term Committed Credit facility (USD million)	2,000	–	2,000
Indian Commercial Paper program (INR million)	5,000	3,750	1,250
EIB Committed Credit Facility (EUR million)	500	–	500

[1] There are no financial covenants related to these programs.
[2] Program amount indeterminate.

At year-end, the Company's credit ratings remained at A3 (stable) by Moody's and BBB+ (stable) by Standard & Poor's. Both credit ratings are considered to be solid investment grade.

In early 2013 Standard & Poor's changed the credit rating from BBB+ outlook stable to outlook negative and Moody's changed the credit rating from A3 with outlook stable to outlook negative.

Financial instruments carried at other than fair value

The fair value of the Company's financial instruments, recognized at fair value, are determined based on quoted market prices or rates. In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit or loss showed a net gain of SEK 2.7 billion. For further information about valuation principles, please see Note C1, "Significant accounting policies".

Financial instruments carried at other than fair value [1]

SEK billion	Book value 2012	Book value 2011	Fair value 2012	Fair value 2011
Current part of non-current borrowings	3.0	4.3	3.0	4.3
Notes and bonds	16.5	17.2	17.0	17.1
Other borrowings non-current	7.4	4.9	7.6	4.9
Total	26.9	26.4	27.6	26.3

[1] Excluding finance leases reported in Note C27, "Leasing".

Financial instruments excluded from the tables, such as trade receivables and payables, are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the carrying value is considered to represent a reasonable estimate of fair value.

Market price risk in own shares and other listed equity investments

Risk related to our own share price

The Company is exposed to the development of its own share price through stock purchase plans for employees and synthetic share-based compensations to the Board of Directors.

Stock purchase plans for employees

The obligation to deliver shares under the stock purchase plan is covered by holding Ericsson Class B shares as treasury stock. A change in the share price will result in a change in social security charges, which represents a risk to the income statement. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares as treasury stock to be sold to generate funds to cover also social security payments.

Synthetic share-based compensations to the Board of Directors

For these plans, the Company is exposed to risks in relation to own share price, both in relation to compensation expenses and social security charges. The obligation to pay compensation amounts under the synthetic share-based compensations to the Board of Directors is covered by a liability in the balance sheet.

For further information about the stock purchase plan and the synthetic share-based compensations to the Board of Directors, please see note C28, "Information regarding members of the board of directors, the Group management and employees".

Financial instruments, book value

SEK billion	Customer finance	Trade receiv-ables	Short-term invest-ments	Cash equiva-lents	Borrow-ings	Trade payables	Other financial assets	Other current receiv-ables	Other current liabilities	2012	2011
Note	C14	C14			C19	C22	C12	C15	C21		
Assets at fair value through profit or loss	–	–	32.0	12.2	–	–	0.8	3.1	–1.8	46.3	43.4
Loans and receivables	5.3	63.7	–	2.1	–	–	3.2	–	–	74.3	79.2
Financial liabilities at amortized cost	–	–	–	–	–28.7	–23.1	–	–	–	–51.8	–56.3
Total	**5.3**	**63.7**	**32.0**	**14.3**	**–28.7**	**–23.1**	**4.0**	**3.1**	**–1.8**	**68.8**	66.3

C21 OTHER CURRENT LIABILITIES

Other current liabilities

	2012	2011
Income tax liabilities	3,878	2,691
Advances from customers	4,754	3,942
Liabilities to associated companies and joint ventures	–	119
Accrued interest	259	351
Accrued expenses, of which	32,353	32,652
Employee related	*11,166*	*11,314*
Supplier related	*11,440*	*11,621*
Other [1]	*9,747*	*9,717*
Deferred revenues	11,658	8,722
Derivatives with a negative value [2]	1,775	3,240
Other [3]	6,431	6,253
Total	61,108	57,970

[1] Major balance relates to accrued expenses for customer projects.
[2] See Note C20, "Financial risk management and financial instruments".
[3] Includes items such as VAT and withholding tax payables and other payroll deductions, and liabilities for goods received where invoice is not yet received.

C22 TRADE PAYABLES

Trade payables

	2012	2011
Payables to associated companies and joint ventures	81	102
Other	23,019	25,207
Total	23,100	25,309

C23 ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral

	2012	2011
Chattel mortgages	185	185
Bank deposits	335	267
Total	520	452

C24 CONTINGENT LIABILITIES

Contingent liabilities

	2012	2011
Contingent liabilities	613	609
Total	613	609

Contingent liabilities assumed by Ericsson include guarantees of loans to other companies of SEK 24 (25) million. Ericsson has SEK 59 (111) million issued to guarantee the performance of a third party.
All ongoing legal and tax proceedings have been evaluated, their potential economic outflows and probability estimated and necessary provisions made. In Note C2, "Critical Accounting Estimates and Judgments", a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Financial guarantees for third party amounted to SEK 286 (449) million as of December 31, 2012. Maturity date for major part of the issued guarantees occurs in 2021 at latest.

C25 STATEMENT OF CASH FLOWS

Interest paid in 2012 was SEK 1,650 million (SEK 1,422 million in 2011, SEK 977 million in 2010) and interest received was SEK 1,883 million (SEK 2,632 million in 2011, SEK 1,083 million in 2010). Taxes paid, including withholding tax, were SEK 5,750 million (SEK 4,393 million in 2011, SEK 4,808 million in 2010).

Cash and cash equivalents includes cash of SEK 30,358 (29,471) million and temporary investments of SEK 14,324 (9,205) million. For more information regarding the disposition of cash and cash equivalents and unutilized credit commitments, see Note C20, "Financial risk management and financial instruments".

The Company holds cash or cash equivalents in countries where exchange controls or legal restrictions apply. These restrictions normally refer to approval procedures prior to cross-border cash transfers. The amount of cash and cash equivalents in such countries amounts to SEK 10.6 (13.9) billion. Of this amount, SEK 9.2 (12.8) billion can be used for repayment of external and internal liabilities as well as other operating needs. Therefore, net cash and cash equivalents that are not readily available for use by the Group is SEK 1.4 (1.1) billion.

Adjustments to reconcile net income to cash

	2012	2011	2010
Property, plant and equipment			
Depreciation	4,052	3,499	3,299
Impairment losses/reversals of impairments	–40	47	–3
Total	4,012	3,546	3,296
Intangible assets			
Amortization			
Capitalized development expenses	1,058	995	664
Intellectual Property Rights, brands and other intangible assets	4,436	4,470	4,999
Total amortization	5,494	5,465	5,663
Impairments			
Capitalized development expenses	266	7	49
Intellectual Property Rights, brands and other intangible assets	117	18	945
Total	5,877	5,490	6,657
Total depreciation, amortization and impairment losses on property, plant and equipment and intangible assets	9,889	9,036	9,953
Taxes	–1,140	1,994	351
Dividends from joint ventures/ associated companies [1]	133	177	119
Undistributed earnings in joint ventures/associated companies [1]	11,636	3,533	1,357
Gains/losses on sales of investments and operations, intangible assets and PP&E, net [2]	–8,087	–159	–237
Other non-cash items [3]	646	–1,968	947
Total adjustments to reconcile net income to cash	13,077	12,613	12,490

[1] See Note C12, "Financial assets, non-current".
[2] See Note C26, "Business combinations".
[3] Refers mainly to unrealized foreign exchange, gains/losses on financial instruments.

Acquisitions/divestments of subsidiaries and other operations

	Acquisitions	Divestments
2012		
Cash flow from business combinations [1]	–11,575	9,502
Acquisitions/divestments of other investments	46	–50
Total	**–11,529**	**9,452**
2011		
Cash flow from business combinations [1]	–1,232	–28
Acquisitions/divestments of other investments	–1,949	81
Total	**–3,181**	**53**
2010		
Cash flow from business combinations [1]	–3,286	454
Total	**–3,286**	**454**

[1] See also Note C26, "Business combinations".

C26 BUSINESS COMBINATIONS

Acquisitions and divestments

Acquisitions

Acquisitions 2010–2012

	2012	2011	2010
Cash	12,564 [1]	1,162	3,789
Total consideration	12,564	1,162	3,789
Acquisition-related costs [2]	150	77	67
Net asset acquired			
Cash and cash equivalents	1,139	7	570
Property, plant and equipment	480	259	205
Intangible assets	6,672	382	3,825
Investments in joint ventures and associated companies	–	120	138
Other assets	2,105	140	2,506
Provisions, including post-employment benefits	714	–23	–390
Other liabilities	–3,214	–37	–3,573
Total identifiable net assets	7,896	848	3,281
Non-controlling interest	375	54	–748
Goodwill	4,293	260	1,256
	12,564	1,162	3,789

[1] The cash transaction includes payment of external loan of SEK 6.2 billion and investment in subsidiary of SEK 2.5 billion.
[2] Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.

In 2012, Ericsson made acquisitions with a negative cash flow effect amounting to SEK 11,575 (1,232) million. The acquisitions consist primarily of:

- **BelAir:** On April 2, 2012, the Company acquired 100% of the shares in BelAir Networks, a North American telecom-grade Wi-Fi company. The acquisition gives the Company a telecom-grade Wi-Fi portfolio, technological expertise, IPR, and established customer contracts and relationships. The purchase price was USD 250 million on a cash and debt-free basis.
- **ConceptWave**: On September 25, 2012, the Company announced the acquisition of 100% of the shares in the Canadian company ConceptWave in an all-cash transaction. The acquisition complements the Company's portfolio in OSS/BSS with order management and product catalog solutions. The purchase price was CAD 55 million on a cash and debt-free basis. Balances to facilitate the Purchase price allocation are preliminary.
- **Ericsson-LG:** On March 22, 2012, the Company announced it had acquired additional shares in Ericsson-LG, thereby increasing the ownership from 50% plus one share to 75%. The company is fully consolidated by the Company, since the original acquisition in July 2010.
- **Technicolor:** On July 3, 2012, the Company announced the closing of the acquisition of the broadcast services division of Technicolor. The acquisition brings broadcast customers and playout operations in France, UK and in the Netherlands. The purchase price amounted to EUR 20 million including a potential earn-out valued at EUR 2 million, based on 2015 revenues of the Broadcast services activity. Balances to facilitate the Purchase price allocation are preliminary.
- **Telcordia:** On June 14, 2011, the Company announced that it had entered into an agreement to acquire 100% of the shares of Telcordia, a leader in the development of software and services for OSS/BSS. The acquisition was completed on January 12, 2012, with a purchase price of USD 1.15 billion in an all-cash transaction, on a cash and debt-free basis. Net sales for the acquired Telcordia business amounted to approximately SEK 4.2 billion for the period January 12 - December 31, 2012. The acquired Telcordia business had a positive impact on the result. Goodwill represented 57% of the total assets acquired. The goodwill is mainly attributable to the value of the compentence acquired and future synergy effects. None of the goodwill is expected to be deductible for tax purposes. Transaction costs for the acquisition amounted to SEK 57 million.

Telcordia

	2012
Cash	8,725 [1]
Total consideration	8,725
Acquisition-related costs [2]	57
Net asset acquired	
Cash and cash equivalents	886
Property, plant and equipment	305
Intangible assets	5,543
Other assets [3]	1,713
Provisions, including post-employment benefits	714
Other liabilities	–3,586
Total identifiable net assets	5,575
Goodwill	3,150
	8,725

[1] The cash transaction includes payment of external loan of SEK 6.2 billion and investment in subsidiary of SEK 2.5 billion.
[2] Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.
[3] Other assets include trade receivables with a fair value of SEK 1.4 billion.

In order to finalize a Purchase price allocation all relevant information needs to be in place. Examples of such information are final consideration and final opening balances, they may remain preliminary for a period of time due to for example working capital adjustments, tax items or decisions from local authorities.

Divestments

Divestments 2010–2012

	2012	2011	2010
Cash	9,502	–28	454
Net assets disposed of			
Property, plant and equipment	–	1	21
Investments in joint ventures and associated companies	1,353	10	–
Other assets	296	38	372
Other liabilities	–483	–224	–183
	1,166	–175	210
Net gains from divestments	8,336	158	357
Less Cash and cash equivalents	–	–11	–113
Cash flow effect	9,502	–28	454

In 2012, the Company made divestments with a cash flow effect amounting to SEK 9,502 (–28) million.

- **IPX:** On September 30, 2012, the Company divested its Multimedia brokering platform (IPX) to French listed company Gemalto, with the exception of the operations in the US. The sale resulted in a gain amounting to SEK 237 million and a positive cash flow effect of SEK 260 million.
- **Sony Ericsson:** On February 16, 2012, the Company announced the completion of the divestment of its 50% stake in Sony Ericsson Mobile Communications, with a carrying value of 1.4 billion. The agreed cash consideration for the transaction was EUR 1.05 billion. The sale resulted in a gain amounting to SEK 7.7 billion and a positive cash flow effect of SEK 9.1 billion. For further information on the divestment of Sony Ericsson, see note C3, "Segment information".

Acquisitions 2010–2012

Company	Description	Transaction date
ConceptWave	A Canadian OSS/BSS company. The purchase price was CAD 55 million.	Sep, 2012
Technicolor	A technology company in the media and entertainment sector. The purchase price was EUR 20 million.	Jul, 2012
BelAir	A telecom-grade Wi-Fi company based in Canada. The purchase price was USD 250 million.	Apr, 2012
Ericsson-LG	Increase of ownership from 50% plus one share, to 75%.	Mar, 2012
Telcordia	A US company developing software and services for OSS/BSS. The purchase price was USD 1.15 billion.	Jan, 2012
GDNT	An asset purchase agreement of certain assets. Enhances the Company's existing R&D, manufacturing and services capabilities in the China region. The purchase price was RMB 357 million.	May, 2011
Nortel Multiservice Switch business (MSS)	An asset purchase agreement to acquire certain assets of Nortel's MSS. The purchase price was USD 53 million.	Mar, 2011
Optimi	A US-Spanish telecommunications vendor providing products and services within the networks optimization and management sector. The purchase price was USD 99 million.	Dec, 2010
inCode	An asset purchase agreement of certain assets. A professional services firm providing strategic business and consulting services. The purchase price was USD 12 million.	Sep, 2010
LG-Nortel	Nortel's majority shareholding (50% + 1 share) in LG-Nortel. The purchase price was USD 234 million.	Jun, 2010
Nortel GSM	An asset purchase agreement of the Carrier networks division of Nortel relating to GSM business. The purchase price was USD 79 million.	Mar, 2010
Pride	An Italian consulting and systems integration company. The purchase price was EUR 66 million.	Jan, 2010

Divestments 2010–2012

Company	Description	Transaction date
IPX	Sale of IPX to Gemalto, with a positive cash flow effect of SEK 260 million.	Sep, 2012
EDA 1500 GPON	Capital asset sale of EDA 1500 GPON portfolio with a positive cash flow effect of SEK 80 million.	Aug, 2012
Sony Ericsson	Sale of the Company's share in Sony Ericsson (50%) to Sony, with a positive cash flow effect of SEK 9.1 billion.	Feb, 2012
EFI	Sale of Ericsson Federal Inc. (EFI), with a positive cash flow effect of SEK 360 million.	Dec, 2010

C27 LEASING

Leasing with the Company as lessee

Assets under finance leases, recorded as property, plant and equipment, consist of:

Finance leases

	2012	2011
Cost		
Real estate	1,538	1,856
Machinery	3	3
	1,541	1,859
Accumulated depreciation		
Real estate	–601	–725
Machinery	–3	–3
	–604	–728
Accumulated impairment losses		
Real estate	–35	–42
	–35	–42
Net carrying value	902	1,089

As of December 31, 2012, future minimum lease payment obligations for leases were distributed as follows:

Future minimum lease payment obligations for leases

	Finance leases	Operating leases
2013	150	2,847
2014	229	1,794
2015	127	1,388
2016	85	1,105
2017	76	777
2018 and later	795	2,472
Total	**1,462**	**10,383**
Future finance charges [1]	–398	n/a
Present value of finance lease liabilities	**1,064**	**10,383**

[1] Average effective interest rate on lease payables is 5.69%.

Expenses in 2012 for leasing of assets were SEK 3,172 (3,362) million, of which variable expenses were SEK 20 (7) million. The leasing contracts vary in length from 1 to 20 years.

The Company's lease agreements normally do not include any contingent rents. In the few cases they occur, they relate to charges for heating linked to the oil price index. Most of the leases of real estate contain terms of renewal, giving the Company the right to prolong the agreement in question for a predefined period of time. All of the finance leases of facilities contain purchase options. Only a very limited number of the Company's lease agreements contain restrictions on stockholders' equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders' equity of at least SEK 25 billion.

Leases with the Company as lessor

Leasing income relates to subleasing of real estate as well as equipment provided to customers under leasing arrangements. These leasing contracts vary in length from 1 to 11 years.

At December 31, 2012, future minimum payment receivables were distributed as follows:

Future minimum payment receivables

	Finance leases	Operating leases
2013	6	154
2014	6	143
2015	6	96
2016	6	23
2017	6	18
2018 and later	–	52
Total	**30**	**486**
Unearned financial income	n/a	n/a
Uncollectible lease payments	n/a	n/a
Net investments in financial leases	n/a	n/a

Leasing income in 2012 was SEK 236 (76) million.

C28
INFORMATION REGARDING MEMBERS OF THE BOARD OF DIRECTORS, THE GROUP MANAGEMENT AND EMPLOYEES

CONTENTS

Remuneration to the Board of Directors 94
Remuneration to the Group management 95
Long-Term Variable Remuneration 96
Employee numbers, wages and salaries 98

Remuneration to the Board of Directors

Remuneration to members of the Board of Directors

SEK	Board fees	Number of synthetic shares/portion of Board fee	Value at grant date of synthetic shares allocated in 2012	Number of previously allocated synthetic shares outstanding	Net change in value of allocated synthetic shares [1]	Committee fees	Total fees paid in cash [2]	Total remuneration 2012
			A		B		C	(A+B+C)
Board member								
Leif Johansson	3,750,000	0/0%	–	–	–	400,000	4,150,000 [3]	**4,150,000**
Sverker Martin-Löf	875,000	0/0%	–	–	–	250,000	1,125,000	**1,125,000**
Jacob Wallenberg	875,000	6,984/50%	437,499	2,262.00	10,826	175,000	612,500	**1,060,825**
Roxanne S. Austin	875,000	6,984/50%	437,499	29,172.60	31,648	250,000	687,500	**1,156,647**
Sir Peter L. Bonfield	875,000	3,492/25%	218,749	9,722.80	13,411	250,000	906,250	**1,138,410**
Börje Ekholm	875,000	10,476/75%	656,248	29,172.60	40,228	175,000	393,750	**1,090,226**
Alexander Izosimov	875,000	3,492/25%	218,749	–	8,580	–	656,250	**883,579**
Ulf J. Johansson	875,000	0/0%	–	22,384.60	33,495	350,000	1,225,000 [4]	**1,258,495**
Nancy McKinstry	875,000	0/0%	–	22,002.60	18,092	175,000	1,050,000	**1,068,092**
Anders Nyrén	875,000	0/0%	–	–	–	175,000	1,050,000	**1,050,000**
Hans Vestberg	–	–	–	–	–	–	–	**–**
Michelangelo Volpi	875,000	0/0%	–	4,380.00	–2,409	–	875,000	**872,591**
Employee Representatives								
Pehr Claesson	18,000	–	–	–	–	–	18,000	**18,000**
Kristina Davidsson	18,000	–	–	–	–	–	18,000	**18,000**
Jan Hedlund [5]	6,000	–	–	–	–	–	6,000	**6,000**
Karin Åberg	18,000	–	–	–	–	–	18,000	**18,000**
Rickard Fredriksson [6]	10,500	–	–	–	–	–	10,500	**10,500**
Karin Lennartsson	18,000	–	–	–	–	–	18,000	**18,000**
Roger Svensson	18,000	–	–	–	–	–	18,000	**18,000**
Total	**12,606,500**	**31,428**	**1,968,744**	**119,097.20**	**153,871**	**2,200,000**	**12,837,750**	**14,960,365** [7]
Total	12,606,500	31,428	1,968,744	128,002.20 [8]	138,792 [8]	2,200,000	20,706,150 [9]	**22,813,687** [7] [9]

[1] The difference in value as of December 31, 2012, compared to December 31, 2011 (for synthetic shares allocated 2008, 2009, 2010 and 2011), and compared to grant date 2012 (for synthetic shares allocated in 2012). The value of synthetic shares allocated in 2008, 2009, 2010 and 2011 includes respectively SEK 1.85, SEK 2.00, SEK 2.25 and SEK 2.50 per share in compensation for dividends resolved by the Annual General Meetings 2009, 2010, 2011 and 2012.
[2] Committee fee and cash portion of the Board fee.
[3] In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 1,303,930.
[4] In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 122,520.
[5] Resigned as employee representative as of May 3, 2012.
[6] Appointed deputy employee representative as of May 3, 2012.
[7] Excluding social security charges in the amount of SEK 3,950,998.
[8] Including synthetic shares previously allocated to the former Director Carl-Henric Svanberg.
[9] Including advance payments to the former Directors Michael Treschow and Marcus Wallenberg under the synthetic share programs. Michael Treschow: SEK 7,376,686 for 111,926.80 synthetic shares (in addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 753,159) and Marcus Wallenberg: SEK 491,714 for 7,460.80 synthetic shares.

Comments to the table

- The Chairman of the Board was entitled to a Board fee of SEK 3,750,000 and a fee of SEK 200,000 for each Board Committee on which he served as Chairman.
- The other Directors elected by the Annual General Meeting were entitled to a fee of SEK 875,000 each. In addition, the Chairman of the Audit Committee was entitled to a fee of SEK 350,000 and the other non-employed members of the Audit Committee were entitled to a fee of SEK 250,000 each. The Chairmen of the Finance and Remuneration Committees were entitled to a fee of SEK 200,000 each and the other non-employed members of the Finance and the Remuneration Committees were entitled to a fee of SEK 175,000 each.
- Members of the Board, who are not employees of the Company, have not received any remuneration other than the fees and synthetic shares as above. None of the Directors have entered into a service contract with the Parent Company or any of its subsidiaries, providing for termination benefits.
- Members and deputy members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees and a fee to the employee

representatives and their deputies of SEK 1,500 per attended Board meeting.

- Board members invoicing the amount of the Board and Committee fee through a company may add to the invoice an amount corresponding to social charges. The social charges thus included in the invoiced amount are not higher than the general payroll tax that would otherwise have been paid by the Company. The entire amount, i.e. the cash portion of the Board fee and the Committee fee, including social charges, constitutes the invoiced Board fee.
- The Annual General Meeting 2012 resolved that non-employed Directors may choose to receive the Board fee (i.e. exclusive of committee fee) as follows: i) 25% of the Board fee in cash and 75% in the form of synthetic shares, with a value corresponding to 75% of the Board fee at the time of allocation, ii) 50% in cash and 50% in the form of synthetic shares, or iii) 75% in cash and 25% in the form of synthetic shares. Directors may also choose not to participate in the synthetic share program and receive 100% of the Board fee in cash. Committee fees are always paid in cash.

  The number of synthetic shares is based on a volume-weighed average of the market price of Ericsson Class B shares on the NASDAQ OMX Stockholm exchange during the five trading days immediately following the Annual General Meeting 2012: SEK 62.643. The number of synthetic shares is rounded down to the nearest whole number of shares.

  The synthetic shares are vested during the Directors' term of office and the right to receive payment with regard to the allocated synthetic shares occurs after the publication of the Company's year-end financial statement during the fifth year following the Annual General Meeting which resolved on the synthetic share program, i.e. in 2017.

  The amount payable shall be determined based on the volume-weighed average price for shares of Class B during the five trading days immediately following the publication of the year-end financial statement.

  Synthetic shares were allocated to members of the Board for the first time in 2008, on equal terms and conditions as resolved in 2009, 2010, 2011 and 2012. Payment based on synthetic shares may thus, under the main rule, occur for the first time in 2013 with respect to the synthetic shares allocated in 2008. The value of all outstanding synthetic shares fluctuates in line with the market value of Ericsson's Class B share and may differ from year to year compared to the original value on their respective grant dates. The change in value of the outstanding synthetic shares is established each year and affects the total recognized costs that year. As per December 31, 2012, the total number of synthetic shares under the programs is 159,430.20, and the total accounted debt is SEK 11,113,237 (including synthetic shares previously allocated to the former Director Carl-Henric Svanberg). In accordance with the terms and conditions for the synthetic shares, the time for payment to the former Director Carl-Henric Svanberg has been advanced, to occur after the publication of the year-end financial statement 2013. In February 2012, advance payment was made to the former Directors Michael Treschow and Marcus Wallenberg with respect to their synthetic shares, all in accordance with the terms and conditions for the synthetic shares.

Remuneration to the Group management

The Company's costs for remuneration to the Group management are the costs recognized in the Income Statement during the fiscal year. These costs are disclosed under "Remuneration costs" below.

Costs recognized during a fiscal year in the Income Statement are not fully paid by the Company at the end of the fiscal year. The unpaid amounts that the Company has in relation to the Group management are disclosed under "Outstanding balances".

Remuneration costs

The total remuneration to the President and CEO and to other members of the Group management, consisting of the Executive Leadership Team (ELT) includes fixed salary, short-term and long-term variable remuneration, pension and other benefits. These remuneration elements are based on the guidelines for remuneration and other employment conditions for the ELT as approved by the Annual General Meeting held in 2012, see the approved guidelines in section "Guidelines for remuneration to Group Management 2012".

Remuneration costs for the President and CEO and other members of Executive Leadership Team (ELT)

SEK	The President and CEO 2012	The President and CEO 2011	Other members of ELT 2012	Other members of ELT 2011	Total 2012	Total 2011
Salary	12,573,233	11,739,341	76,973,215	76,031,733	89,546,448	87,771,074
Costs for annual variable remuneration earned 2012 to be paid 2013	3,972,247	2,771,134	21,877,700	18,460,645	25,849,947	21,231,779
Long-term variable remuneration provision	6,439,873	5,636,050	6,472,215	8,916,556	12,912,088	14,552,606
Pension costs	6,491,713	5,960,566	22,865,674	22,154,413	29,357,387	28,114,979
Other benefits	123,612	78,594	4,431,160	4,944,762	4,554,772	5,023,356
Social charges and taxes	9,114,641	7,800,766	22,877,888	23,529,200	31,992,529	31,329,966
Total	38,715,319	33,986,451	155,497,852	154,037,309	194,213,171	188,023,760

Comments to the table

- During 2012 there were three Executive Vice Presidents, who have been appointed by the Board of Directors. None of them has acted as deputy to the President and CEO during the year. The Executive Vice Presidents are included in the group "Other members of ELT".
- The group "Other members of ELT" comprises the following persons: Per Borgklint, Bina Chaurasia, Håkan Eriksson (up to January 31), Ulf Ewaldsson (from February 1), Jan Frykhammar, Douglas L. Gilstrap, Nina Macpherson, Magnus Mandersson, Helena Norrman, Mats H. Olsson, Rima Qureshi, Angel Ruiz, Johan Wibergh and Jan Wäreby.
- The salary stated in the table for the President and CEO and other members of the ELT includes vacation pay paid during 2012 as well as other contracted compensation which were paid during 2012 or provisioned for 2012.
- "Long-term variable remuneration provision" refers to the compensation costs during 2012 for all outstanding share-based plans.
- For a description of compensation cost, including accounting treatment, see Note C1, "Significant accounting policies", section Share-based compensation to employees and the Board of Directors.

- For the President and CEO and other members of the ELT employed in Sweden before 2011 a supplementary plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP) with pension from 60 years. These pension plans are not conditional upon future employment at Ericsson.

Outstanding balances

The Company has recognized the following liabilities relating to unpaid remunerations in the Balance Sheet:

- Ericsson's commitments for benefit based pensions as of December 31, 2012 under IAS 19 amounted to SEK 5,971,282 for the President and CEO which includes ITP plan and temporary disability and survivor's pension. For other members of ELT the Company's commitments amounted to SEK 27,103,244 of which SEK 21,429,454 refers to the ITP plan and the remaining SEK 5,673,790 to temporary disability and survivor's pensions.
- For previous Presidents and CEOs, the Company has made provisions for defined benefit pension plans in connection with their active service periods within the Company.
- Deferred salary, earned 2012 or earlier, to be paid 12 months after period end or later, amounts to SEK 7,899,000.

Maximum outstanding matching rights

As per December 31, 2012 Number of Class B shares	The President and CEO	Other members of the ELT
Stock Purchase Plans 2009, 2010, 2011 and 2012 and Executive Performance Stock Plans 2009, 2010, 2011 and 2012	503,382	661,456

Comments to the table

- For the definition of matching rights, see the description in section "Long-term variable remuneration".
- The performance maching result of 70,3% is included for 2009 plan.
- Cash conversion target for 2012 was reached, but not reached in 2011.
- During 2012, the President and CEO received 10,108 matching shares and other members of the ELT 54,803 matching shares.

Guidelines for remuneration to Group Management 2012

For Group Management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short and long-term variable remuneration, pension and other benefits. Furthermore, the following guidelines apply for the remuneration to the Executive Leadership Team:

- Variable remuneration is through cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either corporate or unit level, operational targets, employee motivation targets and customer satisfaction targets.
- With the current composition of the Executive Leadership Team, the Company's cost during 2012 for variable remuneration to the Executive Leadership Team can, at a constant share price, amount to between 0 and 150% of the aggregate fixed salary cost, all excluding social security costs.
- All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account. The retirement age is normally 60 to 65 years of age.
- By way of exception, additional arrangements can be made when deemed required. Such additional arrangement shall be limited in time and shall not exceed a period of 36 months and two times the remuneration that the individual concerned would have received had no additional arrangement been made.
- The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months' fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

Long-Term Variable remuneration

The Stock Purchase Plan

The Stock Purchase Plan is designed to offer an incentive for all employees to participate in the Company where practicable, which is consistent with industry practice and with our ways of working. For the 2012 plan, employees are able to save up to 7.5% of gross fixed salary (President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration) for purchase of Class B contribution shares at market price on the NASDAQ OMX Stockholm or American Depositary Shares (ADSs) at NASDAQ New York (contribution shares) during a twelve-month period (contribution period). If the contribution shares are retained by the employee for three years after the investment and the employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs free of consideration. Employees in 100 countries participate in the plans.

The table below shows the contribution periods and participation details for ongoing plans as of December 31, 2012.

Stock purchase plans

Plan	Contribution period	Number of participants at launch	Take-up rate – percent of eligible employees
Stock Purchase plan 2009	August 2009 – July 2010	18,000	25%
Stock Purchase plan 2010	August 2010 – July 2011	22,000	27%
Stock Purchase plan 2011	August 2011 – July 2012	24,000	30%
Stock Purchase plan 2012	August 2012 – July 2013	27,000	28%

Participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment, subject to continued employment, and hence the matching spans over two financial years and two tax years.

The Key Contr butor Retention Plan

The Key Contributor Retention Plan is part of Ericsson's talent management strategy and is designed to give recognition for performance, critical skills and potential as well as to encourage retention of key employees. Under the program, up to 10% of employees (2012 plan: up to 8,000 employees) are selected through a nomination process that identifies individuals according to performance, critical skills and potential. Participants selected obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period.

Executive Performance Stock Plans

	Executive Performance Stock Plan			
	2012 [1]	2011	2010	2009
Base year EPS [2]			1.14	2.90
Target average annual EPS growth range [3]			5% to 15%	5% to 15%
Matching share vesting range [4]	0.67 to 4 1 to 6 1.5 to 9	0.67 to 4 1 to 6 1.5 to 9	0.67 to 4 1 to 6 1.5 to 9	0.67 to 4 1 to 6 1.33 to 8
Maximum opportunity as percentage of fixed salary [5]	30% 45% 162%	30% 45% 162%	30% 45% 162%	30% 45% 72%

[1] Targets for Executive Performance Stock Plan 2012 are described in the next table.
[2] Sum of four quarters up to June 30 of plan year 2009. For 2010 plan the sum of 4 quarters up to December 31, 2010.
[3] EPS range found from three-year average EPS of the twelve quarters to the end of the performance period and corresponding growth targets.
[4] Corresponding to EPS range (no Performance Share Plan matching below this range). Matching shares per contribution share invested in addition to Stock Purchase Plan matching according to program of up to 4, 6 or 9 matching shares.
[5] At full investment, full vesting and constant share price. Excludes Stock Purchase Plan matching.

Executive Performance Stock Plan targets

	Base year value SEK billion	Year 1	Year 2	Year 3
2012				
Growth (Net Sales Growth)	227.8	Compound annual growth rate of 2 –8%		
Margin (Operating Income Growth)	17.9	Compound annual growth of 5–15%		
Cash Flow (Cash Conversion)	–	≥70%	≥70%	≥70%
2011				
Growth (Net Sales Growth)	203.3	Compound annual growth rate of 4–10%		
Margin (Operating Income Growth) [1]	23.7	Compound annual growth of 5–15%		
Cash Flow (Cash Conversion)	–	≥70%	≥70%	≥70%

[1] Consolidated operating margin excluding restructuring for 2010.

The Executive Performance Stock Plan

The Executive Performance Stock Plan is designed to focus management on driving earnings and provide competitive remuneration. Senior executives, including ELT, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan. Up to 0.5% of employees (2012 plan: up to 400 executives) are offered to participate in the plan. The President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration, and may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching for the 2009 and 2010 plans is subject to the fulfillment of a performance target of average annual Earnings per Share (EPS) growth.

The performance targets changed from Earnings Per Share (EPS) targets to targets linked to the business strategy as from 2011.

The tables above show all Executive Performance Stock Plans as per December 31, 2012.

Shares for all plans

Plan (million shares)		Stock Purchase Plan, Key Contributor Retention Plan and Executive Performance Stock Plans					
		2012	2011	2010	2009	2008	Total
Originally designated [1]	A	26.2	19.4	19.4	22.4	16.5	103.9
Outstanding beginning of 2012	B	–	3.4	10.6	9.1	6.1	29.2
Awarded during 2012	C	4.4	10.8	–	–	–	15.2
Exercised/matched during 2012	D	–	0.3	0.5	2.3	6.0	9.1
Forfeited/expired during 2012	E	–	0.4	0.9	0.8	0.1	2.2
Outstanding end of 2012 [2]	F=B+C–D–E	4.4	13.5	9.2	6.0	–	33.1
Compensation costs charged during 2012 (SEK million)	G	6 [3]	132 [3]	148 [3]	91 [3]	28 [3]	405 [4]

[1] Adjusted for rights offering and reverse split when applicable.
[2] Presuming maximum performance matching under the Executive Performance Stock Plans. The 2008 plan has lapsed. The 2009 plan partially vested to an extent of 70,3%.
[3] Fair value is calculated as the share price on the investment date, reduced by the net present value of the dividend expectations during the three-year vesting period. Net present value calculations are based on data from external party. Fair value is also adjusted for participants failing to keep hold of their contribution shares during the vesting period. For shares under the Executive Performance Stock Plans, the Company presumes maximum performance matching for all ongoing plans when calculating the compensation cost. The 2008 plan has lapsed. The 2009 plan partially vested to an extent of 70,3%. Fair value of the Class B share at each investment date during 2012 was: February 15 SEK 56.26, May 15 SEK 53.93, August 15 SEK 55.85 and November 15 SEK 49.99.
[4] Total compensation costs charged during 2011: SEK 413 million, 2010: SEK 757 million.

Shares for all plans

All plans are funded with treasury stock and are equity settled. Treasury stock for all plans has been issued in directed cash issues of Class C shares at the quotient value and purchased under a public offering at the subscription price plus a premium corresponding to the subscribers' financing costs, and then converted to Class B shares.

For all plans, additional shares have been allocated for financing of social security expenses. Treasury stock is sold on the NASDAQ OMX Stockholm to cover social security payments when arising due to matching of shares. During 2012, 1,038,200 shares were sold at an average price of SEK 63.17. Sale of shares is recognized directly in equity.

If, as of December 31, 2012, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 61 million Class B shares would be transferred, corresponding to 1.9% of the total number of shares outstanding, 3,220 million not including treasury stock. As of December 31, 2012, 85 million Class B shares were held as treasury stock.

The table above shows how shares (representing matching rights but excluding shares for social security expenses) are being used for all outstanding plans. From up to down the table includes (A) the number of shares originally approved by the Annual General Meeting, adjusted for reverse split where applicable; (B) the number of originally designated shares that were outstanding at the beginning of 2012; (C) the number of shares awards that were granted during 2012; (D) the number of shares matched during 2012; (E) the number of shares

forfeited by participants or expired under the plan rules during 2012; and (F) the balance left as outstanding at the end of 2012, having added new awards to the shares outstanding at the beginning of the year and deducted the shares related to awards matched, forfeited and expired. The final column (G) shows the compensation costs charged to the accounts during 2012 for each plan, calculated as fair value in SEK.

For a description of compensation cost, including accounting treatment, see Note C1, "Significant accounting policies", section Share-based compensation to employees and the Board of Directors.

Employee numbers, wages and salaries

Employee numbers

Average number of employees

	2012			2011		
	Women	Men	Total	Women	Men	Total
North America	3,479	12,607	16,086	2,876	12,106	14,982
Latin America	2,137	9,230	11,367	1,913	7,837	9,750
Northern Europe & Central Asia [1) 2)]	5,746	15,351	21,097	5,656	14,927	20,583
Western & Central Europe [2)]	1,790	9,463	11,253	1,663	8,968	10,631
Mediterranean [2)]	2,966	10,064	13,030	2,743	9,077	11,820
Middle East	617	4,603	5,220	634	4,343	4,977
Sub-Saharan Africa	548	1,672	2,220	661	1,290	1,951
India	2,137	11,924	14,061	1,613	9,912	11,525
North East Asia	4,191	9,584	13,775	3,480	8,839	12,319
South East Asia & Oceania	1,175	3,474	4,649	1,155	3,437	4,592
Total	24,786	87,972	112,758	22,394	80,736	103,130
[1)] Of which Sweden	*4,232*	*13,337*	*17,569*	*4,188*	*12,881*	*17,069*
[2)] Of which EU	*9,911*	*33,581*	*43,492*	*9,575*	*31,667*	*41,242*

Number of employees by region at year-end

	2012	2011
North America	15,501	14,801
Latin America	11,219	11,191
Northern Europe & Central Asia [1) 2)]	21,211	20,987
Western & Central Europe [2)]	11,257	10,806
Mediterranean [2)]	12,205	11,645
Middle East	3,992	4,336
Sub-Saharan Africa	2,014	2,283
India	14,303	11,535
North East Asia	14,157	12,567
South East Asia & Oceania	4,396	4,374
Total	110,255	104,525
[1)] Of which Sweden	*17,712*	*17,500*
[2)] Of which EU	*42,872*	*41,596*

Employees by gender and age at year-end 2012

	Women	Men	Percent of total
Under 25 years old	2,517	6,018	8%
25–35 years old	8,530	31,054	36%
36–45 years old	7,818	28,954	33%
46–55 years old	3,984	15,692	18%
Over 55 years old	1,233	4,455	5%
Percent of total	**22%**	**78%**	**100%**

Employee movements

	2012	2011
Head count at year-end	110,255	104,525
Employees who have left the Company	12,280	10,571
Employees who have joined the Company	18,010	24,835
Temporary employees	766	901

Employee wages and salaries

Wages and salaries and social security expenses

(SEK million)	2012	2011
Wages and salaries	48,428	43,707
Social security expenses	15,672	15,198
Of which pension costs	*2,762*	*3,888*

Amounts related to the President and CEO and the Executive Leadership Team are included.

Remuneration to Board members and Presidents in subsidiaries

(SEK million)	2012	2011
Salary and other remuneration	243	223
Of which annual variable remuneration	*33*	*22*
Pension costs	27	20

Board members, Presidents and Group management by gender at year end

	2012		2011	
	Women	Men	Women	Men
Parent Company				
Board members and President	27%	73%	20%	80%
Group Management	29%	71%	29%	71%
Subsidiaries				
Board members and Presidents	12%	88%	11%	89%

C29 RELATED PARTY TRANSACTIONS

During 2012, various related party transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis. For information regarding equity and Ericsson's share of assets, liabilities and income in joint ventures and associated companies, see Note C12, "Financial assets, non-current". For information regarding transactions with senior management, see Note C28, "Information regarding members of the Board of Directors, the Group management and employees".

ST-Ericsson

ST-Ericsson, the joint venture between Ericsson and STMicroelectronics, was formed on February 2, 2009, by merging Ericsson Mobile Platforms with ST-NXP Wireless. The joint venture is equally owned by Ericsson and STMicroelectronics. For further information, see Note C3, "Segment information".

Major transactions are as follows:

- **Sales:** Ericsson provides ST-Ericsson with services in the areas of R&D, HR, IT and facilities.
- **Purchases:** A major part of Ericsson's purchases from ST-Ericsson consists of chipsets and R&D services.
- **Dividends:** Both owners of ST-Ericsson receive dividends, when so decided by the Board of Directors. Ericsson received no dividends from ST-Ericsson during 2012.

ST-Ericsson

	2012	2011	2010
Related party transactions			
Sales	138	182	403
Purchases	634	781	629
Related party balances			
Receivables	127	51	53
Liabilities	–	24	48

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla d.d. is a company for design, sales and service of telecommunication systems and equipment, and an associated member of the Ericsson Group. Ericsson Nikola Tesla d.d. is located in Zagreb, Croatia. Ericsson holds 49.07% of the shares.

Major transactions are as follows:

- **Sales:** Ericsson sells telecommunication equipment to Ericsson Nikola Tesla d.d.
- **License revenues:** Ericsson receives license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks.
- **Purchases:** Ericsson purchases development resources from Ericsson Nikola Tesla d.d.
- **Dividends:** Ericsson received dividends from Ericsson Nikola Tesla d.d. during 2012.

Ericsson Nikola Tesla D.D.

	2012	2011	2010
Related party transactions			
Sales	1,161	465	563
License revenues	8	4	2
Purchases	607	595	566
Ericsson's share of dividends	133	154	104
Related party balances			
Receivables	189	59	120
Liabilities	81	76	75

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards Ericsson Nikola Tesla d.d.

Sony Ericsson Mobile Communications AB

The company has divested its 50% stake in Sony Ericsson Mobile Communications to Sony. The divestment was effective on January 1, 2012.

Sony Ericsson Mobile Communications AB

	2012	2011	2010
Related party transactions			
License revenues	–	855	1,255
Purchases	–	126	61
Related party balances			
Receivables	–	27	258
Liabilities	–	2	8

C30 FEES TO AUDITORS

Fees to auditors

	PwC	Others	Total
2012			
Audit fees	82	5	87
Audit related fees	15	–	15
Tax services fees	16	3	19
Other fees	10	10	20
Total	123	18	141
2011			
Audit fees	77	9	86
Audit related fees	10	–	10
Tax services fees	20	3	23
Other fees	16	–	16
Total	123	12	135
2010			
Audit fees	79	5	84
Audit related fees	17	1	18
Tax services fees	16	2	18
Other fees	7	2	9
Total	119	10	129

During the period 2010–2012, in addition to audit services, PwC provided certain audit related services, tax and other services to the Company. The audit related services include quarterly reviews, ISO audits, SSAE16 reviews and services in connection with issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

Audit fees to other auditors largely consist of local statutory audits for minor companies.

C31 CONTRACTUAL OBLIGATIONS

Contractual obligations 2012

	Payment due by period				
SEK billion	<1 year	1–3 years	3–5 years	>5 years	Total
Long-term debt [1) 2)]	3.3	7.0	7.1	9.0	26.4
Finance lease obligations [3)]	0.2	0.3	0.2	0.8	1.5
Operating leases [3)]	2.8	3.2	1.9	2.5	10.4
Other non-current liabilities	0.1	0.3	0.1	1.9	2.4
Purchase obligations [4)]	5.7	–	–	–	5.7
Trade payables	23.1	–	–	–	23.1
Commitments for customer finance [5)]	5.9	–	–	–	5.9
Total	41.1	10.8	9.3	14.2	75.4

1) Including interest payments.
2) See Note C20, "Financial risk management and financial instruments".
3) See Note C27, "Leasing".
4) The amounts of purchase obligations are gross, before deduction of any related provisions.
5) See also Note C14, "Trade receivables and customer finance".

For information about financial guarantees, see Note C24, "Contingent liabilities".

Except for those transactions described in this report, the Company has not been a party to any material contracts over the past three years other than those entered into during the ordinary course of business.

C32 TRANSFERS OF FINANCIAL ASSETS

Transfers where the Company has not derecognized the assets in their entirety

As per December 31, 2012 there existed certain customer financing assets that the Company had transferred to third parties where the Company did not derecognize the assets in their entirety. The total carrying amount of the original assets transferred was SEK 471 (194) million, the amount of the assets that the Company continues to recognize was SEK 28 (10) million, and the carrying amount of the associated liabilities was SEK 0 (0) million. More information is disclosed about Customer Finance in Note C14 "Trade receivables and customer finance".

Transfers where the Company has continuing involvement

The Company has during 2012 derecognized financial assets where the Company had continuing involvement. A repurchase of these assets would amount to SEK 225 (596) million. No assets or liabilities were recognized in relation to the continuing involvement.

C33 EVENTS AFTER THE REPORTING PERIOD

On January 10, 2013, Ericsson entered into an agreement with Unwired Planet whereby Ericsson will transfer 2,185 issued patents and patent applications to Unwired Planet. Ericsson will also contribute 100 additional patent assets annually to Unwired Planet commencing in 2014 through 2018. Unwired Planet will compensate Ericsson with certain ongoing rights in future revenues generated from the enlarged patent portfolio. Unwired Planet will also grant Ericsson a license to its patent portfolio.

On January 21, 2013, Ericsson announced its intention to acquire Devoteam Telecom & Media operations in France. Devoteam has employees in Europe, Middle East and Africa. The acquisition is in line with Ericsson's services strategy to broaden its IT capabilities.

In early 2013 Standard & Poors changed the credit rating from BBB+ outlook stable to outlook negative and Moody´s changed the credit rating from A3 with outlook stable to outlook negative.

In January, 2013, ST-Ericsson was granted a loan facility by their owners of USD 260 million. Ericsson's share of this credit facility is USD 130 million.

On January 10, 2013, Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25, 2013, Adaptix filed a complaint with the US International Trade Commission (ITC) against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications requesting that the commission open a patent infringement investigation of certain Ericsson products and further on January 29, 2013, Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two JP patents assigned to Adaptix. Adaptix seeks damages and an injunction.

PARENT COMPANY FINANCIAL STATEMENTS AND NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTENTS

Parent Company financial statements

Parent Company Income statement and Statement of comprehensive income	102
Parent Company Balance sheet	103
Parent Company Statement of cash flows	105
Parent Company Statement of changes in stockholders' equity	106

Notes to the Parent Company financial statements

P1	Significant accounting policies	107
P2	Segment information	107
P3	Other operating income and expenses	107
P4	Financial income and expenses	108
P5	Taxes	108
P6	Intangible assets	109
P7	Property, plant and equipment	109
P8	Financial assets	110
P9	Investments	111
P10	Inventories	112
P11	Trade receivables and customer finance	112
P12	Receivables and liabilities – subsidiary companies	113
P13	Other current receivables	114
P14	Equity and other comprehensive income	114
P15	Untaxed reserves	115
P16	Post-employment benefits	115
P17	Other provisions	116
P18	Interest-bearing liabilities	116
P19	Financial risk management and financial instruments	117
P20	Other current liabilities	118
P21	Trade payables	118
P22	Assets pledged as collateral	118
P23	Contingent liabilities	118
P24	Statement of cash flows	119
P25	Leasing	119
P26	Information regarding employees	119
P27	Related party transactions	120
P28	Fees to auditors	120
P29	Events after the balance sheet date	120

PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

PARENT COMPANY INCOME STATEMENT

January – December, SEK million	Notes	2012	2011 [1]	2010 [1]
Net sales	P2	–	–	33
Cost of sales		–	–	–29
Gross income		–	–	4
Selling expenses		–241	–609	–1,370
Administrative expenses		–690	–1,512	–1,586
Operating expenses		–931	– 2,121	–2,956
Other operating income and expenses	P3	2,534	3,184	3,118
Operating income		1,603	1,063	166
Financial income	P4	11,932	8,072	7,474
Financial expenses	P4	–18,392	–2,765	–829
Income after financial items		–4,858	6,370	6,811
Transfers to (–)/from untaxed reserves				
Changes in depreciation in excess of plan	P15	388	339	–100
Contributions from subsidiares, net	P15	–2,034	–1,979	1,029
		–6,504	4,730	7,740
Taxes	P5	–289	–103	–388
Net income		–6,793	4,627	7,352

[1] Restated for contributions to/from subsidiaries.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

January – December, SEK million	Notes	2012	2011	2010
Net income		–6,793	4,627	7,352
Other comprehensive income				
Cash Flow hedges				
Gains/losses arising during the period		–64	203	136
Adjustments for amounts transferred to initial carrying amount of hedged items		–139	–	–136
Tax on items relating to components of Other comprehensive income		–	–	–
Total other comprehensive income		–203	203	–
Total comprehensive income		–6,996	4,830	7,352

PARENT COMPANY BALANCE SHEET

December 31, SEK million	Notes	2012	2011
Assets			
Fixed assets			
Intangible assets	P6	849	1,088
Tangible assets	P7	535	491
Financial assets			
Investments			
Subsidiaries	P8, P9	80,839	79,511
Joint ventures and associated companies	P8, P9	337	13,066
Other investments	P8	267	279
Receivables from subsidiaries	P8, P12	15,737	8,017
Customer finance, non-current	P8, P11	999	1,337
Deferred tax assets	P5	198	250
Other financial assets, non-current	P8	1,153	1,203
		100,914	105,242
Current assets			
Inventories	P10	55	61
Receivables			
Trade receivables	P11	35	51
Customer finance, current	P11	1,020	883
Receivables from subsidiaries	P12	16,195	16,733
Current income taxes		134	313
Other current receivables	P13	4,310	2,588
Loans to joint ventures and associated companies	P19, P27	–	2,759
Short-term investments	P19	31,491	38,852
Cash and cash equivalents	P19	25,946	17,288
		79,186	79,528
Total assets		180,100	184,770

PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

PARENT COMPANY BALANCE SHEET (CONTINUED)

December 31, SEK million	Notes	2012	2011
Stockholders' equity, provisions and liabilities			
Stockholders' equity	P14		
Capital stock		16,526	16,367
Revaluation reserve		20	20
Statutory reserve		31,472	31,472
Restricted equity		48,018	47,859
Retained earnings		32,620	35,890
Net income		–6,793	4,627
Other comprehensive income		–203	203
Non-restricted equity		25,624	40,720
		73,642	88,579
Untaxed reserves	P15	288	676
Provisions			
Post-employment benefits	P16	386	376
Other provisions	P17	3,709	275
		4,095	651
Non-current liabilities			
Notes and bond loans	P18	16,519	17,197
Other borrowings, non-current	P18	5,273	4,000
Liabilities to subsidiaries	P12	26,732	26,896
Other non-current liabilities		239	280
		48,763	48,373
Current liabilities			
Borrowings, current	P18	2,671	3,461
Trade payables	P21	555	706
Liabilities to subsidiaries	P12	46,959	38,139
Other current liabilities	P20	3,127	4,185
		53,312	46,491
Total stockholders' equity, provisions and liabilities		180,100	184,770
Assets pledged as collateral	P22	520	452
Contingent liabilities	P23	16,719	18,518

PARENT COMPANY STATEMENT OF CASH FLOWS

January – December, SEK million	Notes	2012	2011	2010
Operating activities				
Net income		–6,793	4,627	7,352 [1]
Adjustments to reconcile net income to cash	P24	14,436	3,163	530 [1]
		7,643	7,790	7,882
Changes in operating net assets				
Inventories		6	–4	4
Customer finance, current and non-current		201	286	–1,070
Trade receivables		–39	35	283
Trade payables		–261	–133	331
Provisions and post-employment benefits		–91	–309	–109
Other operating assets and liabilities, net		–2,837	2,379	1,954
		–3,021	2,254	1,393
Cash flow from operating activities		4,622	10,044	9,275
Investing activities				
Investments in property, plant and equipment		–224	–148	–160
Sales of property, plant and equipment		–	16	9
Investments in shares and other investments		–1,807	–3,718	–2,178
Divestments of shares and other investments		9,792	7	42
Lending, net		–2,668	–3,074	8,973
Other investing activities		1	–1,730	–1,317
Short-term investments		5,043	16,357	–1,910
Cash flow from investing activities		10,137	7,710	3,459
Cash flow before financing activities		14,759	17,754	12,734
Financing activities				
Changes in current liabilities to subsidiaries		2,795	–9,361	3,503
Proceeds from issuance of borrowings		8,132	–	–
Repayment of borrowings		–7,296	–	–1,055
Stock issue		159	–	–
Sale/repurchase of own shares		–93	92	–
Dividends paid		–8,033	–7,207	–6,391
Settled contributions from/to (–) subsidiaries		–543	409	–209
Other financing activities		–158	288	–310
Cash flow from financing activities		–5,037	–15,779	–4,462
Effect from remeasurement in cash		–1,064	–126	–1,310
Net change in cash		8,658	1,849	6,962
Cash and cash equivalents, beginning of period		17,288	15,439	8,477
Cash and cash equivalents, end of period	P19	25,946	17,288	15,439

[1] Restated for contributions to/from subsidiaries.

PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

PARENT COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2012	16,367	20	31,472	47,859	100	203	40,417	40,720	88,579
Total comprehensive income	–	–	–	–	–	–203	–6,793	–6,996	–6,996
Transactions with owners									
Stock issue	159	–	–	159	–	–	–	–	159
Sale of own shares	–	–	–	–	–	–	66	66	66
Stock Purchase Plans	–	–	–	–	–	–	26	26	26
Repurchase of own shares	–	–	–	–	–	–	–159	–159	–159
Dividends paid	–	–	–	–	–	–	–8,033	–8,033	–8,033
December 31, 2012	**16,526**	**20**	**31,472**	**48,018**	**100**	**–**	**25,524**	**25,624**	**73,642**
January 1, 2011	16,367	20	31,472	47,859	100	–	42,874	42,974	90,833
Total comprehensive income	–	–	–	–	–	203	4,627	4,830	4,830
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	92	92	92
Stock Purchase Plans	–	–	–	–	–	–	31	31	31
Dividends paid	–	–	–	–	–	–	–7,207	–7,207	–7,207
December 31, 2011	**16,367**	**20**	**31,472**	**47,859**	**100**	**203**	**40,417**	**40,720**	**88,579**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

P1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent Company, Telefonaktiebolaget LM Ericsson, have been prepared in accordance with the Annual Accounts Act and RFR 2 "Reporting in separate financial statements". RFR 2 requires the Parent Company to use the same accounting principles as for the Group, i.e. IFRS, to the extent allowed by RFR 2.

The main deviations between accounting policies adopted for the Group and accounting policies for the Parent Company are:

Subsidiaries, associated companies and joint ventures

The investments are accounted for according to the acquisition cost method. Investments are carried at cost and only dividends are accounted for in the income statement. An impairment test is performed annually and write-downs are made when permanent decline in value is established.

UFR 2 has been withdrawn by the Swedish Financial Reporting Board. Contributions to/from subsidiaries and shareholders' contributions are accounted for according to RFR 2. Contributions from/to Swedish subsidiaries are reported as untaxed reserves, net in the income statement. Comparison years have been restated accordingly.

Shareholders' contributions increase the Parent Company's investments.

Classification and measurement of financial instruments

IAS 39 Financial Instruments: Recognition and Measurement is adopted, except regarding financial guarantees where the exception allowed in RFR 2 is chosen. Financial guarantees are included in Contingent liabilities.

Leasing

The Parent Company has one rental agreement which is accounted for as a finance lease in the consolidated statements and as an operating lease in the Parent Company financial statements.

Deferred taxes

The accounting of untaxed reserves in the balance sheet results in different accounting of deferred taxes as compared to the principles applied in the consolidated statements. Swedish GAAP and tax regulations require a company to report certain differences between the tax basis and book value as an untaxed reserve in the balance sheet of the stand-alone financial statements. Changes to these reserves are reported as an addition to, or withdrawal from, untaxed reserves in the income statement.

Pensions

Pensions are accounted for in accordance with the recommendation FAR SRS RedR 4 "Accounting for pension liability and pension cost" from the Institute for the Accountancy Profession in Sweden. According to RFR 2, IAS 19 shall be adopted regarding supplementary disclosures when applicable.

Segment information

Segment information is reported according to requirements in the Swedish Annual Accounts Act regarding net sales for business segments and geographical areas.

Borrowing costs

All borrowing costs in relation to qualifying assets are expensed as incurred.

Business combinations

Transaction costs attributable to the acquisition are included in the cost of acquisition in the parent company statements compared to Group Statements where these costs are expenses as incurred.

Critical accounting estimates and judgments

See Notes to the consolidated financial statements – Note C2, "Critical accounting estimates and judgments". Major critical accounting estimates and judgments applicable to the Parent Company include "Trade and customer finance receivables" and "Acquired intellectual property rights and other intangible assets, excluding goodwill".

P2 SEGMENT INFORMATION

There were no Parent Company net sales during 2012 and 2011. Parent Company net sales in 2010 amounted to SEK 33 million, related to business segment Networks and region Latin America.

P3 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

	2012	2011	2010
License revenues and other operating revenues			
Subsidiary companies	2,488	2,704	2,305
Other	49	479	815
Net gains/losses (–) on sales of tangible assets	–3	1	–2
Total	2,534	3,184	3,118

P4 FINANCIAL INCOME AND EXPENSES

Financial income and expenses

	2012	2011	2010
Financial Income			
Result from participations in subsidiary companies			
Dividends	5,031	5,198	6,369
Net gains on sales	61	6	8
Result from participations in joint ventures and associated companies			
Dividends	132	154	104
Net gains on sales	4,768	–	–
Result from other securities and receivables accounted for as fixed assets			
Net gains on sales	62	1	26
Other interest income and similar profit/loss items			
Subsidiary companies	472	280	221
Other	1,406	2,433	746
Total	11,932	8,072	7,474
Financial Expenses			
Losses on sales of participations in subsidiary companies	–36	–1	–
Write-down of investments in subsidiary companies	–	–1,330	–82
Net loss from joint ventures and associated companies	–16,972	–	–
Write-down of participations in other companies	–47	–	–
Interest expenses and similar profit/loss items			
Subsidiary companies	–189	–304	–95
Other	–1,089	–1,109	–612
Other financial expenses	–59	–21	–40
Total	–18,392	–2,765	–829
Financial net	–6,460	5,307	6,645

Interest expenses on pension liabilities are included in the interest expenses shown above.

P5 TAXES

Income taxes recognized in the income statement

The following items are included in Taxes:

Taxes

	2012	2011	2010
Other current income taxes for the year	–125	–125	–288
Current income taxes related to prior years	–112	74	–15
Deferred tax income/expense (–) related to temporary differences	–52	–52	–85
Taxes	–289	–103	–388

A reconciliation between actual tax expense for the year and the theoretical tax expense that would arise when applying the statutory tax rate in Sweden, 26.3% (starting from January 1, 2009), on income before taxes is shown in the the table below.

Reconciliation of actual income tax rate to the actual income tax rate

	2012	2011	2010
Tax rate in Sweden (26.3%)	1,711	–1,244	–2,036
Current income taxes related to prior years	–112	74	–15
Tax effect of non-deductible expenses	–29	–14	–91
Tax effect of non-taxable income	2,655	1,429	1,776
Tax effect related to write-downs of investments in subsidiary companies	–4,476	–348	–22
Tax effect of change in deferred tax rate	–38	–	–
Actual tax cost (–)	–289	–103	–388

Deferred tax balances

On November 21, 2012, the Swedish Parliament decided to cut the company tax rate from 26.3% to 22.0%, applicable from January 1, 2013. Deferred tax assets and liabilities have been calculated with the new tax rate.

Tax effects of temporary differences have resulted in deferred tax assets as follows:

Deferred tax assets

	2012	2011
Deferred tax assets	198	250

Deferred tax assets refer mainly to costs related to customer finance and provisions for restructuring costs.

P6
INTANGIBLE ASSETS

Patents, licenses, trademarks and similar rights

	2012	2011
Accumulated acquisition costs		
Opening balance	4,167	3,888
Acquisitions	–	279
Sales/disposals	–21	–
Closing balance	4,146	4,167
Accumulated amortization		
Opening balance	–2,134	–1,897
Amortization	–218	–237
Sales/disposals	–	–
Closing balance	–2,352	–2,134
Accumulated impairment losses		
Opening balance	–945	–945
Impairment losses	–	–
Closing balance	–945	–945
Net carrying value	849	1,088

The balances relate mainly to Marconi trademark acquired during 2006. The useful life and amortization period for this trademark has been set to 10 years.

P7
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

	Land and buildings	Other equipment and installations	Construction in process and advance payments	Total
2012				
Accumulated acquisition costs				
Opening balance	–	1,225	80	1,305
Additions	–	37	187	224
Sales/disposals	–	–53	–	–53
Reclassifications	–	58	–58	–
Closing balance	**–**	**1,267**	**209**	1,476
Accumulated depreciation				
Opening balance	–	–814	–	–814
Depreciation	–	–177	–	–177
Sales/disposals	–	50	–	50
Closing balance	**–**	**–941**	**–**	–941
Net carrying value	**–**	**326**	**209**	535
2011				
Accumulated acquisition costs				
Opening balance	13	1,102	126	1,241
Additions	–	32	116	148
Sales/disposals	–13	–71	–	–84
Reclassifications	–	162	–162	–
Closing balance	**–**	**1,225**	**80**	1,305
Accumulated depreciation				
Opening balance	–	–714	–	–714
Depreciation	–	–168	–	–168
Sales/disposals	–	68	–	68
Closing balance	**–**	**–814**	**–**	–814
Net carrying value	**–**	**411**	**80**	491

P8
FINANCIAL ASSETS

Investments in subsidiary companies, joint ventures and associated companies

	Subsidiary companies		Joint ventures		Associated companies	
	2012	2011	2012	2011	2012	2011
Opening balance	79,511	77,566	12,736	12,736	330	330
Acquisitions and stock issues	1,682	3,344	–	–	–	–
Shareholders' contribution	191	88	–	–	–	–
Reclassifications	–	–	5,029 [1]	–	7	–
Repayment of shareholders' contribution	–	–156	–	–	–	–
Write-downs	–	–1,330	–13,629 [1]	–	–	–
Disposals	–545	–1	–4,136	–	–	–
Closing balance	80,839	79,511	–	12,736	337	330

[1] Reclassification of short-term credit facility and write-down is including original investment and short-term credit facility.

Other financial assets

	Other investments in shares and participations		Receivables from subsidiaries, non-current		Customer finance, non-current		Other financial assets, non-current	
	2012	2011	2012	2011	2012	2011	2012	2011
Accumulated acquisition costs								
Opening balance	288	93	8,017	6,666	1,379	1,073	1,203	302
Additions	45	195	9,725	93	547	830	20	101
Disposals/repayments/deductions	–3	–	–1,301	–	–516	–216	–78	–17
Reclassifications	–7	–	–93	1,253	–328	–311	8	817
Translation difference	–	–	–611	5	–17	3	–	–
Closing balance	323	288	15,737	8,017	1,065	1,379	1,153	1,203
Accumulated write-downs/allowances								
Opening balance	–9	–9	–	–	–42	–46	–	–
Write-downs/allowances	–47	–	–	–	–57	–	–	–
Disposals/repayments/deductions	–	–	–	–	10	4	–	–
Reclassifications	–	–	–	–	20	–	–	–
Translation difference	–	–	–	–	3	–	–	–
Closing balance	–56	–9	–	–	–66	–42	–	–
Net carrying value	267	279	15,737	8,017	999	1,337	1,153	1,203

P9 INVESTMENTS

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2012. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External Reporting, SE-164 83 Stockholm, Sweden.

Shares owned directly by the Parent Company

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK million
Subsidiary companies						
I	Ericsson AB	556056-6258	Sweden	100	50	20,731
I	Ericsson Shared Services AB	556251-3266	Sweden	100	361	2,216
I	Netwise AB	556404-4286	Sweden	100	2	306
II	AB Aulis	556030-9899	Sweden	100	14	6
III	Ericsson Credit AB	556326-0552	Sweden	100	5	5
	Other (Sweden)			–	–	1,742
I	Ericsson Austria GmbH		Austria	100	4	65
I	Ericsson Danmark A/S		Denmark	100	90	216
I	Oy LM Ericsson Ab		Finland	100	13	196
II	Ericsson Participations France SAS		France	100	26	524
I	Ericsson Germany GmbH		Germany	100	–	4,232
I	Ericsson Hungary Ltd.		Hungary	100	1,301	120
II	LM Ericsson Holdings Ltd.		Ireland	100	2	15
I	Ericsson Telecomunicazioni S.p.A.		Italy	100	44	5,857
II	Ericsson Holding International B.V.		The Netherlands	100	222	3,200
I	Ericsson A/S		Norway	100	75	114
II	Ericsson Television AS		Norway	100	161	1,788
I	Ericsson Corporatia AO		Russia	100	5	5
I	Ericsson España		Spain	100	43	170
I	Ericsson AG		Switzerland	100	–	–
II	Ericsson Holding Ltd.		United Kingdom	100	328	4,094
	Other (Europe, excluding Sweden)			–	–	275
II	Ericsson Holding II Inc.		United States	100	2,830	29,006
I	Cía Ericsson S.A.C.I.		Argentina	95 [1]	41	178
I	Ericsson Canada Inc.		Canada	100	–	51
I	Bel-Air Networks		Canada	100	–	170
I	Ericsson Telecom S.A. de C.V.		Mexico	100	n/a	1,050
	Other (United States, Latin America)			–	–	67
II	Teleric Pty Ltd.		Australia	100	20	100
I	Ericsson Ltd.		China	100	2	2
I	Ericsson (China) Company Ltd.		China	100	65	475
I	Ericsson India Private Ltd.		India	100	725	147
I	Ericsson India Global Services PVT. Ltd		India	100	389	64
I	LG-Ericsson Ltd.		Korea	75	150	3,285
I	Ericsson (Malaysia) Sdn. Bhd.		Malaysia	70	2	4
I	Ericsson Telecommunications Pte. Ltd.		Singapore	100	2	1
I	Ericsson South Africa PTY. Ltd		South Africa	100	–	108
I	Ericsson Taiwan Ltd.		Taiwan	80	240	20
I	Ericsson (Thailand) Ltd.		Thailand	49 [2]	90	17
	Other countries (the rest of the world)			–	–	215
	Total					**80,839**
Joint ventures and associated companies						
II	ST-Ericsson SA		Switzerland	50	137	–
III	ST-Ericsson AT SA		Switzerland	51	–	–
I	Rockstar Consortium Group		Canada	21	1	7
I	Ericsson Nikola Tesla d.d.		Croatia	49	65	330
	Total					**337**

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies
III Finance companies

[1] Through subsidiary holdings, total holdings amount to 100% of Cia Ericsson S.A.C.I.
[2] Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.

Shares owned by subsidiary companies

Type	Company	Reg. No.	Domicile	Percentage of ownership
Subsidiary companies				
II	Ericsson Cables Holding AB	556044-9489	Sweden	100
I	Ericsson France SAS		France	100
I	Ericsson Telekommunikation GmbH & Co. KG [1]		Germany	100
I	LM Ericsson Ltd.		Ireland	100
II	Ericsson Nederland B.V.		The Netherlands	100
I	Ericsson Telecommunicatie B.V.		The Netherlands	100
I	Ericsson Telekomunikasyon A.S.		Turkey	100
I	Ericsson Ltd.		United Kingdom	100
I	Ericsson Inc.		United States	100
I	Ericsson IP Infrastructure Inc.		United States	100
I	Drutt Corporation Inc.		United States	100
I	Optimi Corporation		United States	100
I	Redback Networks Inc.		United States	100
I	Telcordia Technologies Inc.		United States	100
I	Ericsson Telecommunicações S.A.		Brazil	100
I	Ericsson Australia Pty. Ltd.		Australia	100
I	Ericsson (China) Communications Co. Ltd.		China	100
I	Nanjing Ericsson Panda Communication Co. Ltd.		China	51
I	Ericsson Japan K.K.		Japan	100
I	Ericsson Communication Solutions Pte Ltd.		Singapore	100

Key to type of company

I Manufacturing, distribution and development companies
II Holding companies

[1] Disclosures Pursuant to Section 264b of the German Commercial Code (Handelsgesetzbuch – HGB)
Applying Section 264b HGB, LHS Holding GmbH & Co. KG, LHS Communication GmbH & Co. KG and LHS Telekommunikation GmbH & Co. KG, all located in Frankfurt am Main/Germany, are exempted from the obligation to prepare, have audited and disclose financial statements and a management report in accordance with the legal requirements being applicable for German corporations.

P10 INVENTORIES

Inventories

	2012	2011
Finished products and goods for resale	55	61
Inventories	55	61

P11 TRADE RECEIVABLES AND CUSTOMER FINANCE

Credit risk management is governed on a Group level.

For further information, see Notes to the consolidated financial statements – Note C14, “Trade receivables and customer finance” and Note C20, “Financial risk management and financial instruments”.

Trade receivables and customer finance

	2012	2011
Trade receivables excluding associated companies and joint ventures	57	71
Allowances for impairment	–23	–23
Trade receivables, net	34	48
Trade receivables related to associated companies and joint ventures	1	3
Trade receivables, total	35	51
Customer finance	2,116	2,285
Allowances for impairment	–97	–65
Customer finance, net	2,019	2,220

Movements in allowances for impairment

	Trade receivables		Customer finance	
	2012	2011	2012	2011
Opening balance	23	24	65	93
Additions	–	1	62	14
Utilization	–	–2	–9	–31
Reversal of excess amounts	–	–	–20	–11
Translation difference	–	–	–1	–
Closing balance	23	23	97	65

Aging analysis as per December 31

	Trade receivables excluding associated companies and joint ventures	Allowances for impairment of receivables	Trade receivables related to associated companies and joint ventures	Customer finance	Allowances for impairment of customer finance
2012					
Neither impaired nor past due	25	–	1	1,516	–
Impaired, not past due	–	–	–	474	–48
Past due in less than 90 days	5	–	–	21	–
Past due in 90 days or more	2	–	–	14	–
Past due and impaired in less than 90 days	–	–	–	70	–44
Past due and impaired in 90 days or more	25	–23	–	21	–5
Total	**57**	**–23**	**1**	**2,116**	**–97**
2011					
Neither impaired nor past due	44	–	3	1,758	–
Impaired, not past due	–	–	–	238	–27
Past due in less than 90 days	2	–	–	238	–
Past due in 90 days or more	1	–	–	10	–
Past due and impaired in less than 90 days	–	–	–	37	–34
Past due and impaired in 90 days or more	24	–23	–	4	–4
Total	**71**	**–23**	**3**	**2,285**	**–65**

Outstanding customer finance

	2012	2011
On-balance sheet customer finance	**2,116**	2,285
Financial guarantees for third parties	**258**	422
Total customer finance	**2,374**	2,707
Accrued interest	**56**	26
Less third-party risk coverage	**–177**	–469
Parent Company's risk exposure	**2,253**	2,264
On-balance sheet credits, net carrying value	**2,019**	2,220
Of which short term	***1,020***	*883*
Credit commitments for customer finance	**543**	669

During 2012 the Parent Company transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred was SEK 471 (194) million, the amount of the assets that the Parent Company continues to recognize was SEK 28 (10) million, and the carrying amount of the associated liabilities was SEK 0 (0) million.

P12
RECEIVABLES AND LIABILITIES – SUBSIDIARY COMPANIES

Receivables and liabilities – subsidiary companies

	Payment due by period				
	< 1 year	1–5 years	>5 years	Total 2012	Total 2011
Non-current receivables [1]					
Financial receivables	43	9,694	6,000	**15,737**	8,017
Current receivables					
Trade receivables	896	–	–	**896**	816
Financial receivables	15,299	–	–	**15,299**	15,917
Total	16,195	–	–	**16,195**	16,733
Non-current liabilities [1]					
Financial liabilities	–	–	26,732	**26,732**	26,896
Current liabilities					
Trade payables	277	–	–	**277**	387
Financial liabilities	46,682	–	–	**46,682**	37,752
Total	46,959	–	–	**46,959**	38,139

[1] Including non interest-bearing receivables and liabilities, net, amounting to SEK –20,732 million in 2012 (SEK –19,595 million in 2011).

P13
OTHER CURRENT RECEIVABLES

Other current receivables

	2012	2011
Prepaid expenses	446	425
Accrued revenues	75	405
Derivatives with a positive value	3,520	1,517
Other	269	241
Total	**4,310**	2,588

P14
EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2012

Capital stock at December 31, 2012, consisted of the following:

Capital stock

	Number of shares	Capital stock
Class A shares [1]	261,755,983	1,309
Class B shares [1]	3,043,295,752	15,217
Total	**3,305,051,735**	**16,526**

[1] Class A shares (quotient value SEK 5.00) and Class B shares (quotient value SEK 5.00).

Equity and other comprehensive income 2012

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2012	16,367	20	31,472	47,859	100	203	40,417	40,720	88,579
Net income	–	–	–	–	–	–	–6,793	–6,793	–6,793
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	–203	–	–203	–203
Total other comprehensive income	–	–	–	–	–	–203	–	–203	–203
Total comprehensive income	–	–	–	–	–	–203	–6,793	–6,996	–6,996
Transactions with owners									
Stock issue	159	–	–	159	–	–	–	–	159
Sale of own shares	–	–	–	–	–	–	66	66	66
Stock Purchase Plans	–	–	–	–	–	–	26	26	26
Repurchase of own shares	–	–	–	–	–	–	–159	–159	–159
Dividends paid	–	–	–	–	–	–	–8,033	–8,033	–8,033
December 31, 2012	**16,526**	**20**	**31,472**	48,018	**100**	**–**	**25,524**	25,624	73,642

Equity and other comprehensive income 2011

	Capital stock	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Fair value reserves	Other retained earnings	Non-restricted equity	Total
January 1, 2011	16,367	20	31,472	47,859	100	–	42,874	42,974	90,833
Net income	–	–	–	–	–	–	4,627	4,627	4,627
Other comprehensive income									
Cash flow hedges									
Gains/losses arising during the period	–	–	–	–	–	203	–	203	203
Total other comprehensive income	–	–	–	–	–	203	–	203	203
Total comprehensive income	–	–	–	–	–	203	4,627	4,830	4,830
Transactions with owners									
Sale of own shares	–	–	–	–	–	–	92	92	92
Stock Purchase Plans	–	–	–	–	–	–	31	31	31
Dividends paid	–	–	–	–	–	–	–7,207	–7,207	–7,207
December 31, 2011	**16,367**	**20**	**31,472**	47,859	**100**	**203**	**40,417**	40,720	88,579

P15 UNTAXED RESERVES

Untaxed reserves

2012	Jan 1	Additions/ withdrawals (–)	Dec 31
Accumulated depreciation in excess of plan			
Total accumulated depreciation in excess of plan	676	–388	288

Change in depreciation in excess of plan of intangible assets relates mainly to Marconi and Redback trademarks. Deferred tax liability on untaxed reserves, not accounted for in deferred taxes, amounts to SEK 64 million (SEK 178 million in 2011).

Contributions to Swedish subsidiaries amount to SEK 6,570 million (SEK 2,008 in 2011) and contributions from Swedish subsidiaries amount to SEK 4,536 million (SEK 29 million in 2011)

P16 POST-EMPLOYMENT BENEFITS

The Parent Company has two types of pension plans:

- Defined contribution plans: post-employment benefit plans where the Parent Company pays fixed contributions into separate entities and has no legal or constructive obligation to pay further contributions if the entities do not hold sufficient assets to pay all employee benefits relating to employee service. The expenses for defined contribution plans are recognized during the period when the employee provides service.
- Defined benefit plans: post-employment benefit plans where the Parent Company's undertaking is to provide predetermined benefits that the employee will receive on or after retirement. The FPG/PRI plan for the Parent Company is partly funded. FPG is a Swedish credit insurance company for pension obligations and PRI is a pension registration institute. Pension obligations are calculated annually, on the balance sheet date, based on actuarial assumptions.

Defined benefit obligation – amount recognized in the Balance sheet

	2012	2011
Present value of wholly or partially funded pension plans [1]	713	679
Fair value of plan assets	–873	–756
Unfunded/net surplus(–) of funded pension plans	–160	–77
Present value of unfunded pension plans	386	376
Excess from plan assets not accounted for	136	77
Payment to pension trust, reclassified	24	–
Closing balance provision for pensions	386	376

[1] This FPG/PRI obligation is covered by the Swedish law on safeguarding of pension commitments.

The defined benefit obligations are calculated based on the actual salary levels at year-end and based on a discount rate of 3.7%.

Weighted average life expectancy after the age of 65 is 25 years for women and 23 years for men.

In 2005, SEK 524 million was transferred into the Swedish pension trust. From 2009–2012 additional transfers of SEK 152 million have been made.

The Parent Company utilizes no assets held by the pension trust. Return on plan assets was 7.3% (0.9 % in 2011).

Plan assets allocation

	2012	2011
Equities	276	167
Interest-bearing securities	549	461
Other	48	128
Total	873	756

Change in the Defined benefit obligation

	2012	2011
Opening balance	376	389
Payment to pension trust	–58	–36
Payment to pension trust, reclassified	24	–
Pension costs, excluding taxes, related to defined benefit obligations accounted for in the income statement	100	98
Pension payments	–56	–50
Return on plan assets	–59	–25
Return on plan assets not accounted for	59	–
Closing balance provision for pensions	386	376

Estimated pension payments for 2013 are SEK 61 million.

Total pension cost and income recognized in the Income statement

	2012	2011
Defined benefit obligations		
Costs excluding interest and taxes	61	55
Interest cost	39	43
Credit insurance premium	1	–1
Total cost defined benefit plans excluding taxes	101	97
Defined contribution plans		
Pension insurance premium	59	123
Total cost defined contribution plans excluding taxes	59	123
Return on plan assets	–	–25
Total pension cost, net excluding taxes	160	195

Of the total pension cost, SEK 121 million (SEK 177 million in 2011) is included in operating expenses and SEK 39 million (SEK 18 million in 2011) in the financial net.

P17
OTHER PROVISIONS

Other provisions

	Restructuring	Customer finance	Other	Total other provisions [1]
2012				
Opening balance	160	87	28	275
Additions	16	–	3,548 [2]	3,564
Reversal of excess amounts	–1	–3	–200	–204
Cash out/utilization	–106	–	–22	–128
Reclassifications	2	–	200	202
Closing balance	**71**	**84**	**3,554**	**3,709**
2011				
Opening balance	318	91	162	571
Additions	72	1	–	73
Reversal of excess amounts	–12	–	–134	–146
Cash out/utilization	–218	–2	–	–220
Reclassifications	–	–3	–	–3
Closing balance	**160**	**87**	**28**	**275**

[1] Of which SEK 3,591 million (SEK 113 million in 2011) is expected to be utilized within one year.
[2] Of which SEK 3,335 million is related to ST-Ericsson.

P18
INTEREST-BEARING LIABILITIES

As per December 31, 2012, the Parent Company's outstanding interest-bearing liabilities, excluding liabilities to subsidiaries, were SEK 24.5 billion.

Interest-bearing liabilities

	2012	2011
Borrowings, current		
Current part of non-current borrowings [1]	2,671	3,461
Total current borrowings	2,671	3,461
Borrowings, non-current		
Notes and bond loans	16,519	17,197
Other borrowings, non-current	5,273	4,000
Total non-current interest-bearing liabilities	21,792	21,197
Total interest-bearing liabilities	24,463	24,658

[1] Including notes and bond loans of SEK 2,671 (3,461) million.

Notes and bond loans

Issued–maturing	Nominal amount	Coupon	Currency	Book value (SEK m.)	Maturity date	Unrealized hedge gain/loss (included in book value)
Notes and bond loans						
2007–2014	220	0.484%	EUR	1,891	Jun 27, 2014 [1]	
2007–2017	500	5.375%	EUR	5,117 [2]	Jun 27, 2017	–799
2009–2013	313	5.000%	EUR	2,671 [2]	Jun 24, 2013	–30
2009–2016 [3]	300		USD	1,952	Jun 23, 2016	
2010–2020 [4]	170		USD	1,106	Dec 23, 2020	
2012–2022	1,000	4.125%	USD	6,453	May 15, 2022	
Total notes and bond loans				**19,190**		**–829**
Bilateral loans						
2008–2015 [5]	4,000		SEK	4,000	Jul 15, 2015	
2012–2019 [6]	98		USD	636	Sep 30, 2019	
2012–2021 [7]	98		USD	637	Sep 30, 2021	
Total bilateral loans				**5,273**		

[1] Next contractual repricing date March 27, 2013 (quarterly).
[2] Interest rate swaps are designated as fair value hedges.
[3] Private Placement, Swedish Export Credits Guarantee Board (EKN) / Swedish Export Credit Corporation (SEK).
[4] Private Placement, Swedish Export Credit Corporation (SEK).
[5] European Investment Bank (EIB), R&D project financing.
[6] Nordic Investment Bank (NIB), R&D project financing.
[7] Nordic Investment Bank (NIB), R&D project financing.

All outstanding notes and bond loans are issued under the Euro medium-term note (EMTN) program or under its U.S. Securities and Exchange (SEC) Registred program. Bonds issued at a fixed interest rate are normally swapped to a floating interest rate using interest rate swaps leaving a maximum of 50% of outstanding loans at fixed interest rates. It resulted in weighted average interest rate of 4.69% (4.21%). These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

In May 2012 Ericsson placed a US dollar denominated 1 billion 10-year bond with a fixed coupon rate of 4,125%. The offer was made pursuant to Ericsson's shelf registration statement filed with the U.S. SEC in April 2012, and a prospectus supplement thereto. This was Ericsson´s debut issue on the US bond market.

In June 2012 Ericsson repurchased notes with a nominal value of EUR 286.79 million from the EUR 600 million 5 percent Notes due 2013 and notes with a nominal value of EUR 154.52 million from the EUR 375 million Floating Rate Notes due 2014 pursuant to a tender offer process.

In July 2012 Ericsson signed a loan of EUR 150 million with the Nordic Investment Bank (NIB). The loan is divided into two equal tranches with respective seven- and nine-year maturity and was disbursed in December 2012. The loan supports Ericsson's R&D activities to develop the next generation radio and IP technology supporting Mobile Broadband build-out globally.

In October 2012 Ericsson signed a loan agreement with the European Investment Bank (EIB). The loan amount is EUR 500 million (or the equivalent in USD), and Ericsson has an option for disbursement until April 2014. This loan facility currently remains undrawn. The loan will mature seven years after disbursement. The loan supports Ericsson's R&D activities to further develop the next generation radio and IP technology that supports mobile broadband build-out globally.

P19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk management

Ericsson's financial risk management is governed on a Group level. For further information see Notes to the Consolidated Financial Statements, Note C20, "Financial Risk Management and Financial Instruments".

Outstanding derivatives [1]

	2012		2011	
Fair value	Asset	Liability	Asset	Liability
Currency derivatives				
Maturity within 3 months	1,016	848	779	879
Maturity between 3 and 12 months	611	462	427	391
Maturity 1 to 3 years	4	–	1	–
Total	1,630	1,311	1,207	1,270
Of which internal	32	1,247	*773*	*19*
Of which designated in cash flow hedge relations	–	–	*203*	–

[1] Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current due to hedge accounting.

Outstanding derivatives [1]

	2012		2011	
Fair value	Asset	Liability	Asset	Liability
Interest rate derivatives				
Maturity within 3 months	–	–	–	5
Maturity between 3 and 12 months	487	285	324	367
Maturity 1 to 3 years	565	681	381	617
Maturity 3 to 5 years	1,212	738	416	815
Maturity more than 5 years	38	–	778	161
Total	2,302 [2]	1,705	1,899 [2]	1,966
Of which designated in fair value hedge relations	969	–	*1,002*	–

[1] Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current due to hedge accounting.
[2] Of which SEK 825 million (SEK 816 million in 2011) is reported as non-current assets.

Cash, cash equivalents and short-term investments

	Remaining time to maturity				
SEK billion	< 3 months	< 1 year	1–5 years	> 5 years	2012
Bank deposits	21.8	–	–	–	21.8
Type of issuer/counterpart					
Governments	3.4	4.5	10.6	0.8	19.3
Corporations	3.1	–	–	–	3.1
Mortgage institutes	–	–	13.2	–	13.2
Total	**28.3**	**4.5**	**23.8**	**0.8**	**57.4**

The instruments are classified as held for trading and are therefore short-term investments.

During 2012, cash, cash equivalents and short-term investments increased by SEK 1.3 billion to SEK 57.4 billion.

Repayment schedule of non-current borrowings

Nominal amount (SEK billion)	Current maturities of long-term debt	Borrowings (non-current)	Total
2013	2.7	–	2.7
2014	–	1.9	1.9
2015	–	4.0	4.0
2016	–	2.0	2.0
2017	–	4.3	4.3
2018 and later	–	8.8	8.8
Total	**2.7**	**21.0**	**23.7**

Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

Funding programs [1]

	Amount	Utilized	Unutilized
Euro Medium-Term Note program (USD million)	5,000	1,833	3,167
SEC Registred program (USD Million)	– [2]	1,000	–
Long-Term Committed Credit facility (USD million)	2,000	–	2,000
EIB Committed Credit facility (EUR million)	500	–	500

[1] There are no financial covenants related to these programs.
[2] Program amount not determined.

At year-end, the Company's credit ratings remained at A3 (stable) by Moody's and BBB+ (stable) by Standard & Poor's. Both credit ratings are considered to be solid investment grade.

In early 2013 Standard & Poor's changed the credit rating from BBB+ outlook stable to outlook negative and Moody's changed the credit rating from A3 with outlook stable to outlook negative

Financial instruments carried at other than fair value

In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit and loss had a net gain of SEK 1.5 billion. For further information about valuation principles, see Notes to the consolidated financial statements, Note C1, "Significant accounting policies".

Financial instruments, book value

SEK billion	Trade receivables P11	Short-term investments	Receivables and liabilities subsidiaries P12	Borrowings P18	Trade payables P21	Cash Equivalents	Other current receivables P13	Other current liabilities P20	Other non-current assets	2012	2011
Assets at fair value through profit or loss	–	31.5	–	–	–	12.2	3.5	–2.2	0.8	**45.8**	43.0
Loans and receivables	2.0	–	31.9	–	–	–	–	–	–	**33.9**	28.9
Available for sale assets	–	–	–	–	–	–	–	–	–	**–**	–
Financial liabilities at amortized cost	–	–	–73.7	–24.5	–0.6	–	–	–	–	**–98.8**	–90.4
Total	**2.0**	**31.5**	**–41.8**	**–24.5**	**–0.6**	**12.2**	**3.5**	**–2.2**	**0.8**	**–19.1**	**–18.5**

Financial instruments carried at other than fair value

	Book value		Fair value	
SEK billion	**2012**	2011	**2012**	2011
Current part of non-current borrowings	**2.7**	3.5	**2.7**	3.5
Borrowings non-current	**21.8**	21.2	**22.5**	21.1
Total	**24.5**	24.7	**25.2**	24.6

Financial instruments excluded from the tables, such as trade receivables and payables, are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the book value is considered to represent a reasonable estimate of a fair value.

P20 OTHER CURRENT LIABILITIES

Other current liabilities

	2012	2011
Accrued interest	**254**	329
Accrued expenses, of which	**392**	416
Employee related	***302***	*307*
Other	***90***	*109*
Deferred revenues	**7**	10
Derivatives with a negative value	**2,214**	3,216
Other current liabilities	**260**	214
Total	**3,127**	4,185

P21 TRADE PAYABLES

Trade payables

	2012	2011
Trade payables excluding associated companies and joint ventures	**555**	706
Total	**555**	706

All trade payables fall due within 90 days.

P22 ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral

	2012	2011
Bank deposits	**520**	452
Total	**520**	452

The major item in bank deposits is the internal bank's clearing and settlement commitments of SEK 335 million (SEK 267 million in 2011).

P23 CONTINGENT LIABILITIES

Contingent liabilities

	2012	2011
Total contingent liabilities	**16,719**	18,518

Contingent liabilities include pension commitments of SEK 14,953 million (SEK 14,355 million in 2011).

In accordance with standard industry practice, the Company enters into commercial contract guarantees related to contracts for the supply of telecommunication equipment and services. Total amount for 2012 was SEK 18,473 million (SEK 20,249 million in 2011). Potential payments due under these bonds are related to the Company's performance under applicable contracts.

For information about financial guarantees, see Note P11, "Trade Receivables and Customer Finance".

P24 STATEMENT OF CASH FLOWS

Interest paid in 2012 was SEK 1,218 million (SEK 1,258 in 2011 and SEK 657 million in 2010) and interest received was SEK 1,536 million (SEK 2,532 in 2011 and SEK 816 million in 2010. Income taxes received were SEK 133 million (income taxes received were SEK 147 million in 2011 and income taxes paid were SEK 269 in 2010).

Adjustments to reconcile net income to cash

	2012	2011	2010
Property, plant and equipment			
Depreciation	177	168	149
Total	177	168	149
Intangible assets			
Amortization	218	237	228
Impairment losses	–	–	945
Total	218	237	1,173
Total depreciation and amortization on tangible and intangible assets	395	405	1,322
Taxes	421	250	119
Write-downs and capital gains (–)/ losses on sale of fixed assets, excluding customer finance, net	12,167	1,326	50
Additions to/withdrawals from (–) untaxed reserves	–388	–339	100
Unsettled group contributions	2,034	1,979	–1,029
Unsettled dividends	–	–70	–
Other non-cash items	–193	–388	–32
Total adjustments to reconcile net income to cash	14,436	3,163	530

P25 LEASING

Leasing with the Parent Company as lessee

At December 31, 2012, future payment obligations for leases were distributed as follows:

Future payment obligations for leases

	Operating leases
2013	824
2014	717
2015	470
2016	337
2017	296
2018 and later	699
Total	**3,343**

Leasing with the Parent Company as lessor

At December 31, 2012, future minimum payment receivables were distributed as follows:

Future minimum payment receivables

	Operating leases
2013	15
2014	2
2015	1
2016	1
2017	1
2018 and later	1
Total	**21**

The operating lease income is mainly income from sublease of real estate. See Notes to the consolidated financial statements, Note C27, “Leasing”.

P26 INFORMATION REGARDING EMPLOYEES

Average number of employees

	2012			2011		
	Men	Women	Total	Men	Women	Total
Northern Europe & Central Asia [1) 2)]	200	169	369	197	162	359
Middle East	238	29	267	202	31	233
Total	438	198	636	399	193	592
[1)] *Of which Sweden*	*200*	*169*	*369*	*197*	*162*	*359*
[2)] *Of which EU*	*200*	*169*	*369*	*197*	*162*	*359*

Remuneration

Wages and salaries and social security expenses

	2012	2011
Wages and salaries	648	580
Social security expenses	355	403
Of which pension costs	*190*	*246*

Wages and salaries per geographical area

	2012	2011
Northern Europe & Central Asia [1) 2)]	416	417
Middle East	232	163
Total	648	580
[1)] *Of which Sweden*	*416*	*417*
[2)] *Of which EU*	*416*	*417*

Remuneration in foreign currency has been translated to SEK at average exchange rates for the year.

Remuneration to the Board of Directors and the President and CEO

See Notes to the consolidated financial statements, Note C28, “Information Regarding members of the Board of Directors, the Group management and employees”.

Long-term variable remuneration

The Stock Purchase Plan

Compensation costs for all employees of the Parent Company amounted to SEK 19.2 million in 2012 (SEK 25.1 million in 2011).

P27 RELATED PARTY TRANSACTIONS

During 2012, various transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis.

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla d.d. is a company for design, sales and service of telecommunications systems and equipment and an associated member of the Ericsson Group. Ericsson Nikola Tesla d.d. is located in Zagreb, Croatia. The Parent Company holds 49.07% of the shares.

For the Parent Company, the major transactions are license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks and received dividends.

Ericsson Nikola Tesla d.d.

	2012	2011
Related party transactions		
License revenues	8	4
Dividends	133	154
Related party balances		
Receivables	1	1

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees toward Ericsson Nikola Tesla d.d.

ST-Ericsson

ST-Ericsson, the joint venture between Ericsson and STMicroelectronics, was formed on February 2, 2009, by merging Ericsson Mobile Platforms with ST-NXP Wireless. The joint venture is equally owned by Ericsson and STMicroelectronics.

The Parent Company holds 49.99% of shares in ST-Ericsson SA and 51% in ST-Ericsson AT SA, both in Switzerland.

The Parent Company does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

ST-Ericsson

	2012	2011
Related party transactions		
License revenues	–	–
Dividends	–	–
Related party balances		
Receivables	–	1
Loan	–	2,759

Sony Ericsson Mobile Communications AB

Parent company has divested its 50% stake in Sony Ericsson Mobile Communications to Sony. The divestment was effected on January 1, 2012.

Sony Ericsson Mobile Communications

	2012	2011
Related party transactions		
License revenues	–	179
Dividends	–	–
Related party balances		
Receivables	–	1

Other related parties

For information regarding the remuneration of management, see Notes to the consolidated financial statements, Note C28, "Information regarding members of the Board of Directors, the Group management and employees".

P28 FEES TO AUDITORS

Fees to auditors

	PwC
2012	
Audit fees	23
Audit-related fees	11
Tax services fees	1
Other fees	5
Total	40
2011	
Audit fees	18
Audit-related fees	8
Tax services fees	–
Other fees	12
Total	38
2010	
Audit fees	19
Audit-related fees	12
Tax services fees	1
Other fees	3
Total	35

Allocation of fees to auditors is based on the requirements in the Swedish Annual Accounts Act.

During the period 2010–2012, in addition to audit services, PwC provided certain audit-related services, tax and other services to the Parent Company. The audit-related services include quarterly reviews, SSAE 16 reviews and services in connection with the issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

P29 EVENTS AFTER THE REPORTING PERIOD

On January 21, 2013, Ericsson announced its intention to acquire Devoteam Telecom & Media operations in France. Devoteam has employees in Europe, Middle East and Africa. The acquisition is in line with Ericsson's services strategy to broaden its IT capabilities.

In early 2013 Standard & Poors changed the credit rating from BBB+ outlook stable to outlook negative and Moody´s changed the credit rating from A3 with outlook stable to outlook negative.

In January, 2013, ST-Ericsson was granted a loan facility by their owners of USD 260 million. Ericsson's share of this credit facility is USD 130 million.

On January 10, 2013, Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25, 2013, Adaptix filed a complaint with the US International Trade Commission (ITC) against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications requesting that the commission open a patent infringement investigation of certain Ericsson products and further on January 29, 2013, Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two JP patents assigned to Adaptix. Adaptix seeks damages and an injunction.

RISK FACTORS

You should carefully consider all the information in this Annual Report and in particular the risks and uncertainties outlined below. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our business. Any of the factors described below, or any other risk factors discussed elsewhere in this report, could have a material negative effect on our business, operational and after-tax results, financial position, cash flow, liquidity, credit rating, brand and/or our share price. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially adversely affect our business. Furthermore, our operational results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also "Forward-Looking Statements".

CONTENTS

Market, technology and business risks 121
Regulatory, compliance and corporate governance risks 126
Risks associated with owning Ericsson shares 127

MARKET, TECHNOLOGY AND BUSINESS RISKS

Challenging global economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow.

Challenging global economic conditions could have adverse, wide-ranging effects on demand for our products and for the products of our customers. Adverse global economic conditions could cause operators and other customers to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. If demand for our products and services were to fall in the future, we could experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we could incur operating losses. Furthermore, if demand is significantly weaker or more volatile than expected, our credit rating, borrowing opportunities and costs as well as the trading price of our shares could be adversely impacted. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

Should global economic conditions fail to improve, or worsen, other business risks we face could intensify and could also negatively impact the business prospects of operators and other customers. Some operators and other customers, in particular in markets with weak currencies, may incur borrowing difficulties and slower traffic development, which may negatively affect their investment plans and cause them to purchase less of our products and services.

The potential adverse effects of an economic downturn include:

- Reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not fully compensated through reduced costs
- Risks of excess and obsolete inventories and excess manufacturing capacity
- Risk of financial difficulties or failures among our suppliers
- Increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures
- Risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products
- Increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results
- A decline in the value of the assets in our pension plans and/or increased pension liabilities due to discount rate changes
- End user demand could also be adversely affected by reduced consumer spending on technology, changed operator pricing, security breaches and trust issues.

The telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by operators and other customers regarding their deployment of technology and their timing of purchases.

The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Moreover, market conditions are subject to substantial fluctuation, and could vary geographically and across technologies. Even if global conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected.

If capital expenditures by operators and other customers is weaker than we anticipate, our revenues and profitability may be adversely affected. The level of demand by operators and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results, and cash flow remains difficult.

Sales volumes and gross margin levels are affected by the variation and short order time of our products and services.

Our sales to operators and other customers represent a mix of equipment, software and services, which normally generate different gross margins. We sell our own products as well as third party products, which normally have lower margins than our own products. As a consequence, our reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Further, network expansions and upgrades have much shorter lead times for delivery than initial network build outs. Orders for such network expansions and upgrades

RISK FACTORS CONTINUED

are normally placed with short notice by customers, often with less than a month's notice, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix and the short order time for certain of our products may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus. Short-term variation could have a material adverse effect on our business, operating results and financial condition.

We may not be able to properly respond to market trends in the industries in which we operate, including the ongoing convergence of the telecom, data and media industries, which may harm our market position relative to our competitors.

We are affected by market conditions and trends within the industries in which we operate, including the convergence of the telecom, data and media industries. Convergence is largely driven by technological development related to IP-based communications. This has changed the competitive landscape and affects our objective setting, risk assessment and strategies. Competitors new to our business may enter this new business context and negatively impact our market share in selected areas. If we fail to understand the market development, or fail to acquire the necessary competences to develop and market products, services and solutions that are competitive in this changing market, our business, operating results and financial condition will suffer.

Our business depends upon the continued growth of mobile communications and the acceptance of new services. If growth slows or new services do not succeed, operators' investment in networks may slow or stop, harming our business.

A substantial portion of our business depends on the continued growth of mobile communications in terms of both the number of subscriptions and usage per subscriber, which in turn drives the continued deployment and expansion of network systems by our customers. If operators fail to increase the number of subscribers and/or stimulate increased usage, our business and operational results could be materially adversely affected. Also, if operators fail to monetize new services, fail to introduce new business models or experience a decline in operator revenues or profitability, their willingness to further invest in their network systems may decrease which will reduce their demand for our products and services and have an adverse effect on our business, operational results and financial condition.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon market acceptance of such services and the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization, regulation, or market acceptance occur, this could adversely affect our business, operational results and financial condition.

We face intense competition from our existing competitors as well as new entrants, including IT companies entering the telecommunications market, and this could materially adversely affect our results.

The markets in which we operate are highly competitive in terms of price, functionality, service quality, customization, timing of development, and the introduction of new products and services. We face intense competition from significant competitors many of which are very large, with substantial technological and financial resources and established relationships with operators. Further, certain competitors, Chinese companies in particular, have become relatively stronger in recent years. We may also encounter increased competition from new market entrants, alternative technologies or due to evolving industry standards. In particular, we may face competition from large IT companies entering the telecommunications market who benefit from economies of scale from being active in several industries. We cannot assure that we will be able to compete successfully with these companies. Our competitors may implement new technologies before we do, offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that we do not provide. Some of our competitors may also have greater resources in certain business segments or geographic markets than we do. Increased competition could result in reduced profit margins, loss of market share, increased research and development costs as well as increased sales and marketing expenses. Traffic development on cellular networks could be affected if more traffic is off-loaded to Wi-Fi networks. Further, alternative services provided over-the-top have profound effects on operator voice/ SMS revenues with possible reduced capital expenses consequences.

Additionally, we operate in markets characterized by rapidly changing technology. This results in continuous price erosion and increased price competition for our products and services. If our counter measures, including enhanced products and business models or cost reductions cannot be achieved or do not occur in a timely manner, there could be adverse impacts on our business, operating results, financial condition and market share.

Vendor consolidation may lead to stronger competitors who are able to benefit from integration, scale and greater resources.

Industry convergence and consolidation among equipment and services suppliers could potentially result in stronger competitors that are competing as end-to-end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources than we have or in reduction of our current scale advantages. This could have a materially adverse effect on our business, operating results, financial condition and market share.

A significant portion of our revenue is currently generated from a limited number of key customers, and operator consolidation may increase our dependence on key customers.

We derive most of our business from large, multi-year frame agreements with a limited number of significant customers. Many of these agreements are opened up on a yearly basis to re-negotiate the price for our products and services and do not contain committed purchase volumes. Although no single customer represents more than 7% of our sales in 2012, our ten largest customers accounted for 46% of our sales in 2012. A loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in a fewer number of operators with activities in several countries. This trend is expected to continue, and intra-country

consolidation is likely to accelerate as a result of competitive pressure. A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services may be required. Network investments could be delayed by the consolidation process, which may include, among others, actions relating to merger or acquisition agreements, securing necessary regulatory approvals, or integration of their businesses. Network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment. Accordingly, operator consolidation may have a material adverse effect on our business, operating results and financial condition.

Certain long-term frame agreements with customers still include commitments to future price reductions, requiring us to constantly manage and control our cost base.

Long-term frame agreements with our customers are typically awarded on a competitive bidding basis. In some cases, such agreements also include a commitment to future price reductions. In order to maintain our gross margin with such price reductions, we continuously strive to reduce the costs of our products through design improvements, negotiation of better purchase prices from our suppliers, allocation of more production to low-cost countries and increased productivity in our own production. However, there can be no assurance that our actions to reduce costs will be sufficient or quick enough to maintain our gross margin in such contracts, which may have a material adverse effect on our operating results.

Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.

Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth and profitability.

We depend upon the development of new products and enhancements to our existing products, and the success of our substantial research and development investments is uncertain.

Rapid technological and market changes in our industry require us to make significant investments in technological innovation. We invest significantly in new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. There can be no assurance that our research and development efforts will be technically or commercially successful. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, or are not successful in the marketplace our sales and earnings may materially suffer. Additionally, it is common for research and development projects to encounter delays due to unforeseen problems. Delays in production may increase the cost of research and development efforts and put us at a disadvantage against our competition.

We engage in acquisitions and divestments which may be disruptive and require us to incur significant expenses.

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits such as reduced time-to-market, access to technology and competence, increased scale or to broaden our product portfolio or customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect upon our business, financial condition and results of operations. Risks we could face with respect to acquisitions include:

- Difficulties in the integration of the operations, technologies, products and personnel of the acquired company
- Risks of entering markets in which we have no or limited prior experience
- Potential loss of employees
- Diversion of management's attention away from other business concerns
- Expenses of any undisclosed or potential legal liabilities of the acquired company.

From time to time we also divest parts of our business to optimize our product portfolio or operations. Any decision to dispose of or otherwise exit businesses may result in the recording of special charges, such as workforce reduction costs and industry and technology-related write-offs. We cannot assure that we will be successful in consummating future acquisitions or divestments on favourable terms or at all. The risks associated with such acquisitions and divestments could have a material adverse effect upon our business, financial condition and results of operations.

We are a party to joint ventures and partnerships which may not be successful and expose us to future costs.

We are partners in joint ventures and partnerships. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs, our inability to take action without the approval of our partners or the capabilities or financial stability of our strategic partners. Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the market.

Additionally, our share of any losses from or commitments to contribute additional capital to such partnerships may adversely affect our results of operations or financial position.

The Board of Directors' report includes further information regarding our joint venture ST Ericsson.

We rely on a limited number of suppliers of components, production capacity and R&D and IT services, which exposes us to supply disruptions and cost increases.

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining a timely and adequate supply of materials, components, production capacity and other vital services on competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Accordingly, there is a risk that we will be unable to obtain key supplies we need to produce our products and provide our services on commercially reasonable terms, or at all. Failure by any of our suppliers could interrupt our product or services supply or operations and significantly limit sales or increase our costs. To find an alternative supplier or re-design products to replace components may take significant time which could cause significant delays or interruptions in the delivery of our products and services. We have from time to time experienced interruptions of supply and we may experience such interruptions in the future.

Furthermore, our procurement of supplies requires us to predict future customer demands. If we fail to anticipate customer demand properly,

RISK FACTORS CONTINUED

an over or under supply of components and production capacity could occur. In many cases, some of our competitors utilize the same contract manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers or could increase costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers where we pay in advance for supplies.

Product or service quality issues could lead to reduced revenue, gross margins and declining sales to existing customers.

Sales contracts normally include warranty undertakings for faulty products and often include provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may negatively affect our reputation, results and financial position. If significant warranty obligations arise due to reliability or quality issues, our operating results and financial position could be negatively impacted by costs associated with fixing software or hardware defects, high service and warranty expenses, high inventory obsolescence expense, delays in collecting accounts receivable or declining sales to existing customers.

Due to having a significant portion of our costs in SEK and revenues in other currencies, our business is exposed to foreign exchange fluctuations that could negatively impact our revenue and results of operation.

We incur a significant portion of our expenses in SEK. As a result of our international operations, we generate, and expect to continue to generate, a significant portion of our revenue in currencies other than SEK. To the extent we are unable to match revenue received in foreign currencies with costs paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

As market prices are predominantly established in USD or EUR, we presently have a net revenue exposure in foreign currencies which means that a stronger SEK exchange rate would generally have a negative effect on our reported results. Our attempts to reduce the effects of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results.

Our ability to benefit from intellectual property rights (IPR) which are critical to our business may be limited by changes in regulation limiting patents, inability to prevent infringement, the loss of licenses from third parties and IP infringement claims brought against us by competitors.

Although we have a large number of patents, there can be no assurance that they will not be challenged, invalidated, or circumvented, or that any rights granted in relation to our patents will in fact provide us with competitive advantages.

In 2005, the European Union considered restricting the patentability of software. Although the European Union ultimately rejected this proposal, we cannot guarantee that they will not revisit this issue in the future. We rely on many software patents, and limitations on the patentability of software may materially affect our business.

We utilize a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing laws of some countries in which we conduct business offer only limited protection of intellectual property rights, if at all.

Our solutions may also require us to license technologies from third parties. It may be necessary in the future to seek or renew licenses and there can be no assurance that they would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect proprietary rights in our products.

Many key aspects of telecommunications and data network technology are governed by industry-wide standards usable by all market participants. As the number of market entrants and the complexity of technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. Third parties have asserted, and may assert in the future, claims, directly against us or against our customers, alleging infringement of their intellectual property rights. Defending such claims may be expensive, time-consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we could be required to pay damages and other compensation directly or to indemnify our customers for such damages and other compensation, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that such licenses will be available to us on commercially reasonable terms or at all, and such judgments could have a materially adverse effect on our business.

We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.

In the normal course of our business we are involved in legal proceedings. These lawsuits include such matters as commercial disputes, claims regarding intellectual property, antitrust, tax and labour disputes. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavourable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

As a publicly listed company, Ericsson may be exposed to lawsuits in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulations or other laws, regulations or requirements. Whether or not there is merit to such claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs could have

significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see "Legal proceedings" in the Board of Directors' Report.

Our operations are complex and several critical operations are centralized in a single location. Any disruption of our operations, whether due to natural or man made events, may be highly damaging to the operation of our business.

Our business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced a significant portion of our IT operations, we depend partly on security and reliability measures of external companies. Regardless of protection measures, our systems and communications networks are susceptible to disruption due to failure, vandalism, computer viruses, security breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, including R&D, production, network operation centres, and logistic centres and shared services centres, where business interruptions could cause material damage and costs. The delivery of goods from suppliers, and to customers, could also be hampered for the reasons stated above. We cannot provide any assurance that interruptions to our systems and communications will not have an adverse effect on our operations and financial conditions.

Cyber security incidents affecting our business may have a material adverse effect on our business operations financial condition and brand.

Ericsson's business operations involve areas that are particularly vulnerable to cyber security incidents such as data breaches, intrusions, espionage, knowhow and data privacy infringements, leakage and general malfeasance. Examples of these areas include, amongst others, research and development, managed services, usage of cloud solutions, software development, lawful interception and product engineering. Any cyber security incident including unintended use, involving our operations, product development, services, our third party providers or installed product base, could cause severe harm to Ericsson and could have a material adverse effect on our business operations, financial condition and brand.

Ericsson relies heavily on third parties to whom we have outsourced significant aspects of our IT infrastructure, product development and engineering services. While we have taken precautions relating to the selection, integration and ongoing management of these third parties, any event or attack that is caused as a result of vulnerabilities in their operations or products supplied to us, could have a material adverse effect upon Ericsson, our business operations, financial condition and brand, potentially slowing operations, leaking valuable intellectual property or damaging our products which have been installed in our customers' networks.

We must continue to attract and retain highly qualified employees to remain competitive.

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers.

Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future, and failure in retention and recruiting could have a material adverse effect on our business.

If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks.

After completing sales to customers, we may encounter difficulty collecting accounts receivables and could be exposed to risks associated with uncollectable accounts receivable. We regularly assess the credit worthiness of our customers and based on that we determine a credit limit for each one of them. Challenging economic conditions have impacted some of our customers' ability to pay their accounts receivables. Although our credit losses have historically been low and we have policies and procedures for managing customer finance credit risk we may be unable to avoid future losses on our trade receivables. We have also experienced demands for customer financing, and in adverse financial markets or more competitive environments, those demands may increase. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's on-going business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

We rely on various capital sources for short-term and long-term capital for the funding of our business. Should such capital become unavailable or available in insufficient amounts or unreasonable terms, our business may materially suffer.

If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the required times and terms, our business is likely to be adversely affected. Access to funding may decrease or become more expensive as a result of our operational and financial condition, market conditions, including financial conditions in the Euro-zone, or due to deterioration in our credit rating. There can be no assurance that additional sources of funds that we from time to time may need, will be available or available on reasonable terms. If we cannot access capital on commercially viable terms, our business could materially suffer.

Impairment of goodwill may negatively impact financial condition.

An impairment of goodwill or other intangible assets could adversely affect our financial condition or results of operations. We have a significant amount of goodwill and intangible assets, for example patents, customer relations, trademarks and software. Goodwill is the only intangible asset the company has recognized to have indefinite useful life.

Other intangible assets are mainly amortized on a straight-line basis over their estimated useful lives, but no more than ten years, and are reviewed for impairment whenever events such as product discontinuances, product dispositions or other changes in circumstances indicate that the carrying amount may not be wholly recoverable. Those not yet in use are tested for impairment annually.

Historically, we have recognized impairment charges related to intangible assets mainly due to restructuring. Additional impairment charges may be incurred in the future that could be significant due to various reasons, including restructuring actions or adverse market conditions that are either specific to us or the broader telecommunications industry or more general in nature and that could have an adverse effect on our results of operations or financial condition.

Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. Estimates require management judgment as well as the definition of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

RISK FACTORS CONTINUED

REGULATORY, COMPLIANCE AND CORPORATE GOVERNANCE RISKS

Our business may suffer as a result of changes in laws or regulations which could subject us to liability, increase costs, or reduce product demand.

Telecommunications is an industry which is subject to regulations. Changes to these regulations may adversely affect both our customers' and our own operations. For example, regulations imposing more stringent, time-consuming or costly planning and zoning requirements or building approvals for radio base stations and other network infrastructure could adversely affect the timing and costs of network construction or expansion, and ultimately the commercial launch and success of these networks. Similarly, tariff and roaming regulations or rules on network neutrality could also affect operators' ability or willingness to invest in network infrastructure, which in turn could affect the sales of our systems and services. Additionally, delay in radio frequency spectrum allocation, and allocation between different types of usage may affect operator spending adversely or force us to develop new products to be able to compete.

Further, we develop many of our products and services based on existing regulations and technical standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline. Regulatory changes in license fees, environmental, health and safety, privacy and other regulatory areas may increase costs and restrict our operations or the operations of network operators and service providers. Also indirect impacts of such changes and regulatory changes in other fields, such as pricing regulations, could have an adverse impact on our business even though the specific regulations may not apply directly to our products or us.

Ericsson may fail or be unable to comply with laws or regulations and could experience adverse rulings in enforcement or other proceedings, which could have a material adverse impact on our business operations, financial condition and brand.

Our substantial international operations are subject to uncertainties which could affect our operating results.

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to specific countries or regions. We have customers in more than 180 countries, with a significant proportion of our sales to emerging markets in the Asia Pacific region, Latin America, Eastern Europe, the Middle East and Africa.

Our extensive operations are subject to numerous additional risks, including civil disturbances, economic and political instability, the imposition of exchange controls, economies which are subject to significant fluctuations, nationalization of private assets or other governmental actions affecting the flow of goods and currency, and difficulty of enforcing agreements and collecting receivables through local legal systems. Further, in certain markets in which we operate, there is a risk of protectionist governmental measures implemented to assist domestic market participants at the expense of foreign competitors. The implementation of such measures could adversely affect sales or our ability to purchase critical components.

We must always comply with relevant export control regulations and sanctions or other trade embargoes in force, not only at the time of sale but also at the time of delivery. The political situation in parts of the world, particularly in the Middle East, has led to an increase of sanctions imposed by the global community. A universal element of these sanctions is the financial restrictions with respect to individuals and/or legal entities, but sanctions can also restrict certain exports and ultimately lead to a complete trade embargo towards a country. In particular, the sanctions towards Iran have been strengthened significantly during 2012, both by the EU and the U.S. Even though the EU has imposed a ban on deliveries on many items, especially so called dual use items, an exemption for certain standard telecom equipment is still maintained.

There is a risk in many of these countries of unexpected changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, or other governmental policies which could limit our operations and decrease our profitability. Further export control regulations, sanctions or other forms of trade restrictions imposed on countries in which we are active may result in a reduction of commitment in those countries. The need to terminate activities as a result of further trade restrictions may also expose us to customer claims and other actions. Although we seek to comply with all such regulations, there can be no assurance that we are, or will be in the future, compliant with all relevant regulations and such violations, even unintentional violations, could have material adverse effects on our business, operational results and brand.

There has been a growing concern reported by media and others, that certain countries may use features of their telecommunications systems violating the human rights. This may adversely affect the telecommunications business and may have a negative impact on our brand.

As a result of the credit crisis in Europe, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states. These and other concerns could in worst case lead to the re-introduction of individual currencies in one or more member states, or, in more extreme circumstances, the possible dissolution of the euro entirely. These potential developments, or market perceptions concerning these and related issues, could adversely affect our operations and have a material adverse effect on our business, operating results and financial condition.

We may fail to comply with our corporate governance standards which could negatively affect our financial condition, business, results of operations and our brand.

We are subject to corporate governance laws and regulations and are also committed to several corporate responsibility and environmental initiatives. In some of the countries where we operate corruption risks are high. In addition, there is higher focus on anticorruption, with changed legislation in many countries. To ensure that our operations are executed in accordance with applicable requirements, our management system

includes a Code of Business Ethics, a Sustainability Policy, as well as other policies and directives to govern our processes and operations. Our commitment to apply the UN Guiding principles for business and human rights to our operation cannot prevent unintended or unlawful use of our technology by non democratic regimes. While we attempt to monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Code of Conduct and strive for continuous improvements, we cannot provide any assurances that violations will not occur which could have material adverse effects on our operations, business results and brand.

Failure to comply with environmental, health and safety regulations in many jurisdictions may expose us to significant penalties and other sanctions.

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. While we believe that we are in compliance with all material laws and regulations related to the environment, health, and safety, we can provide no assurance that we have been, are, or will in the future be compliant with these regulations. If we have failed or fail to comply with these regulations, we could be subject to significant penalties and other sanctions that could have a material adverse effect on our business, operating results and financial condition. Additionally, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, such as climate change and weather events, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters. Adverse future events, regulations, or judgments could have a material effect on our business, operating results and financial condition.

Potential health risks related to electromagnetic fields may subject us to various product liability claims and result in regulatory changes.

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects from mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding applicable electromagnetic fields, we cannot guarantee that we or the jointly owned ST-Ericsson will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business, operating results and financial condition.

New regulations related to "conflict minerals" may cause us to incur additional expenses, and may make our supply chain more complex.

On August 22, 2012, the US Securities and Exchange Commission (the "SEC"), adopted a new rule requiring disclosures beginning in 2014 of specified minerals ("conflict minerals") that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies registered with the SEC, whether or not these products or its components are manufactured by third parties. While we believe that we will be able to fulfill these requirements without materially affecting our costs or access to materials, we can provide no assurance that there will not be material costs associated with complying with the disclosure requirements.

While we work and strive to be able to sufficiently verify the origins of these minerals, our supply chain is complex, and we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. In addition, we may encounter challenges if customers require that all of the components of our products be certified as conflict-free. These new disclosure requirements may negatively affect our brand, financial condition, business and results of operations.

RISKS ASSOCIATED WITH OWNING ERICSSON SHARES

Our share price has been and may continue to be volatile, especially as technology companies, securities and markets as a whole remain volatile.

Our share price has been volatile due to various factors, including our operating performance as well as the high volatility in the securities markets generally and volatility in telecommunications and technology companies' securities in particular. Our share price is also likely to be affected by future developments in our market, our reported financial results and the expectations of financial analysts, as well as statements and market speculation regarding our future prospects or the timing or content of any public communications, including reports of operating results, by us or our competitors.

Factors other than our financial results that may affect our share price include, but are not limited to:

- A weakening of our brand name or other circumstances with adverse effects on our reputation
- Announcements by our customers, competitors or us regarding capital spending plans of our customers
- Financial difficulties for our customers
- Awards of large supply or service contracts
- Speculation in the press or investment community about the business level or growth in the telecommunications market
- Technical problems, in particular those relating to the introduction and viability of new network systems, including lte/4g and new platforms such as the rbs 6000 (multi-standard radio base station) platform
- Actual or expected results of ongoing or potential litigation
- Announcements concerning bankruptcy or investigations into the accounting procedures of ourselves or other telecommunications companies
- Our ability to forecast and communicate our future results in a manner consistent with investor expectations.

Currency fluctuations may adversely affect share value or value of dividends.

Because our shares are quoted in SEK on NASDAQ OMX Stockholm (our primary stock exchange), but in USD on NASDAQ New York (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of our shareholders' investment. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions when converted into other currencies. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on NASDAQ OMX Stockholm or NASDAQ New York.

AUDITORS' REPORT

To the Annual General Meeting of the shareholders of Telefonaktiebolaget LM Ericsson (publ), corporate identity number 556016-0680

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Telefonaktiebolaget LM Ericsson (publ) for the year 2012. (The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 26–127.)

Responsibilities of the Board of Directors and the President and CEO for the annual accounts and consolidated accounts

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President and CEO determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President and CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President and CEO of Telefonaktiebolaget LM Ericsson (publ) for the year 2012.

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President and CEO are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President and CEO is liable to the company. We also examined whether any member of the Board of Directors or the President and CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Stockholm, March 5, 2013

Peter Nyllinge
Authorized Public Accountant
PricewaterhouseCoopers AB
Auditor in Charge

Johan Engstam
Authorized Public Accountant
PricewaterhouseCoopers AB

FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events and expected operational and financial performance. The words "believe", "expect", "foresee", "anticipate", "assume", "intend", "may", "could", "plan", "estimate", "forecast", "will", "should", "predict", "aim", "ambition", "target", "might" or, in each case, their negative, and similar words are intended to help identify forward-looking statements.

Forward-looking statements may be found throughout this document, but in particular in the chapter "Board of Directors' Report" and include statements regarding:

- Our goals, strategies and operational or financial performance expectations
- Development of corporate governance standards, stock market regulations and related legislation
- The future characteristics of the markets in which we operate
- Projections and other characterizations of future events
- Our liquidity, capital resources, capital expenditures, our credit ratings and the development in the capital markets, affecting our industry or us
- The expected demand for our existing as well as new products and services
- The expected operational or financial performance of our joint ventures and other strategic cooperation activities
- The time until acquired entities will be accretive to income
- Technology and industry trends including regulatory and standardization environment, competition and our customer structure
- Our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions, judgments and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein.

Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

- Our ability to respond to changes in the telecommunications market and other general market conditions in a cost effective and timely manner
- Developments in the political, economic or regulatory environment affecting the markets in which we operate, including trade embargoes, changes in tax rates, changes in patent protection regulations, allegations of health risks from electromagnetic fields, cost of radio licenses for our customers, allocation of radio frequencies for different purposes and results of standardization activities
- The effectiveness of our strategies and their execution, including partnerships, acquisitions and divestments
- Financial risks, including changes in foreign exchange rates or interest rates, lack of liquidity or access to financing, our credit ratings, changes in tax liabilities, credit risks in relation to counterparties, customer defaults under significant customer finance arrangements and risks of confiscation of assets in foreign countries
- The financial strength of our customer base
- The impact of the consolidation in the industry, and the resulting (i) reduction in the number of customers, and adverse consequences of a loss of, or significant decline in, our business with a major customer; (ii) increased strength of a competitor or the establishment of new competitors
- The impact of changes in product demand, technology adoption, price erosion, competition from existing or new competitors or new technologies or alliances between vendors of different types of technology and the risk that our products and services may not sell at the rates or levels we anticipate
- The product mix and margins of our sales
- The volatility of market demand and difficulties to forecast such demand
- Our ability to develop commercially viable products, systems and services, to acquire licenses of necessary technology, to protect our intellectual property rights through patents and trademarks and to license them to others and defend them against infringement, and the results of patent litigation
- Supply constraints, including component or production capacity shortages, suppliers' abilities to cost effectively deliver quality products on time and in sufficient volumes, and risks related to concentration of proprietary or outsourced production in a single facility or sole source situations with a single vendor
- Our ability to successfully manage operators' networks to their satisfaction with satisfactory margins
- Our ability to maintain a strong brand and good reputation and to be acknowledged for good corporate governance
- Our ability to recruit and retain qualified management and other key employees.

Certain of these risks and uncertainties are described further in "Risk factors". We undertake no obligation to publicly update or revise any forward-looking statements included in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

CORPORATE GOVERNANCE REPORT 2012

Corporate governance describes how rights and responsibilities are distributed among corporate bodies according to applicable laws, rules and processes. Corporate governance also defines the decision-making systems and structure through which owners directly or indirectly control a company.

Good corporate governance forms the basis for building a robust corporate culture throughout a global organization. Efficient and reliable controls and procedures are important, but it is also crucial that ethical business practices are highly valued and followed by all people in the organization – starting at the top.

As Chairman of the Board, it is my responsibility to ensure that the Board's work is efficient and that applicable principles and processes in the Board's work procedure are complied with. The Board of Directors' main tasks include supporting Group management and exercising critical review of their work. To be able to fulfill these tasks successfully, it is also my responsibility as Chairman to enable an open and meaningful dialogue between the Board and Group management. Relevant and timely information from Group management is very important as it forms the best possible basis for the Board's discussions and resolutions. The Board's work is constantly evaluated and improved to allow the Board to fulfill its duties successfully.

I believe that Ericsson's continuous focus on corporate governance matters, ethical business and open and meaningful dialogue within the organization promote sustainable business. I believe that this, in turn, generates value for Ericsson's shareholders.

Leif Johansson
Chairman of the Board of Directors

CONTENTS

Regulation and compliance	131
Governance structure	132
Sustainability, Corporate Responsibility and Corporate Governance	132
Shareholders	133
General Meetings of Shareholders	133
Nomination Committee	134
Board of Directors	135
Committees of the Board of Directors	138
Remuneration to Board members	141
Members of the Board of Directors	142
Management	146
Members of the Executive Leadership Team	150
Auditor	153
Internal control over financial reporting 2012	153
Auditor's report on the Corporate Governance Report	156

This Corporate Governance Report is rendered as a separate report added to the Annual Report in accordance with the Annual Accounts Act ((SFS 1995:1554) Chapter 6, Sections 6 and 8) and the Swedish Corporate Governance Code. The report has been reviewed by Ericsson's auditor in accordance with the Annual Accounts Act. A report from the auditor is appended hereto.

The Code of Business Ethics can be found on Ericsson's website.

REGULATION AND COMPLIANCE

External rules

As a Swedish public limited liability company with securities quoted on NASDAQ OMX Stockholm as well as on NASDAQ New York, Ericsson is subject to a variety of rules that affect its governance. Major external rules include:

- The Swedish Companies Act
- The Rule Book for issuers of NASDAQ OMX Stockholm
- The Swedish Corporate Governance Code (the "Code")
- NASDAQ Stock Market Rules, including applicable NASDAQ New York corporate governance requirements (subject to certain exemptions principally reflecting mandatory Swedish legal requirements)
- Applicable requirements of the US Securities and Exchange Commission (the "SEC").

Internal rules

In addition, to ensure compliance with legal and regulatory requirements and the high ethical standards that we set for ourselves, Ericsson has adopted internal rules that include:

- A Code of Business Ethics
- Group Steering Documents, including Group policies and directives, instructions and business processes for approval, control and risk management
- A Code of Conduct, to be applied in the product development, production, supply and support of Ericsson products and services worldwide.

The work procedure for the Board of Directors also includes internal corporate governance rules.

Compliance with the Swedish Corporate Governance Code

The Code has been applied by Ericsson since 2005. Ericsson is committed to complying with best-practice corporate governance on a global level wherever possible. This includes continued compliance with the Code. Ericsson has not deviated from any of the rules of the Code. The Code can be found on the website of the Swedish Corporate Governance Board which administrates the Code: www.corporategovernanceboard.se.

Compliance with applicable stock exchange rules

There has been no infringement of applicable stock exchange rules and no breach of good practice on the securities market reported by the stock exchange's disciplinary committee or the Swedish Securities Council.

Code of Business Ethics

Ericsson's Code of Business Ethics sets out how the Group works to achieve and maintain high ethical standards. It summarizes the Group's basic policies and directives and underpins the importance of ethical conduct in all business activities.

The Code of Business Ethics has been translated into 30 languages. This ensures that it is accessible to all employees. During recruitment, employees acknowledge that they are aware of the principles of the Code of Business Ethics. This procedure is repeated at regular intervals throughout the term of employment. Through this process, Ericsson strives to raise awareness and to ensure that the business is run with integrity so that Ericsson can maintain credibility with customers, partners, employees, shareholders and other stakeholders. During 2012, the Code of Business Ethics was reviewed and updated and acknowledged by employees throughout the global organization. In addition, Ericsson's whistleblower procedure was extended to a greater scope.

All employees have an individual responsibility to ensure that business practices adhere to the Code of Business Ethics.

KEY EVENTS IN 2012

- Alexander Izosimov was elected new member of the Board
- Strong focus on Sustainability and Corporate Responsibility
- Code of Business Ethics review, update and acknowledgement project accomplished

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

GOVERNANCE STRUCTURE

Shareholders may exercise their decision-making rights in the Company at General Meetings of shareholders.

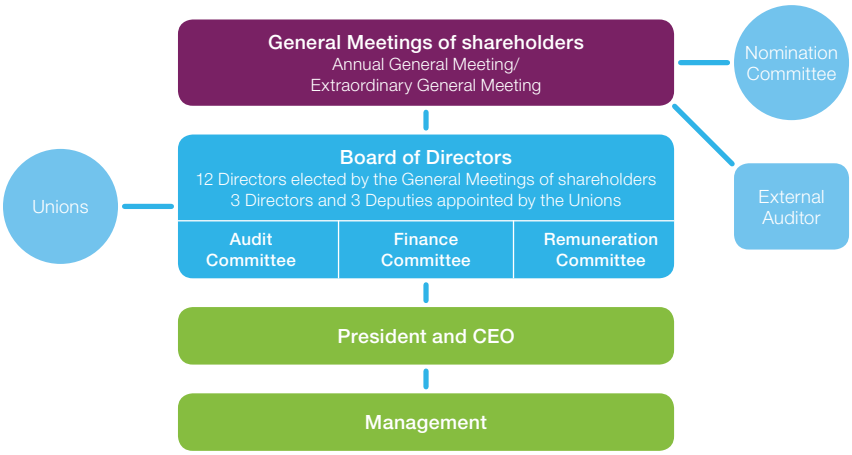
A Nomination Committee is appointed by the major shareholders in accordance with the Instruction for the Nomination Committee adopted by the Annual General Meeting of shareholders. The tasks of the Nomination Committee include the proposal of an external auditor and the proposal of Board members for election by the Annual General Meeting of shareholders.

In addition to the Directors elected by shareholders, the Board of Directors consists of employee representatives appointed by the unions. The Board of Directors is ultimately responsible for the organization of Ericsson and the management of its operations.

The President and CEO, appointed by the Board of Directors, is responsible for handling the day-to-day management of Ericsson in accordance with instructions from the Board. The President and CEO is supported by the Executive Leadership Team (ELT).

The external auditor of Ericsson is elected by the General Meeting of shareholders.

Governance structure



SUSTAINABILITY, CORPORATE RESPONSIBILITY AND CORPORATE GOVERNANCE

Sustainability and Corporate Responsibility (CR) are important parts of Ericsson's corporate governance framework. For Ericsson, sustainability is about long-term social equity, economic prosperity and environmental performance. CR is about maintaining the necessary controls to minimize risks, while creating positive business impacts for Ericsson's stakeholders and brand, by linking products, services and solutions to an overall business goal of sustainable growth, ensuring that Ericsson is a trusted partner to its stakeholders. Ericsson's Sustainability and CR strategy is integrated in the Group's yearly strategy process and implemented in the business units and the regions. The strategy process is further described on pages 148 and 149. CR risks are also included in Ericsson's risk management framework.

During 2012, Ericsson's continued focus on sustainability and CR matters was reflected through a number of corporate governance activities within the organization:

- Effective October 2012, Ericsson's Head of Sustainability and Corporate Responsibility reports directly to the President and CEO. This repositioning of the Sustainability and CR unit within the organization was made to better integrate the sustainability and CR work with the company's business operations, decision-making, culture and ways of working and to help build sustainable value creation for Ericsson.
- Ericsson's Code of Business Ethics was reviewed and updated and now includes a commitment to the new UN Guiding Principles on Business and Human Rights. Also, Ericsson's whistleblower procedure was extended to a wider scope in terms of incidents covered by the procedure and with respect to who can report violations. The updated Code was confirmed by employees throughout the global organization.
- The Sales Compliance Board was further strengthened and formalized to assess and manage human rights and CR risks.

Shareholders

Ownership percentage (voting rights)

Swedish institutions:	57.95%
Of which:	
– Investor AB:	21.37%
– AB Industrivärden: (together with SHB Pensionsstiftelse and Pensionskassan SHB Försäkringsförening)	19.81%
Foreign investors	28.38%
Swedish retail investors	6.44%
Other	7.23%

CONTACT THE BOARD OF DIRECTORS

Telefonaktiebolaget LM Ericsson
The Board of Directors Secretariat
SE-164 83 Stockholm
Sweden
boardsecretariat@ericsson.com

SHAREHOLDERS

Ownership structure

As of December 31, 2012, Telefonaktiebolaget LM Ericsson (the "Parent Company") had 551,719 shareholders (according to the share register kept by Euroclear Sweden AB). Swedish institutions hold approximately 58% of the votes. The largest shareholders are Investor AB, holding 21.37% of the votes, and AB Industrivärden, holding 19.81% of the votes (together with Svenska Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening).

A significant number of the shares held by foreign investors are nominee-registered, i.e. held off-record by banks, brokers and/or nominees. This means that the actual shareholder is not displayed in the share register or included in the shareholding statistics.

More information on Ericsson's shareholders can be found in the chapter "Share Information" in the Annual Report.

Shares and voting rights

The share capital of the Parent Company consists of two classes of listed shares: A and B shares. Each Class A share carries one vote and each Class B share carries one tenth of one vote. Class A and B shares entitle the holder to the same proportion of assets and earnings and carry equal rights to dividends.

The Parent Company may also issue Class C shares in order to create treasury stock to finance and hedge long-term variable remuneration programs resolved by the General Meeting of shareholders. Class C shares are converted into Class B shares before they are used for long-term variable remuneration programs.

The members of the Board of Directors and the Executive Leadership Team have the same voting rights on shares as other shareholders.

GENERAL MEETINGS OF SHAREHOLDERS

Decision-making at General Meetings

The decision-making rights of Ericsson's shareholders are exercised at General Meetings of shareholders. Most resolutions at General Meetings are passed by a simple majority. However, the Swedish Companies Act requires qualified majorities in certain cases, for example in case of:

- Amendment of the Articles of Association
- Resolution to transfer own shares to employees participating in long-term variable remuneration programs.

The Annual General Meeting of shareholders

The Annual General Meeting of shareholders (AGM) is held in Stockholm. The date and venue for the meeting is announced on the Ericsson website no later than at the time of release of the third-quarter interim financial report.

Shareholders who cannot participate in person may be represented by proxy. Only shareholders registered in the share register have voting rights. Nominee-registered shareholders who wish to vote may request to be entered into the share register by the record date for the AGM.

The AGM is held in Swedish and is simultaneously interpreted into English. All documentation provided by the Company is available in both Swedish and English.

The AGM gives shareholders the opportunity to raise questions relating to the operations of the Group. Ericsson always strives to ensure that the members of the Board of Directors and the Executive Leadership Team are present to answer such questions. Shareholders and other interested parties may also correspond in writing with the Company at any time.

The external auditor is always present at the AGM.

Ericsson's Annual General Meeting 2012

Including shareholders represented by proxy, 3,224 shareholders were represented at the AGM held on May 3, 2012, representing approximately 70% of the votes.

The meeting was also attended by members of the Board of Directors, members of the Executive Leadership Team (ELT) and the external auditor.

Decisions of the AGM 2012 included:

- Payment of a dividend of SEK 2.50 per share
- Re-election of Leif Johansson as Chairman of the Board of Directors
- Re-election of members of the Board of Directors: Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Hans Vestberg, Michelangelo Volpi and Jacob Wallenberg
- Election of Alexander Izosimov as a new member of the Board of Directors

ANNUAL GENERAL MEETING 2013

Ericsson's AGM 2013 will take place on April 9, 2013 at Kistamässan in Kista, Stockholm. Shareholders who wish to have a matter addressed at the AGM should submit their written request to the Board in due time before the AGM. Further information is available on Ericsson's website.

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

- Board of Directors' fees:
  - Chairman: SEK 3,750,000 (unchanged)
  - Other non-employed Board members: SEK 875,000 each (previously SEK 825,000)
  - Chairman of the Audit Committee: SEK 350,000 (unchanged)
  - Other non-employed members of the Audit Committee: SEK 250,000 each (unchanged)
  - Chairmen of the Finance and Remuneration Committees: SEK 200,000 each (unchanged)
  - Other non-employed members of the Finance and Remuneration Committees: SEK 175,000 each (unchanged)
- Approval for part of the Directors' fees to be paid in the form of synthetic shares
- Approval of Guidelines for remuneration to Group Management
- Implementation of a Long-Term Variable Remuneration Program 2012, including a share issue of and authorization to the Board to buy back 31,700,000 shares for the program
- Approval of the Instruction for the Nomination Committee, including among other things, a procedure on how to appoint the members of the Nomination Committee, to apply until the General Meeting of shareholders resolves otherwise.

The minutes of the AGM 2012 are available at Ericsson's website.

CONTACT THE NOMINATION COMMITTEE

Telefonaktiebolaget LM Ericsson
The Nomination Committee
c/o General Counsel's Office
SE-164 83 Stockholm
Sweden
nomination.committee@ericsson.com

PROPOSALS TO THE NOMINATION COMMITTEE

Shareholders may submit proposals to the Nomination Committee at any time, but should do so in due time before the AGM to ensure that the proposals can be considered by the Committee. Further information is available on Ericsson's website.

NOMINATION COMMITTEE

A Nomination Committee was elected by the AGM for the first time in 2001. Since then, each AGM has appointed a Nomination Committee, or resolved on the procedure for appointing the Nomination Committee.

The AGM 2012 resolved on an Instruction for the Nomination Committee, including the tasks of the Nomination Committee and the procedure for appointing the members of the Nomination Committee. The Instruction for the Nomination Committee shall apply until the General Meeting of shareholders resolves otherwise. Under the instruction, the Nomination Committee shall consist of:

- Representatives of the four largest shareholders by voting power by the end of the month in which the AGM was held
- The Chairman of the Board of Directors.

As described in the Instruction for the Nomination Committee, the Committee may include additional members following a request by a shareholder. The request must be justified by changes in the shareholder's ownership of shares and be received by the Nomination Committee no later than December 31. No fees are paid to the members of the Nomination Committee.

Members of the Nomination Committee

In addition to the Chairman of the Board of Directors, Leif Johansson, the current Nomination Committee consists of four representatives appointed by the four shareholders with the largest voting power as of May 31, 2012:

- Petra Hedengran (Investor AB), Chairman of the Nomination Committee
- Carl-Olof By (AB Industrivärden, Svenska Handelsbankens Pensionsstiftelse)
- Johan Held (AFA Försäkring)
- Marianne Nilsson (Swedbank Robur Fonder).

The tasks of the Nomination Committee

Over the years, the tasks of the Nomination Committee have evolved to comply with the requirements of the Code. The main task of the Committee remains to propose Board members for election by the AGM. In doing this, the Committee must not only orientate itself on the Company's strategy and future challenges to be able to assess the competence and experience that is required by the Board; it must also consider all applicable rules on

independence of the Board of Directors and its committees.

In addition, the Committee prepares remuneration proposals, for resolution by the AGM, to non-employed Directors elected by the AGM and to the auditor.

The assignment of the Nomination Committee further includes proposing auditors, whereby candidates are selected in cooperation with the Audit Committee of the Board. The Committee also proposes a candidate for election of the Chairman at the AGM.

Work of the Nomination Committee for the AGM 2013

The Nomination Committee started its work by going through a checklist of all its duties according to the Code and the Instruction for the Nomination Committee, resolved by the AGM. The Committee also set a time plan for its work ahead. A thorough understanding of Ericsson's business is paramount to the role of the members of the Committee. Therefore, the President and CEO was invited to, together with the Chairman of the Board, present their views on the Company's position and strategy.

The Committee was thoroughly informed of the results of the evaluation of the Board's work and procedures, including the performance of the Chairman of the Board. On this basis, the Committee was able to assess the competence and experience required by Board members. When proposing Board members, the Nomination Committee considered a number of things, including necessary experience and competence as well as the value of diversity and renewal and the improvement of gender balance.

The Committee also acquainted itself with the assessments made by the Company and the Audit Committee on the quality and efficiency of external auditor work, and received recommendations on external auditor and audit fees. As of March 5, 2013 the Nomination Committee has held six meetings.

BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the organization of Ericsson and the management of Ericsson's operations. The Board of Directors develops guidelines and instructions for day-to-day operations, managed by the President and CEO. The President and CEO ensures that the Board is updated regularly on events of importance to the Group. This includes updates on business development, results, financial position and the liquidity of the Group.

According to the Articles of Association, the Board of Directors shall consist of no less than five and no more than 12 directors, with no more than six deputies. In addition, under Swedish law, trade unions have the right to appoint three directors and their deputies to the Board.

Directors serve from the close of one AGM to the close of the next, but can serve any number of consecutive terms.

The President and CEO may be elected director of the Board, but, under the Swedish Companies Act, the President of a public company may not be elected Chairman of the Board.

Conflicts of interest

Ericsson maintains rules and regulations regarding conflicts of interest. Directors are disqualified from participating in any decision regarding agreements between themselves and Ericsson. The same applies to agreements between Ericsson and any third party or legal entity in which the Board member has an interest.

The Audit Committee has implemented a procedure on related-party transactions and a pre-approval process for non-audit services carried out by the external auditor.

Composition of the Board of Directors

The Board of Directors consists of 12 Directors, including the Chairman of the Board, elected by the shareholders at the AGM 2012 for the period until the close of the AGM 2013. It also consists of three employee representatives, each with a deputy, appointed by the trade unions for the same period of time. The President and CEO, Hans Vestberg, is the only Board member who was also a member of Ericsson's management during 2012.

Work procedure

Pursuant to the Swedish Companies Act, the Board of Directors has adopted a work procedure that outlines rules for the distribution of tasks between the Board and its Committees as well as between the Board, its Committees and the President and CEO. This complements the regulations in the Swedish Companies Act and in the Articles of Association of the

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

Company. The work procedure is reviewed, evaluated and adopted by the Board as required and at least once a year.

Independence

The Board of Directors and its Committees are subject to a variety of independence rules under applicable Swedish law, the Code and applicable US securities laws, SEC rules and the NASDAQ Stock Market Rules. However, Ericsson can rely on exemptions from certain US requirements.

The composition of the Board of Directors meets all applicable independence criteria. The Nomination Committee concluded before the AGM 2012 that, for purposes of the Code, at least seven of the nominated Directors were independent of Ericsson, its senior management and its major shareholders. These were Roxanne S. Austin, Sir Peter L. Bonfield, Alexander Izosimov, Leif Johansson, Ulf J. Johansson, Nancy McKinstry and Michelangelo Volpi.

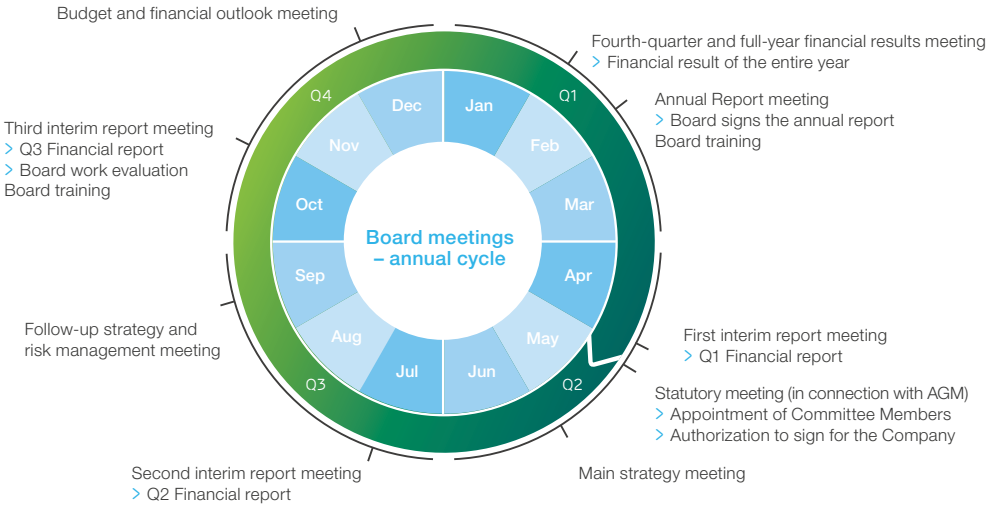
Structure of the work of the Board of Directors

The work of the Board follows a yearly cycle. This enables the Board to appropriately address each of its duties and to keep strategy, risk assessment and value creation high on the agenda.

- **Statutory meeting**
  The yearly cycle starts with the statutory Board meeting which is held in connection with the AGM. At this meeting, members of each of the three Board Committees are appointed and the Board resolves on signatory power.
- **First interim report meeting**
  At the next ordinary meeting (depending on the date of the AGM), the Board handles the interim financial report for the first quarter of the year.
- **Main strategy meeting**
  Various strategic issues are addressed at most of the Board meetings. In accordance with the annual cycle for the strategy process, a main strategy Board meeting is also held, which is in essence dedicated to short- and long-term strategies of the Group. Following the Board's input on and approval of the overall strategy, the strategy is cascaded throughout the entire organization, starting at the Global Leadership Summit with Ericsson's top 250 leaders.
- **Second interim report meeting**
  At the second interim report meeting, the Board handles the interim financial report for the second quarter of the year.
- **Follow-up strategy and risk management meeting**
  Following the summer, a meeting is held to address particular strategy matters in further detail and to finally confirm the Group strategy. The meeting also addresses the overall risk management of the Group.
- **Third interim report meeting**
  A Board meeting is held to handle the interim

The Board's annual work cycle

The annual cycle applied to the Board's work allows the Board to appropriately address its duties during the year. It also facilitates for the organization to align its global processes to allow appropriate Board involvement. This is particularly relevant for the Group's strategy process and risk management.



financial report for the third quarter of the year. At this meeting, the results of the Board evaluation are presented to and discussed by the Board.

- **Budget and financial outlook meeting**
  A meeting is held for the Board to address the budget and financial outlook as well as further analysis of internal and external risks.
- **Fourth-quarter and full-year financial results meeting**
  Following the end of the calendar year, the Board holds a meeting which focuses on the financial results of the entire year and handles the fourth-quarter financial report.
- **Annual Report meeting**
  The Annual Report meeting closes the yearly cycle of work of the Board of Directors. At this meeting the Board approves the Annual Report.

As the Board is responsible for financial oversight, financial information is presented and evaluated at each Board meeting. Furthermore, each Board meeting generally includes reports on Committee work by the Chairman of each Committee. In addition, minutes from Committee meetings are distributed to all Directors prior to the Board meeting.

At every Board meeting, the President and CEO reports on business and market developments as well as on the financial performance of the Company. Strategic issues and risks are also addressed at most Board meetings. The Board is regularly informed of developments in legal and regulatory matters of importance.

Auditor involvement

The Board meets with Ericsson's external auditor in closed sessions at least once a year to receive and consider the auditor's observations. The auditor reports to management on the accounting and financial reporting practices of the Group.

The Audit Committee also meets with the auditor to receive and consider observations on the interim reports and the Annual Report. The auditor has been instructed to report on whether the accounts, the management of funds and the general financial position of the Group are under control in all material respects.

In addition, the Board reviews and assesses the process for financial reporting, as described later in "Internal control over financial reporting 2012". Combined with internal controls, the Board's and the auditor's review of interim and annual reports are deemed to give reasonable assurance on the quality of financial reporting.

Training of the Board of Directors

All new Directors receive comprehensive training tailored to their individual needs. Introductory training typically includes meetings with the heads of the business units and Group functions, as well as training arranged by NASDAQ OMX Stockholm on listing issues and insider rules. In addition, full-day training sessions are held twice a year for all Directors. These sessions enhance the Directors' knowledge of specific operations and issues as appropriate to ensure that the Board has knowledge and understanding of the forefront of technical development and of the business activities of the Group.

As a rule, the Board receives Sustainability and Corporate Responsibility training at least once a year.

Key focus areas in Board training in 2012 were:

- Technology leadership, including market development, competitor overview, Ericsson Research long-term view and ways of working.
- Ericsson's strategic forecast, including purpose, process, roles and methodology forecast.

Work of the Board of Directors in 2012

In 2012, 12 Board meetings were held. For attendance at Board meetings, see the table on page 141. Among the matters addressed by the Board this year (apart from regular matters in the annual Board work cycle) were:

- A number of acquisitions, including BelAir Networks, Technicolor's broadcast services division, ConceptWave and increased ownership in Ericsson-LG.
- Entry to the US bond market through issuing a ten-year US bond.
- Loan agreements with the European Investment Bank (EIB) and the Nordic Investment Bank (NIB).
- Strong focus on risk management, strategy and the competitive market development, as well as on sustainability and corporate responsibility matters.
- A number of divestments, including the divestment of the Multimedia brokering platform (IPX) and EDA 1500 GPON assets.
- Continued focus on the effects of general financial uncertainty on the market, including the effects of political unrest in the Middle East and Africa and financial uncertainty in Europe.
- Continuous work relating to strategic plans for the joint venture ST-Ericsson.

Board work evaluation

A key objective of the Board evaluation is to ensure that the Board is functioning well. This includes gaining an understanding of the issues that the Board thinks warrant greater focus, as well as determining areas where additional competence is needed within the Board. The evaluation also serves as guidance for the work of the Nomination Committee.

Each year, the Chairman of the Board initiates and leads the evaluation of the Board and Committee work and procedures.

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

Evaluation tools include detailed questionnaires and discussions.

In 2012, all the Directors responded to written questionnaires, covering the Director's individual performance, Board work in general, Committee work and the Chairman's performance. The Chairman was not involved in the development or compilation of the questionnaire which related to his performance, nor was he present when his performance was evaluated. The evaluations were thoroughly discussed and an action plan was developed in order to further improve the work of the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established three Committees: the Audit Committee, the Finance Committee and the Remuneration Committee. Members of each Committee are appointed for one year amongst the Board members.

The task of the Committees is mainly to prepare matters for final resolution by the Board. However, the Board has authorized each Committee to determine certain issues in limited areas. It may also on occasion provide extended authorization for the Committees to determine specific matters.

If deemed appropriate, the Board of Directors and each Committee have the right to engage external expertise, either in general or with respect to specific matters.

Prior to the Board meetings, each Committee submits to the Board minutes from Committee meetings. The Chairman of the Committee also reports on the Committee work at each Board meeting.

Audit Committee

On behalf of the Board, the Audit Committee monitors the following:

- The scope and correctness of the financial statements
- Compliance with legal and regulatory requirements
- Internal control over financial reporting
- Risk management
- The effectiveness and appropriateness of the Group's anti-corruption program.

The Audit Committee also reviews the annual and interim financial reports and oversees the external audit process, including audit fees. This involves:

- Reviewing, with management and the external auditor, the financial statements (including their conformity with generally accepted accounting principles)
- Reviewing, with management, the reasonableness of significant estimates and judgments made in preparing the financial statements, as well as the quality of the disclosures in the financial statements
- Reviewing matters arising from reviews and audits performed.

The Audit Committee itself does not perform audit work. Ericsson has an internal audit function which reports directly to the Audit Committee.

The Committee is also involved in the preparatory work of proposing auditor for election by the AGM. It also monitors Group transactions and the ongoing performance and independence of the auditor with the aim to avoid conflicts of interest.

In order to ensure the auditor's independence, the Audit Committee has established pre-approval policies and

Organization of the Board work

Board of Directors
15 Directors

Audit Committee
(5 Directors)
> Oversight over financial reporting
> Oversight over internal control
> Oversight over auditing

Finance Committee
(4 Directors)
> Financing
> Investing
> Customer credits

Remuneration Committee
(4 Directors)
> Guidelines for remuneration to Group Management
> Long-Term Variable Remuneration
> Executive compensation

procedures for non-audit related services to be performed by the external auditor. Pre-approval authority may not be delegated to management. The Audit Committee also oversees:

- The process for reviewing transactions with related parties
- The whistleblower procedure for the reporting of alleged violations of the Code of Business Ethics that (i) are conducted by Group or local management, and (ii) relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety. The whistleblower procedure was updated and extended during 2012 in connection with the review and update of the Code of Business Ethics.

Violations reported through the whistleblower procedure are investigated by Ericsson's internal audit function together with the relevant Group function. Information regarding any incident is reported to the Audit Committee. Reports include measures taken, details of the responsible Group function and the status of any investigation.

Members of the Audit Committee

The Audit Committee consists of five Board members appointed by the Board. In 2012, the Audit Committee comprised Ulf J. Johansson (Chairman of the Committee), Roxanne S. Austin, Sir Peter L. Bonfield, Kristina Davidsson and Sverker Martin-Löf.

The composition of the Audit Committee meets all applicable independence requirements. The Board of Directors has determined that each of Ulf J. Johansson, Roxanne S. Austin, Sir Peter L. Bonfield and Sverker Martin-Löf is an audit committee financial expert, as defined under the SEC rules. Each of them is independent under applicable US securities laws, SEC rules and NASDAQ Stock Market Rules and each of them is financially literate and familiar with the accounting practices of an international company, such as Ericsson.

Former authorized public accountant Peter Markborn was previously appointed as an external expert advisor to assist and advise the Audit Committee. He left this assignment during 2012.

Work of the Audit Committee in 2012

The Audit Committee held six meetings in 2012. Directors' attendance is reflected in the table on page 141. During the year, the Audit Committee reviewed the scope and results of external financial audits and the independence of the external auditor. It also monitored the external audit fees and approved non-audit services performed by the external auditor in accordance with the Committee's pre-approval policies and procedures.

The Committee approved the annual audit plan for the internal audit function and reviewed its reports. Prior to publishing it, the Committee also reviewed and discussed each interim report with the external auditor.

The Committee monitored the continued compliance with the Sarbanes-Oxley Act as well as the internal control and risk management process. It also reviewed certain related-party transactions in accordance with its established process.

The Committee reviewed and evaluated the effectiveness and appropriateness of the Group's anti-corruption program.

Finance Committee

The Finance Committee is primarily responsible for:

- Handling matters related to acquisitions and divestments
- Handling capital contributions to companies inside and outside the Ericsson Group
- Raising loans, issuing guarantees and similar undertakings, and approving financial support to customers and suppliers
- Continuously monitoring the Group's financial risk exposure.

The Finance Committee is authorized to determine matters such as:

- Direct or indirect financing
- Provision of credits
- Granting of securities and guarantees
- Certain investments, divestments and financial commitments.

Members of the Finance Committee

The Finance Committee consists of four Board members appointed by the Board. In 2012, the Finance Committee comprised: Leif Johansson (Chairman of the Committee), Pehr Claesson, Anders Nyrén and Jacob Wallenberg.

Members of the Committees

Members of the Committees of the Board of Directors 2012

Audit Committee	Finance Committee	Remuneration Committee
> Ulf J Johansson (Chairman)	> Leif Johansson (Chairman)	> Leif Johansson (Chairman)
> Roxanne S. Austin	> Pehr Claesson	> Börje Ekholm
> Sir Peter L. Bonfield	> Anders Nyrén	> Nancy McKinstry
> Kristina Davidsson	> Jacob Wallenberg	> Karin Åberg
> Sverker Martin-Löf		

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

Work of the Finance Committee in 2012

The Finance Committee held seven meetings in 2012. Directors' attendance is reflected in the table on page 141. During the year, the Finance Committee approved numerous customer finance credit arrangements and reviewed a number of potential mergers and acquisitions and real estate investments from a financial perspective. As a result of the uncertainty on the financial markets and the macroeconomic development, the Finance Committee has focused particularly on discussing and securing an adequate capital structure, cash flow and cash-generating ability. It has also continuously monitored Ericsson's financial position and credit exposure.

Remuneration Committee

The Remuneration Committee's main responsibility is to prepare for resolution by the Board of Directors matters regarding salary and other remuneration, including pension benefits of the President and CEO, the Executive Vice Presidents and other officers who report directly to the President and CEO. Responsibilities include:

- Reviewing and preparing for resolution by the Board, proposals on salary and other remuneration, including retirement compensation, for the President and CEO
- Reviewing and preparing for resolution by the Board, proposals to the AGM on guidelines for remuneration to the ELT
- Approving proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other CEO direct reports
- Reviewing and preparing for resolution by the Board, proposals to the AGM on LTV and similar equity arrangements.

Consideration is given to trends in remuneration, legislative changes, disclosure rules and the general global environment surrounding executive remuneration. The Committee reviews salary survey data before approving any salary adjustment for CEO direct reports. In addition, the Committee prepares salary adjustments for the President and CEO for resolution by the Board.

Members of the Remuneration Committee

The Remuneration Committee consists of four Board members appointed by the Board. In 2012, the Remuneration Committee comprised: Leif Johansson (Chairman of the Committee), Börje Ekholm, Nancy McKinstry and Karin Åberg.

Piia Pilv has been appointed by the Remuneration Committee as an independent expert advisor to assist the Committee, particularly regarding international trends and developments.

Work of the Remuneration Committee in 2012

The Remuneration Committee held six meetings in 2012. Directors' attendance is reflected in the table on page 141.

The Committee reviewed and prepared a proposal for the LTV 2012 for resolution by the Board. This was approved by the AGM 2012. The Committee further resolved on salaries and Short-Term Variable remuneration (STV) for 2012 for CEO direct reports. It prepared remuneration to the President and CEO, for resolution by the Board. The Committee also prepared guidelines for remuneration to the ELT, which were subsequently referred by the Board to the AGM for approval.

Towards the end of the year, the Committee concluded its analysis of the current LTV structure and executive remuneration. The resulting proposals on LTV and guidelines for remuneration to the ELT will be referred to the AGM 2013 for resolution.

For further information on fixed and variable remuneration, please see Notes to the consolidated financial statements – Note C28 "Information regarding members of the Board of Directors, the Group management and employees" and the "Remuneration Report" included in the Annual Report.

Directors' attendance and fees 2012

	Fees resolved by the AGM 2012		Number of Board/Committee meetings attended			
Board member	Board fees [1]	Committee fees	Board	Audit Committee	Finance Committee	Remuneration Committee
Leif Johansson	3,750,000	400,000	12		7	6
Sverker Martin-Löf	875,000	250,000	12	6		
Jacob Wallenberg	875,000	175,000	12		5	
Roxanne S. Austin	875,000	250,000	11	6		
Sir Peter L. Bonfield	875,000	250,000	12	6		
Börje Ekholm	875,000	175,000	12			6
Alexander Izosimov [2]	875,000		8			
Ulf J. Johansson	875,000	350,000	12	6		
Nancy McKinstry	875,000	175,000	11			6
Anders Nyrén	875,000	175,000	12		7	
Carl-Henric Svanberg [3]	–		4			
Hans Vestberg	–		12			
Michelangelo Volpi	875,000		10			
Pehr Claesson	18,000 [7]		12		7	
Jan Hedlund [4]	*6,000* [7]		*4*	*3*		
Karin Åberg	18,000 [7]		12			6
Kristina Davidsson [5]	18,000 [7]		12	3		
Rickard Fredriksson [6]	10,500 [7]		7			
Karin Lennartsson	18,000 [7]		12			
Roger Svensson	18,000 [7]		12			
Total number of meetings			**12**	**6**	**7**	**6**

[1] Non-employed Directors can choose to receive part of their Board fee (exclusive of Committee fees) in the form of synthetic shares.
[2] Elected Board member as of May 3, 2012.
[3] Resigned as Board member as of May 3, 2012.
[4] Resigned as employee representative and from the Audit Committee as of May 3, 2012.
[5] Member of the Audit Committee since May 3, 2012.
[6] Appointed deputy employee representative as of May 3, 2012.
[7] Employee representative Board members and their deputies are not entitled to a Board fee but compensation in the amount of SEK 1,500 per attended Board meeting.

REMUNERATION TO BOARD MEMBERS

Remuneration to Board members not employed by the Company is proposed by the Nomination Committee for resolution by the AGM.

The AGM 2012 approved the Nomination Committee's proposal for fees to the non-employed Board members for Board and Committee work. For information on Board of Directors' fees 2012, please refer to Notes to the consolidated financial statements – Note C28 "Information regarding members of the Board of Directors, the Group management and employees" in the Annual Report. The AGM 2012 also approved the Nomination Committee's proposal that Board members may be paid part of their Board fee in the form of synthetic shares.

A synthetic share gives the right to receive a future cash payment of an amount which corresponds to the market value of a Class B share in Ericsson at the time of payment. The director's right to receive payment with regard to allocated synthetic shares occurs, as a main rule, after the publication of the Company's year-end financial statement during the fifth year following the General Meeting which resolved on the allocation of the synthetic shares. The purpose of paying part of the Board of Directors' fee in the form of synthetic shares is to further align the Directors' interest with shareholder interest. For more information on the terms and conditions of the synthetic shares, please refer to the notice convening the AGM 2012 and to the minutes from the AGM 2012, which are available at Ericsson's website.

MEMBERS OF THE BOARD OF DIRECTORS

Board members elected by the AGM 2012

Leif Johansson (first elected 2011)

Chairman of the Board of Directors, Chairman of the Remuneration Committee and of the Finance Committee

Born 1951. Master of Science in Engineering, Chalmers University of Technology, Gothenburg, Sweden.
Board Chairman: Astra Zeneca PLC, European Round Table of Industrialists and the International Advisory Board of the Nobel Foundation.
Board Member: Svenska Cellulosa Aktiebolaget SCA and Ecolean AB.
Holdings in Ericsson [1]: 17,933 Class B shares.
Principal work experience and other information: President of the Royal Swedish Academy of Engineering Sciences. President and CEO of AB Volvo 1997-2011. Executive Vice President of AB Electrolux 1988-1991, President 1991-1994 and President and CEO of AB Electrolux 1994-1997. Holds honorary Doctorates at Blekinge Institute of Technology, the University of Gothenburg and Chalmers University of Technology. Awarded the Large Gold Medal of the Royal Swedish Academy of Engineering Sciences in 2011.

Sverker Martin-Löf (first elected 1993)

Deputy Chairman of the Board of Directors, Member of the Audit Committee

Born 1943. Doctor of Technology and Master of Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.
Board Chairman: Svenska Cellulosa Aktiebolaget SCA, SSAB and AB Industrivärden.
Board Member: Skanska AB and Svenska Handelsbanken AB.
Holdings in Ericsson [1]: 10,400 Class B shares.
Principal work experience and other information: President and CEO of Svenska Cellulosa Aktiebolaget SCA 1990–2002, where he was employed 1977–1983 and 1986–2002. Previous positions at Sunds Defibrator and Mo och Domsjö AB.

Jacob Wallenberg (first elected 2011)

Deputy Chairman of the Board of Directors, Member of the Finance Committee

Born 1956. Bachelor of Science in Economics and Master of Business Administration, Wharton School, University of Pennsylvania, USA. Officer of the Reserve, Swedish Navy.
Board Chairman: Investor AB.
Deputy Board Chairman: SAS AB and SEB Skandinaviska Enskilda Banken AB (SEB).
Board member: ABB Ltd, The Coca-Cola Company, The Knut and Alice Wallenberg Foundation and Stockholm School of Economics.
Holdings in Ericsson [1]: 2,413 Class B shares.
Principal work experience and other information: Chairman of the Board of Investor AB since 2005. Extensive experience in banking and finance, including experience from the commercial banks JP Morgan, New York and SEB. Appointed President and CEO of SEB in 1997 and appointed Chairman of SEB's Board of Directors in 1998. Executive Vice President and CFO of Investor AB 1990-1993. Honorary Chairman of IBLAC (Mayor of Shanghai's International Business Leaders Advisory Council) and member of The European Round Table of Industrialists.

Roxanne S. Austin (first elected 2008)

Member of the Audit Committee

Born 1961. Bachelor of Business Administration in Accounting, University of Texas, San Antonio, USA.
Board Member: Abbott Laboratories, Teledyne Technologies Inc. and Target Corporation.
Holdings in Ericsson [1]: 3,000 Class B shares.
Principal work experience and other information: President of Austin Investment Advisors since 2004. President and CEO of Move Networks Inc. 2009–2010. President and COO of DirecTV 2001–2003. Corporate Senior Vice President and CFO of Hughes Electronics Corporation 1997–2000, which she joined in 1993. Previously a partner at Deloitte & Touche. Member of the California State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

Sir Peter L. Bonfield
(first elected 2002)
Member of the Audit Committee

Born 1944. Honors degree in Engineering, Loughborough University, Leicestershire, UK.
Board Chairman: NXP Semiconductors N.V.
Board Member: Mentor Graphics Inc., Sony Corporation and Taiwan Semiconductor Manufacturing Company, Ltd.
Holdings in Ericsson [1]: 4,400 Class B shares.
Principal work experience and other information: CEO and Chairman of the Executive Committee of British Telecommunications plc 1996–2002. Chairman and CEO of ICL plc 1985–1996. Positions with STC plc and Texas Instruments Inc. Member of the Advisory Boards of New Venture Partners LLP, the Longreach Group and Apax Partners LLP. Board Mentor of CMi. Senior Advisor, Rothschild, London. Chair of Council and Senior Pro-Chancellor, Loughborough University, UK. Fellow of the Royal Academy of Engineering.

Börje Ekholm
(first elected 2006)
Member of the Remuneration Committee

Born 1963. Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden. Master of Business Administration, INSEAD, France.
Board Chairman: KTH Royal Institute of Technology, Stockholm and Nasdaq OMX Group Inc.
Board Member: Investor AB, AB Chalmersinvest, EQT Partners AB and Husqvarna AB.
Holdings in Ericsson [1]: 30,760 Class B shares.
Principal work experience and other information: President and CEO of Investor AB since 2005. Formerly Head of Investor Growth Capital Inc. and New Investments. Previous positions at Novare Kapital AB and McKinsey & Co Inc.

Alexander Izosimov
(first elected 2012)

Born 1964. Master of Business Administration, INSEAD, France and Master of Science in Production Management Systems and Computer Science, Moscow Aviation Institute, Russian Federation.
Board Member: East Capital AB, Modern Times Group MTG AB, EVRAZ Group S.A., Dynasty Foundation, Transcom WorldWide SA and International Chamber of Commerce (ICC).
Holdings in Ericsson [1]: 1,600 Class B shares.
Principal work experience and other information: CEO and President of VimpelCom 2003-2011. Previous positions with Mars Inc., including Member of the Global Executive Board and Regional President for CIS, Central Europe and Nordics. Earlier positions with McKinsey & Co as consultant in the Stockholm and London offices. Served as GSMA Board member 2005-2008 and Chairman of GSMA 2008-2010.

Ulf J. Johansson
(first elected 2005)
Chairman of the Audit Committee

Born 1945. Doctor of Technology and Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.
Board Chairman: Acando AB, Eurostep Group AB, Novo A/S, Novo Nordisk Foundation and Trimble Navigation Ltd.
Board Member: European Institute of Innovation and Technology.
Holdings in Ericsson [1]: 6,435 Class B shares.
Principal work experience and other information: Founder of Europolitan Vodafone AB, where he was the Chairman of the Board 1990–2005. Previous positions at Spectra-Physics AB as President and CEO and at Ericsson Radio Systems AB. Member of the Royal Academy of Engineering Sciences.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

MEMBERS OF THE BOARD OF DIRECTORS CONTINUED

Nancy McKinstry (first elected 2004)

Member of the Remuneration Committee

Born 1959. Master of Business Administration in Finance and Marketing, Columbia University, USA. Bachelor of Arts in Economics, University of Rhode Island, USA.
Board Chairman: CEO and Chairman of the Executive Board of Wolters Kluwer n.v.
Board Member: Abbott Laboratories and Sanoma Corporation.
Holdings in Ericsson [1]: 4,000 Class B shares.
Principal work experience and other information: CEO and Chairman of the Executive Board of Wolters Kluwer n.v. President and CEO of CCH Legal Information Services 1996–1999. Previous positions at Booz, Allen & Hamilton and New England Telephone Company. Member of the Advisory Board of the University of Rhode Island, the Advisory Council of the Amsterdam Institute of Finance, the Board of Overseers of Columbia Business School and the Advisory Board of the Harrington School of Communication and Media.

Anders Nyrén (first elected 2006)

Member of the Finance Committee

Born 1954. Graduate of Stockholm School of Economics, Sweden, Master of Business Administration from Anderson School of Management, UCLA, USA.
Board Chairman: Sandvik AB.
Deputy Board Chairman: Svenska Handelsbanken AB.
Board Member: Svenska Cellulosa Aktiebolaget SCA, AB Industrivärden, SSAB, AB Volvo, Ernströmgruppen and Stockholm School of Economics.
Holdings in Ericsson [1]: 6,686 Class B shares.
Principal work experience and other information: President and CEO of Industrivärden since 2001. CFO and Executive Vice President of Skanska AB 1997–2001. Director Capital Markets of Nordbanken 1996–1997. CFO and EVP of Securum AB 1992–1996. Managing Director of OM International AB 1987–1992. Earlier positions at STC Scandinavian Trading Co AB and AB Wilhelm Becker.

Hans Vestberg (first elected 2010)

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala, Sweden.
Board Chairman: ST-Ericsson and Svenska Handbollförbundet.
Board Member: Thernlunds AB.
Holdings in Ericsson [1]: 149,382 Class B shares.
Principal work experience and other information: President and CEO of Telefonaktiebolaget LM Ericsson since January 1, 2010. Previously, First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's climate change working group. Member of the European Cloud Partnership Steering Board and the Leadership Council of the United Nations Sustainable Development Solutions Network.

Michelangelo Volpi (first elected 2010)

Born 1966. Bachelor of Science in Mechanical Engineering and Masters in Manufacturing Systems Engineering from Stanford University, USA. MBA from the Stanford Graduate School of Business, USA.
Board Member: EXOR S.p.A.
Holdings in Ericsson [1]: None.
Principal work experience and other information: Partner at Index Ventures since July 2009. Previously CEO of Joost Inc. Various positions in Cisco from 1994-2007, including Senior Vice President and General Manager of the Routing and Service Provider Technology Group and Chief Strategy Officer. Has also worked for Hewlett Packard in the optoelectronics division.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

Board members and deputies appointed by the unions

Pehr Claesson
(first appointed 2008)
Employee representative, Member of the Finance Committee

Born 1966. Appointed by the union The Swedish Association of Graduate Engineers. Holdings in Ericsson [1]: 999 Class B shares. Employed since 1997. Working with marketing and communication for Consulting and Systems Integration within Business Unit Global Services.

Kristina Davidsson
(first appointed 2006)
Employee representative, Member of the Audit Committee

Born 1955. Appointed by the union IF Metall. Holdings in Ericsson [1]: 1,629 Class B shares. Employed since 1995. Previously working as repairer within Business Unit Networks and currently working full time as union representative.

Karin Åberg
(first appointed 2007)
Employee representative, Member of the Remuneration Committee

Born 1959. Appointed by the union Unionen. Holdings in Ericsson [1]: 2,751 Class B shares. Employed since 1995. Working as a Service Engineer within the IT organization.

Rickard Fredriksson
(first appointed 2012)
Deputy employee representative

Born 1969. Appointed by the union IF Metall. Holdings in Ericsson [1]: 799 Class B shares. Employed since 2000. Previously working as machine operator within Business Unit Networks and currently working full time as union representative.

Karin Lennartsson
(first appointed 2010)
Deputy employee representative

Born 1957. Appointed by the union Unionen. Holdings in Ericsson [1]: 493 Class B shares. Employed since 1976. Working as Process Expert within Group Function Finance – Process Management.

Roger Svensson
(first appointed 2011)
Deputy employee representative

Born 1971. Appointed by the union The Swedish Association of Graduate Engineers. Holdings in Ericsson [1]: 7,710 Class B shares. Employed since 1999. Working as Senior Specialist Test Strategy Power Amplifier within Business Unit Networks.

Hans Vestberg was the only Director who held an operational management position at Ericsson in 2012. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person. At the Annual General Meeting 2012, Alexander Izosimov was elected new member of the Board of Directors, replacing Carl-Henric Svanberg. Jan Hedlund resigned as employee representative of the Board of Directors as of the date of the Annual General Meeting 2012 and Kristina Davidsson (previously deputy employee representative) was appointed employee representative as of the same date. Rickard Fredriksson was appointed new deputy employee representative as of the date of the Annual General Meeting 2012.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

MANAGEMENT

The President/CEO and the Executive Leadership Team

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. The President and CEO is responsible for the management of day-to-day operations and is supported by the Executive Leadership Team (the "ELT"). During 2012, the ELT consisted of the President and CEO, the heads of Group functions, the heads of business units and the heads of two of Ericsson's regions.
The role of the ELT is to:

- Establish a strong corporate culture, a long-term vision and Group strategies and policies, all based on objectives stated by the Board
- Determine targets for operational units, allocate resources and monitor unit performance
- Secure operational excellence and realize global synergies through efficient organization of the Group.

Remuneration to the Executive Leadership Team

Guidelines for remuneration to the ELT were approved by the AGM 2012. For further information on fixed and variable remuneration, see the Remuneration report and Notes to the consolidated financial statements – Note C28, "Information regarding members of the Board of Directors, the Group management and employees" in the Annual Report.

The Ericsson Group Management System

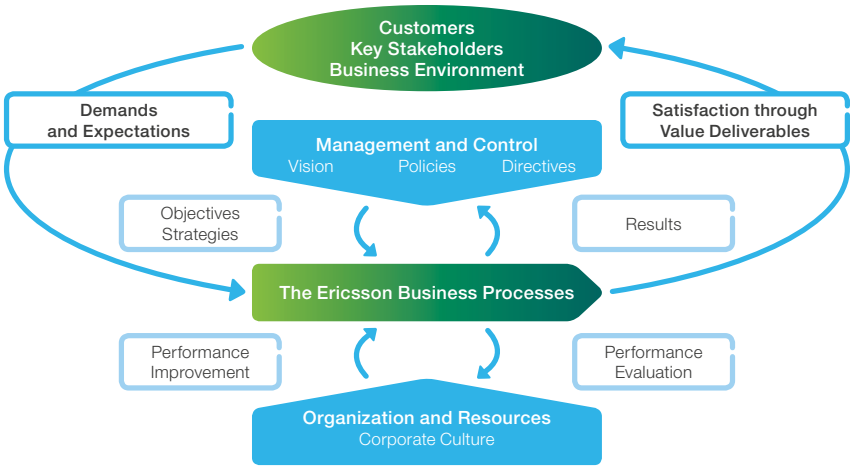
Ericsson has a global management system, the Ericsson Group Management System (EGMS) to drive corporate culture and to ensure that the business is managed:

- To fulfill the objectives of Ericsson's major stakeholders (customers, shareholders, employees)
- Within established risk limits and with reliable internal control
- In compliance with relevant applicable laws, listing requirements, governance codes and corporate social responsibilities.

The EGMS is founded on ISO 9001 (International Standard for Quality management system) but is designed as a dynamic governance system, enabling Ericsson to adapt the system to evolving demands and expectations, including new legislation as well as customers' and other stakeholders' requirements. The management system is an important foundation and is continuously evaluated and improved.

Certificates are evidence from an independent body verifying that the operations fulfill defined requirements. As the EGMS is a global system, group-wide certificates can be

Ericsson Group Management System



issued by a third party certification body proving that the system is efficient throughout the whole organization. Ericsson is currently globally certified to ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Health & Safety). Selected Ericsson units are also certified to additional standards, for example ISO 27001 (Information Security) and TL 9000 (telecom-specific standard).

The EGMS comprises three elements:

- Management and control
- Ericsson business processes
- Organization and resources.

Management and control

Ericsson's strategy and target setting processes consider the demands and expectations of customers as well as other key stakeholders. The process facilitates the alignment of objectives and their measurement in activities at all levels of the organization.

Ericsson uses balanced scorecards as tools for translating strategic objectives into a set of performance indicators for its operational units. Based on annual strategy work, these scorecards are updated with targets for each unit for the next year and are communicated throughout the organization.

Group-wide policies and directives govern how the organization works and are core elements in managing and controlling Ericsson. The Group Policies and Directives include a Code of Business Ethics, a Code of Conduct and accounting and reporting directives to fulfill external reporting requirements and the Sarbanes-Oxley Act.

The Group Steering Documents Committee works to ensure that the policies and directives cover relevant issues; that they are aligned and consistent with Group strategies, values and structures; and that they are not in conflict with legal and regulatory requirements. In addition, the Group Steering Documents Committee works to ensure that the said strategies, values and structures are implemented by the responsible function.

Ericsson business processes

As a market leader, Ericsson utilizes the competitive advantages that are gained through global scale and has implemented common processes and IT tools across all operational units worldwide. Customer requirements are identified, clarified and formalized in Ericsson Business Processes where requirements transform from theory to reality. Through management and continuous improvement of processes and IT tools, Ericsson attempts to reduce costs with efficient and effective process flows and with standardized internal controls and performance indicators.

Organization and resources

Ericsson is operated in two dimensions: one operational structure and one legal structure.

The operational structure aligns accountability and authority regardless of country borders and supports the process flow with cross-country operations. During 2012 there were four business units and ten regions. Group functions coordinate Ericsson's strategies, operations and resource allocation and define the necessary directives, processes and organization for the effective governance of the Group.

The legal structure is the basis for legal requirements and responsibility as well as for tax and statutory reporting purposes. There are more than 200 legal entities within the Ericsson Group with representation (via legal entities, branch and representative offices) in more than 140 countries.

Risk management

Ericsson's risk management is integrated with the business and its operational processes, and is a part of the EGMS to ensure accountability, effectiveness, efficiency, business continuity and compliance with corporate governance, legal and other requirements. The Board of Directors is also actively engaged in the Company's risk management. Risks related to set long-term objectives are discussed and strategies are formally approved by the Board as part of the annual strategy process. Risks related to annual targets for the Company are also reviewed by the Board and then monitored continuously during the year. Certain transactional risks require specific Board approval, e.g. acquisitions, management remuneration, borrowing or customer finance in excess of pre-defined limits.

Strategic and tactical risks

Strategic risks constitute the highest risk to the Company if not managed properly as they could have a long-term impact. Ericsson therefore reviews its long-term objectives, main strategies and business scope on an annual basis and continuously works on its tactics to reach these objectives and to mitigate any risks identified.

In the annual strategy and target setting process, objectives are set for the next three to five years. Risks and opportunities are assessed and strategies are developed to achieve the objectives. The strategy process in the Company is well established and involves regions, business units and Group functions. The strategy is finally summarized and discussed in a yearly Global Leadership Summit with approximately 250 leaders from all parts of the business. By involving all parts of the business in the process, potential risks are identified early and mitigating actions can be incorporated in the strategy and in the annual target process following the finalization of the strategy.

Technology development, industry and

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

market fundamentals and the development of the economy are key components in the evaluation of risks related to Ericsson's long-term objectives.

The outcome from the strategy process forms the basis for the annual target process, which involves regions, business units and Group functions. Risks and opportunities linked to the targets are identified as part of this process together with actions to mitigate the identified risks. Follow-up of targets, risks and mitigating actions are reported and discussed continuously in business unit and region steering groups and are reviewed by the Board of Directors.

Ericsson continuously strives to improve its risk management and believes that it is important that the entire global organization takes part in the risk management and strategy work. Therefore, risk management was given a stronger focus in 2012. During the year, an enhanced risk management framework was implemented and aligned with the Strategy and Target setting process. Risks were identified and analyzed in four categories: industry & market risks, commercial risks, operational risks and compliance risks. For more information on risks related to Ericsson's business, see the chapter "Risk factors" in the Annual Report.

Operational and financial risks

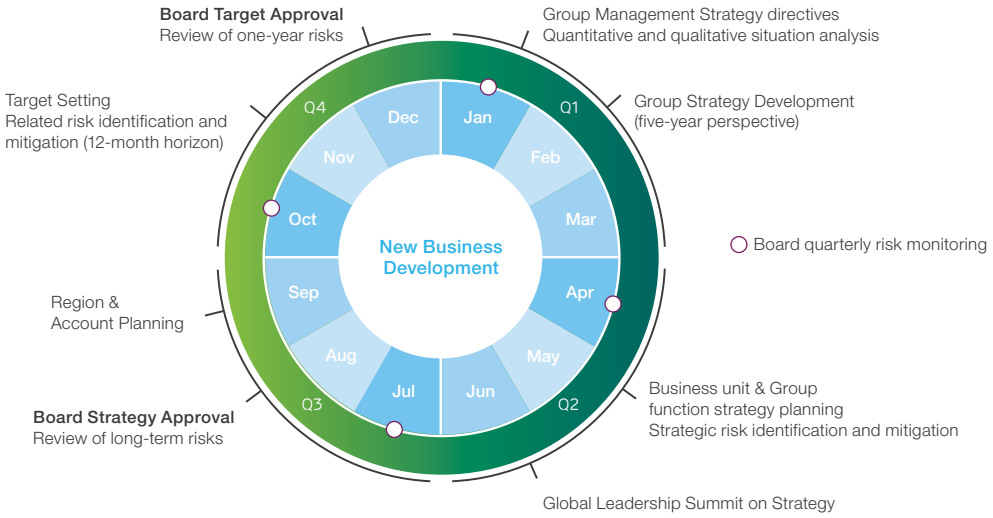
Operational risks are owned and managed by operational units. Risk management is embedded in various process controls, such as decision tollgates and approvals. Certain cross-process risks are centrally coordinated, such as information security, IT security, corporate responsibility and business continuity and insurable risks. Financial risk management is governed by a Group policy and carried out by the Treasury and Customer Finance functions, both supervised by the Finance Committee. The policy governs risk exposures related to foreign exchange, liquidity/financing, interest rates, credit risk and market price risk in equity instruments. For further information on financial risk management, see Notes to the consolidated financial statements – Note C14, "Trade receivables and customer finance", Note C19, "Interest-bearing liabilities" and Note C20, "Financial risk management and financial instruments" in the Annual Report.

Compliance risks

Ericsson has implemented Group policies and directives in order to comply with applicable laws and regulations, including a Code of Business Ethics and a Code of Conduct. Risk management is integrated in the Company's business processes. Policies and controls are implemented to comply with financial reporting standards and stock market regulations, such as the US Sarbanes-Oxley Act.

Strategic, target setting and risk management cycle

The annual strategic, target setting and risk management cycle is part of Ericsson's strategy process, which is well established within the Group and involves regions, business units and Group functions.



Compliance officer

Ericsson has a Chief Compliance Officer (CCO) whose responsibilities include providing support for compliance with laws, regulations, internal policies and directives, coordinating the different strands of expertise within Ericsson. Attention from senior-management level on compliance matters is crucial, as is ensuring that this is addressed from a cross-functional perspective. Initially, the CCO's primary focus has been to further develop Ericsson's Anti-corruption Compliance Program. This is reviewed and evaluated by the Audit Committee at least annually.

Monitoring and audits

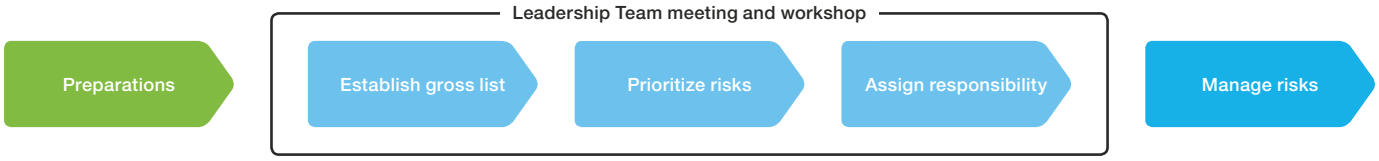
Company management monitors compliance with policies, directives and processes through internal self-assessment within all units. This is complemented by internal and external audits. External financial audits are performed by PricewaterhouseCoopers, and ISO/management system audits by Intertek. Internal audits are performed by the company's internal audit function which reports to the Audit Committee. Audits of suppliers are also conducted in order to secure compliance with Ericsson's Code of Conduct, which is mandatory for suppliers to the Ericsson Group.

Risk mitigation

Significant ongoing activities in order to mitigate risks include:

- Establishing flexibility to cost-effectively accommodate to fluctuations in customer demand
- Conducting regular Supplier Code of Conduct audits
- Continuous assessment and management of CR risks
- Conducting business continuity management in an efficient way
- Conducting corporate governance training as needed
- Continuous monitoring of information systems to guard against data breaches
- Reviewing top risks and mitigating actions at various internal governance meetings.

Process to identify and manage strategic and tactical risks for regions, business units and Group functions



Compile input:
- Business unit plan, region plan, functional strategy including SWOT analysis
- Preparatory meetings/workshop

Consider the four risk categories:
- Industry and market risks
- Commercial risks
- Operational risks
- Compliance risks

Rank the risks based on business impact and probability

Document risk heat map in relation with strategic objectives (up to 5 years) and with short-term targets (1 year)

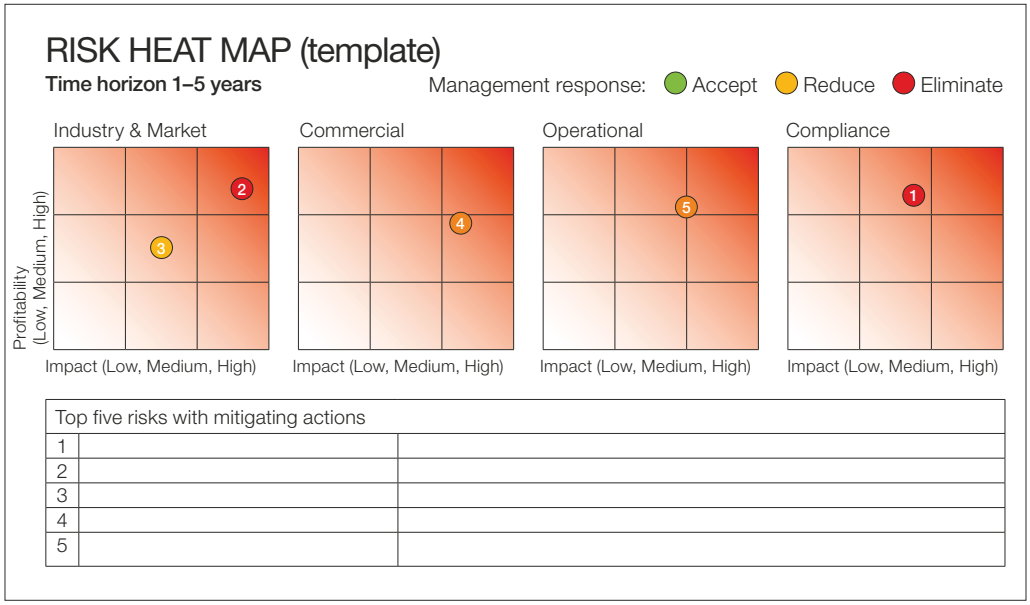
- Define management response, accept, reduce, eliminate
- Assign responsibility for managing each top risk

- Develop mitigation actions
- Secure risk reviews in business reports and governance meetings

Example of risk heat map document

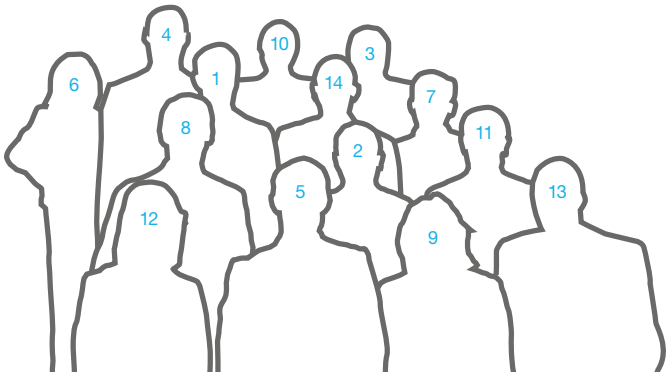
Risk heat maps are generated by business units, regions and Group functions in four risk categories:

- Industry and market
- Commercial
- Operational
- Compliance



MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM

1. Hans Vestberg
2. Jan Frykhammar
3. Magnus Mandersson
4. Johan Wibergh
5. Per Borgklint
6. Bina Chaurasia
7. Ulf Ewaldsson
8. Douglas L. Gilstrap
9. Nina Macpherson
10. Helena Norrman
11. Mats H. Olsson
12. Rima Qureshi
13. Angel Ruiz
14. Jan Wäreby



Hans Vestberg

President and CEO (since 2010)
Born 1965.
Bachelor of Business Administration and Economics, University of Uppsala, Sweden.
Board Chairman: ST-Ericsson and Svenska Handbollförbundet.
Board member: Telefonaktiebolaget LM Ericsson and Thernlunds AB.
Holdings in Ericsson [1]: 149,382 Class B shares.
Background: Previously First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's broadband and climate change working group. Member of the European Cloud Partnership Steering Board and the Leadership Council of the United Nations Sustainable Development Solutions Network.

Jan Frykhammar

Executive Vice President and Chief Financial Officer and Head of Group Function Finance (since 2009)
Born 1965.
Bachelor of Business Administration and Economics, University of Uppsala, Sweden.
Board member: ST-Ericsson and the Swedish International Chamber of Commerce.
Holdings in Ericsson [1]: 14,844 Class B shares.
Background: Previously Senior Vice President and Head of Business Unit Global Services. Various positions within Ericsson including Sales and Business Control in Business Unit Global Services, CFO in North America and Vice President, Finance and Commercial within the Global Customer Account Vodafone.

Magnus Mandersson

Executive Vice President (since 2011) and Head of Business Unit Global Services (since 2010)
Born 1959.
Bachelor of Business Administration, University of Lund, Sweden.
Board member: None.
Holdings in Ericsson [1]: 22,602 Class B shares.
Background: Previously Head of Business Unit CDMA, Market Unit Northern Europe, Global Customer Account Deutsche Telekom AG and Product Area Managed Services. Has also been President and CEO of SEC/Tele2 Europe and COO of Millicom International Cellular S.A.

Johan Wibergh

Executive Vice President (since 2010) and Head of Business Unit Networks (since 2008)
Born 1963.
Master of Computer Science, Linköping Institute of Technology, Sweden.
Board member: ST-Ericsson, Confederation of Swedish Enterprise, KTH Royal Institute of Technology and Teknikföretagen.
Holdings in Ericsson [1]: 40,448 Class B shares.
Background: President of Ericsson Brazil, President of Market Unit Nordic and Baltics and Vice President and Head of Sales at Business Unit Global Services.

Per Borgklint

Senior Vice President and Head of Business Unit Support Solutions (since 2011)
Born 1972.
Master of Science in Business Administration, Jönköping International Business School, Sweden.
Board member: None.
Holdings in Ericsson [1]: None.
Background: Previously CEO of Net1 (Ice.net), Canal Plus Nordic and Versatel. Has also held several leading positions at Tele2.

Bina Chaurasia

Senior Vice President, Chief Human Resources Officer and Head of Group Function Human Resources and Organization (since 2010)
Born 1962.
Master of Science in Management and Human Resources, Ohio State University, USA, and Master of Arts in Philosophy, University of Wisconsin, USA.
Holdings in Ericsson [1]: 19,144 Class B shares.
Background: Joined Ericsson from Hewlett Packard, where she was Vice President of Global Talent Management. Has held senior HR leadership roles at Gap, Sun Microsystems and PepsiCo/Yum.

Ulf Ewaldsson

Senior Vice President, Chief Technology Officer and Head of Group Function Technology (since February 1, 2012)
Born 1965.
Master of Science in Engineering and Business Management, Linköping Institute of Technology, Sweden.
Board member: None.
Holdings in Ericsson [1]: 14,985 Class B shares.
Background: Previously Head of Product Area Radio within Business Unit Networks. Has held various managerial positions within Ericsson since 1990.

Douglas L. Gilstrap

Senior Vice President and Head of Group Function Strategy (since 2009)
Born 1963.
Bachelor of Science in Accounting, University of Richmond, USA, and Master of Business Administration, Emory University, Atlanta, USA. Executive program at INSEAD, France.
Board member: Telecom Management Forum (TMF).
Deputy board member: ST-Ericsson.
Holdings in Ericsson [1]: 8,643 Class B shares.
Background: Has held various global managerial positions within the telecommunications sector for more than 15 years.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM CONTINUED

Nina Macpherson

Senior Vice President, General Counsel, Head of Group Function Legal Affairs and secretary to the Board of Directors (since 2011)
Born 1958.
Master of Laws, LL M, University of Stockholm, Sweden.
Board member: The Association for Swedish Listed Companies.
Holdings in Ericsson [1]: 7,857 Class B shares.
Background: Previously Vice President and Deputy Head of Group Function Legal Affairs at Ericsson. Previous positions also include private practice and in-house attorney. Member of the Swedish Securities Council.

Helena Norrman

Senior Vice President and Head of Group Function Communications (since 2011)
Born 1970.
Master of International Business Administration, Linköping University, Sweden.
Board member: None.
Holdings in Ericsson [1]: 8,312 Class B shares.
Background: Previously Vice President, Communications Operations at Group Function Communications at Ericsson. Has held various positions within Ericsson's global communications organization since 1998. Previous positions as communications consultant.

Mats H. Olsson

Head of Region North East Asia (since 2010)
Born 1954.
Master of Business Administration, Stockholm School of Economics, Sweden.
Board member: None.
Holdings in Ericsson [1]: 61,252 Class B shares.
Background: International economic advisor to a number of Chinese provincial and municipal governments. Previously Head of Market Unit Greater China. Appointed President of Ericsson Greater China in 2004, with overall responsibility for mainland China, Hong Kong, Macao and Taiwan. Also assumed overall responsibility for Japan and South Korea in 2010. Has held various executive positions across Asia-Pacific over the last 25 years.

Rima Qureshi

Senior Vice President and Head of Business Unit CDMA Mobile Systems (since 2010)
Born 1965.
Bachelor of Information Systems and Master of Business Administration, McGill University, Montreal, Canada.
Board member: MasterCard Incorporated.
Holdings in Ericsson [1]: 4,932 Class B shares.
Background: Also serves as Head of Ericsson Response. Previously Vice President of Strategic Improvement Program and Vice President Product Area Customer Support. Has held various positions within Ericsson since 1993.

Angel Ruiz

Head of Region North America (since 2010)
Born 1956.
Bachelor of Electrical Engineering, University of Central Florida, USA, and Master of Management Science and Information Systems, Johns Hopkins University, USA.
Board member: CTIA.
Holdings in Ericsson [1]: 38,546 Class B shares.
Background: Joined Ericsson in 1990 and has held a variety of technical, sales and managerial positions within the Company, including heading up the global account teams for Cingular/SBC/BellSouth (now AT&T). Was appointed President of Ericsson North America in 2001.

Jan Wäreby

Senior Vice President and Head of Sales and Marketing (since 2011)
Born 1956.
Master of Science, Chalmers University, Gothenburg, Sweden.
Board member: ST-Ericsson.
Holdings in Ericsson [1]: 66,495 Class B shares.
Background: Senior Vice President and Head of Business Unit Multimedia and Executive Vice President and Head of Sales and Marketing for Sony Ericsson Mobile Communications.

Up until January 31, 2012, Håkan Eriksson, former Senior Vice President, Chief Technology Officer and Head of Group Function Technology & Portfolio Management, was a member of the Executive Leadership Team.

[1] The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

AUDITOR

According to the Articles of Association, the Parent Company shall have no less than one and no more than three registered public accounting firms as external independent auditor. Pursuant to the Swedish Companies Act, the mandate period of an auditor shall be one year, unless the Articles of Association provide for a longer mandate period up to four years. The auditor reports to the shareholders at General Meetings.

The duties of the auditor include the following:

- Updating the Board of Directors regarding the planning, scope and content of the annual audit
- Examining the interim and year-end financial statements to assess accuracy and completeness of the accounts and adherence to accounting standards and policies
- Advising the Board of Directors of non-audit services performed, the consideration paid and other issues that determine the auditor's independence.

For further information on the contacts between the Board and the auditor, please see "Work of the Board of Directors" earlier in this Corporate Governance Report.

All Ericsson's quarterly financial reports are reviewed by the auditor.

Current auditor

PricewaterhouseCoopers AB was elected auditor at the AGM 2012 for a period of one year, i.e. until the close of the AGM 2013.

PricewaterhouseCoopers AB has appointed Peter Nyllinge, Authorized Public Accountant, to serve as auditor in charge.

Fees to the auditor

Ericsson paid the fees (including expenses) for audit-related and other services listed in the table in Notes to the consolidated financial statements – Note C30, "Fees to auditors" in the Annual Report.

INTERNAL CONTROL OVER FINANCIAL REPORTING 2012

This section has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code and is limited to internal control over financial reporting.

Since Ericsson is listed in the United States, the requirements outlined in the Sarbanes-Oxley Act (SOX) apply. These regulate the establishment and maintenance of internal controls over financial reporting as well as management's assessment of the effectiveness of the controls.

In order to support high quality reporting and to meet the requirement of SOX, the Company has implemented detailed documented controls and testing and reporting procedures based on the internationally established COSO framework for internal control. The COSO framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's internal control report according to SOX will be included in Ericsson's Annual Report on Form 20-F and filed with the SEC in the United States.

During 2012, the Company has included operations of acquired entities as well as continued to improve the design and execution of its financial reporting controls.

Disclosure policies

Ericsson's financial disclosure policies aim to ensure transparent, relevant and consistent communication with equity and debt investors on a fair and equal basis. This will support a fair market value for Ericsson securities. Ericsson wants current and potential investors to have a good understanding of how the Company works, including operational performance, prospects and potential risks.

To achieve these objectives, financial reporting and disclosure must be:

- Transparent – enhancing understanding of the economic drivers and operational performance of the business, building trust and credibility
- Consistent – comparable in scope and level of detail to facilitate comparison between reporting periods
- Simple – to support understanding of business operations and performance and to avoid misinterpretations
- Relevant – with focus on what is relevant to Ericsson's stakeholders or required by regulation or listing agreements, to avoid information overload
- Timely – with regular scheduled disclosures as well as ad-hoc information, such as press releases on important events, performed in a timely manner
- Fair and equal – where all material information is published via press releases to ensure that the whole investor community receives the information at the same time
- Complete, free from material errors and a reflection of best practice – disclosure is compliant with applicable financial reporting standards and listing requirements and in line with industry norms.

Ericsson's website comprises comprehensive information on the Group, including:

- An archive of annual and interim reports
- On-demand access to recent news
- Copies of presentations given by senior management at industry conferences.

CORPORATE GOVERNANCE REPORT 2012 CONTINUED

Disclosure controls and procedures

Ericsson has controls and procedures in place to allow for timely information disclosure under applicable laws and regulations, including the US Securities Exchange Act of 1934, and under agreements with NASDAQ OMX Stockholm and NASDAQ New York. These procedures also require that such information is provided to management, including the CEO and CFO, so timely decisions can be made regarding required disclosure.

The Disclosure Committee comprises members with various expertise. It assists managers in fulfilling their responsibility regarding disclosures made to the shareholders and the investment community. One of the main tasks of the committee is to monitor the integrity and effectiveness of the disclosure controls and procedures.

Ericsson has investments in certain entities that the Company does not control or manage. With respect to such entities, disclosure controls and procedures are substantially more limited than those maintained with respect to subsidiaries.

During the year, Ericsson's President and CEO and the CFO evaluated the disclosure controls and procedures and concluded that they were effective at a reasonable assurance level as at December 31, 2012.

Internal control over financial reporting

Ericsson has integrated risk management and internal control into its business processes. As defined in the COSO framework, internal control is an aggregation of components such as a control environment, risk assessment, control activities, information and communication and monitoring.

During the period covered by the Annual Report 2012, there were no changes to the internal control over financial reporting that have materially affected, or are likely to materially affect, the internal control over financial reporting.

Control environment

The Company's internal control structure is based on the division of tasks between the Board of Directors and its Committees and the President and CEO. The Company has implemented a management system that is based on:

- Steering documents, such as policies, directives and a Code of Business Ethics
- A strong corporate culture
- The Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority
- Several well-defined Group-wide processes for planning, operations and support.

The most essential parts of the control environment relative to financial reporting are included in steering documents and processes for accounting and financial reporting. These steering documents are updated regularly to include, among other things:

- Changes to laws
- Financial reporting standards and listing requirements, such as IFRS and SOX.

The processes include specific controls to be performed to ensure high quality financial reports. The management of each reporting legal entity, region and business unit is supported by a financial controller function with execution of controls related to transactions and reporting. The financial controller functions are organized in a number of Company Control Hubs, each supporting a number of legal entities within a geographical area. A financial controller function is also established on Group level, reporting to the CFO.

Risk assessment

Risks of material misstatements in financial reporting may exist in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure. Other risks related to financial reporting include fraud, loss or embezzlement of assets and undue favorable treatment of counterparties at the expense of the Company.

Policies and directives regarding accounting and financial reporting cover areas of particular significance to support correct, complete and timely accounting, reporting and disclosure.

Identified types of risks are mitigated through well-defined business processes with integrated risk management activities, segregation of duties and appropriate delegation of authority. This requires specific approval of material transactions and ensures adequate asset management.

Control activities

The Company's business processes include financial controls regarding the approval and accounting of business transactions. The

financial closing and reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

Regular analyses of the financial results for each subsidiary, region and business unit cover the significant elements of assets, liabilities, revenues, costs and cash flow. Together with further analysis of the consolidated financial statements performed at Group level, these procedures are designed to produce financial reports without material errors.

For external financial reporting purposes, the Disclosure Committee performs additional control procedures to review whether the disclosure requirements are fulfilled.

The Company has implemented controls to ensure that financial reports are prepared in accordance with its internal accounting and reporting policies and IFRS as well as with relevant listing regulations. It maintains detailed documentation on internal controls related to accounting and financial reporting. It also keeps records on the monitoring of the execution and results of such controls. This allows the President and CEO and the CFO to assess the effectiveness of the controls in a way that is compliant with SOX.

Entity-wide controls, focusing on the control environment and compliance with financial reporting policies and directives, are implemented in all subsidiaries. Detailed process controls and documentation of controls performed are also implemented in almost all subsidiaries, covering the items with significant materiality and risk.

In order to secure compliance, governance and risk management in the areas of legal entity accounting and taxation, as well as securing funding and equity levels, the Company operates through a Company Control hub structure, covering subsidiaries in each respective geographical area.

Based on a common IT platform, a common chart of account and common master data, the hubs and shared services centers perform accounting and financial reporting services for most subsidiaries.

Information and communication

The Company's information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned. Regular updates and briefing documents regarding changes in accounting policies, reporting and disclosure requirements are also supplied.

Subsidiaries and operating units prepare regular financial and management reports for internal steering groups and Company management. These include analysis and comments on financial performance and risks. The Board of Directors receives financial reports monthly. Ericsson has established a whistleblower procedure for the reporting of alleged violations that (i) are conducted by Group or local management, and (ii) relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety.

Monitoring

The Company's process for financial reporting is reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The shared service center and company control hub management continuously monitors accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and company controllers in all subsidiaries as well as in business units and regions.

The Company's financial performance is also reviewed at each Board meeting. The Committees of the Board fulfill important monitoring functions regarding remuneration, borrowing, investments, customer finance, cash management, financial reporting and internal control. The Audit Committee and the Board of Directors review all interim and annual financial reports before they are released to the market. The Company's internal audit function reports directly to the Audit Committee. The Audit Committee also receives regular reports from the external auditor. The Audit Committee follows up on any actions taken to improve or modify controls.

BOARD OF DIRECTORS

Stockholm, March 5, 2013
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016–0680

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of the shareholders in Telefonaktiebolaget LM Ericsson (publ), corporate identity number 556016-0680.

It is the Board of Directors who is responsible for the corporate governance report for the year 2012 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm March 5, 2013

Peter Nyllinge
Authorized Public Accountant
PricewaterhouseCoopers AB
Auditor in Charge

Johan Engstam
Authorized Public Accountant
PricewaterhouseCoopers AB

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
Section 3.2_Ericsson 2012 Annual Report.pdf

MOBILE BROADBAND IS TRANSFORMING VIEWING HABITS

Mobile broadband connectivity is encouraging new habits in video consumption, as people now view on smartphones and tablets, increasingly outside the home.

25%

Approximately 25% of total smartphone traffic*

40%

Approximately 40% of total tablet traffic*

* Numbers from measurements in a selected number of commercial HSPA and LTE broadband networks in Asia, Europe and the Americas.

REMUNERATION REPORT

INTRODUCTION

This report outlines how the remuneration policy is implemented throughout Ericsson in line with corporate governance best practice, with specific references to Group management. The work of the Remuneration Committee in 2012 and the remuneration policy are explained, at the beginning of the report, followed by descriptions of plans and approaches.

More details of the remuneration of Group management and Board members' fees can be found in the Notes to the Consolidated financial statements – Note C28, "Information regarding members of the Board of Directors, the Group management and employees".

CONTENTS

Introduction 158
The Remuneration Committee 158
Remuneration 2012 159
Total remuneration 159

THE REMUNERATION COMMITTEE

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration to the Executive Leadership Team (ELT). This includes fixed salaries, pensions, other benefits and short-term and long-term variable remuneration, all in the context of pay and employment conditions throughout Ericsson. The Remuneration Committee reviews and prepares for resolution by the Board:

- Proposals on salary and other remuneration, including retirement compensation, for the President and CEO
- Proposals on targets for the short-term variable remuneration for the President and CEO
- Proposals to the Annual General Meeting on guidelines for remuneration to the ELT
- Proposals to the Annual General Meeting on long-term variable remuneration and similar equity arrangements

The responsibility for the Remuneration Committee is also to:

- Approve proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other ELT.
- Approve proposals on targets for the short-term variable remuneration for the Executive Vice Presidents and other ELT.
- Approve pay out of the short-term variable renumeration for the ELT, based on achievements and performance.

The Remuneration Committee's work is the foundation for the governance of Ericsson's remuneration processes together with Ericsson's internal systems and audit controls. The Committee is chaired by Leif Johansson and its other members are Börje Ekholm, Nancy McKinstry, and Karin Åberg. All the members are non-executive directors, independent (except for the employee representative) as required by the Swedish Corporate Governance Code and have relevant knowledge and experience of remuneration matters.

The Company's General Counsel acts as secretary to the Committee. The Chief Executive Officer, the Senior Vice President, Head of Human Resources and Organization and the Vice President, Head of Total Rewards attend the Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed.

The Remuneration Committee has appointed an independent expert advisor, Piia Pilv, to assist and advise the Committee. The independent advisor provided no other services to the Company during 2012. The Remuneration Committee is also provided with national and international pay data collected from external survey providers and can call on other independent expertise, should it so require. The Chairman continues to ensure that contact is maintained, as necessary and appropriate, with principal shareholders regarding remuneration.

The purpose and function of the Remuneration Committee and its responsibilities can be found on the Ericsson website. These responsibilities, together with the Guidelines for remuneration to Group Management (ELT) and the Long-Term Variable remuneration plan, are reviewed and evaluated annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the

REMUNERATION POLICY

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. The remuneration policy, together with the mix of remuneration elements, is designed to reflect these principles by creating a balanced remuneration package. The Guidelines for remuneration to Group Management 2012 approved by AGM can be found in note C28. The auditor's report regarding whether we have complied with the guidelines for compensation to the ELT during 2012 is posted on the Ericsson website.

Summaries of 2012 short- and long-term variable remuneration

What we call it	What is it?	What is the objective?	Who participates?	How is it earned?
Short-term: Remuneration delivered over 12 months or less				
Fixed salary	Fixed remuneration paid at set times	Attract and retain employees, delivering part of annual remuneration in a predictable format	All employees	Market appropriate levels set according to position and evaluated according to individual performance
Short-Term Variable remuneration (STV)	A variable plan that is measured and paid over a single year	Align employees with clear and relevant targets, providing an earnings opportunity in return for performance, and flexible cost	Enrolled employees, including Executive Leadership Team. Approx. 73,900 in 2012	Achievements against set targets. Reward can increase to up to twice the target level and decrease to zero, depending on performance
Local and Sales Incentive Plans	Tailored versions of the STV	As for STV, tailored for local or business requirements, such as sales	Employees in sales. Approx. 2,300 in 2012	Similar to STV. All plans have maximum award and vesting limits
Long-term: Remuneration delivered over 3 years or more				
Stock Purchase Plan (SPP)	All-employee stock-based plan	Reinforce a "One Ericsson" mentality and align employees' interests with those of shareholders	All employees are eligible	Buy one share and it will be matched by one share after 3 years if still employed
Key Contributor Retention Plan (KC)	Share-based plan for selected individuals	Recognize, retain and motivate key contributors for performance, critical skills and potential	Up to 10% of employees	If selected, get one more matching share in addition to the SPP one
Executive Performance Stock Plan (EPSP)	Share-based plan for senior executives	Remuneration for long-term commitment and value creation	Senior executives, including Executive Leadership Team	Get up to 4, 6 or, for CEO, 9 further matching shares to the SPP one for long-term performance

policy continues to provide Ericsson with a competitive remuneration strategy.

The Guidelines for remuneration to Group Management are, in accordance with Swedish law, brought to shareholders annually for approval.

The Remuneration Committee met six times during the year 2012.

The winter meetings focused on following up on results from the 2011 variable remuneration programs and preparing proposals to shareholders for the 2012 Annual General Meeting (AGM). During the spring the committee determined remuneration to a new member of the ELT and revised the remuneration to others. In the fall, the committee reviewed the Guidelines for remuneration to Group Management and decided to continue the Long-Term Variable remuneration plans without any material changes and the Short-Term Variable remuneration plans with an increased weighting on capital and margins for 2013. The committee based its considerations on the business needs, analyses and reviews of the global market trends and feedback from shareholders and institutions. Supported by the independent advisor, the Committee also reviewed the competitiveness of the ELT remuneration in the global market. The Remuneration Committee is of the opinion that the Long-Term Variable remuneration plans fulfill the defined objectives to promote "One Ericsson" and to align the interests of employees with those of shareholders. The number of participants as of December 1, 2012 was 27,000 employees, compared to 24,000 employees as of December 1, 2011. The evaluation also confirms that the Key Contributor Retention Plan meets the purpose of retaining our key employees. The voluntary attrition rate among Key Contributors is about two-thirds compared to the attrition rate in the total number of employees.

REMUNERATION 2012

To enhance the understanding of how Ericsson translates remuneration principles and policy into practice, an internal remuneration website was launched in January 2011. The site contains e-learning and training programs targeted at line managers. It supports more informed decisions and better communication to the wider employee population. The next step in this development is the planned implementation of an Integrated HR IT tool. The first phase was launched to all managers in Ericsson in November 2012 and include performance management, talent planning, variable pay and annual salary review.

TOTAL REMUNERATION

When considering the remuneration of an individual, it is the total remuneration that matters. First, the total annual cash compensation is defined, consisting of the target level of short-term variable remuneration plus fixed salary. Thereafter, target long-term variable remuneration may be added to get to the total target remuneration and, finally, pension and other benefits may be added to arrive at the total remuneration.

For the ELT, remuneration consists of fixed salary, short-term and long-term variable remuneration, pension and other benefits. If the size of any one of these elements is increased or decreased when setting the remuneration, at least one other element has to change if the competitive position is to remain unchanged.

The remuneration costs for the CEO and the ELT are reported in Note C28.

Fixed salary

When setting fixed salaries, the Remuneration Committee considers the impact on total remuneration, including pension and associated costs. The absolute levels are determined by the size and complexity of the position and the year-to-year performance of the individual. Together with other elements of remuneration, ELT salaries are subject to an annual review by the

REMUNERATION REPORT CONTINUED

Remuneration Committee, which considers external pay data to ensure that levels of pay remain competitive and appropriate to the remuneration policy.

Variable remuneration

Ericsson strongly believes that, where possible, variable compensation should be encouraged as an integral part of total remuneration. First and foremost, this aligns employees with clear and relevant targets, but it also enables more flexible payroll costs and emphasizes the link between performance and pay. All variable remuneration plans have maximum award and vesting limits. Short-term variable remuneration is to a greater extent dependent on the specific unit or function, while long-term variable remuneration is dependent on the achievements of the Ericsson Group.

Short-term variable remuneration

Annual variable remuneration is delivered through cash-based programs. Specific business targets are derived from the annual business plan approved by the Board of Directors and, in turn, defined by the Company's long-term strategy. Ericsson strives to grow faster than the market with best-in-class margins and strong cash conversion and therefore the starting point is to have three core targets:

- Net sales growth
- Operating income
- Cash flow.

For the ELT, targets are thus predominantly financial at either Group level (for Heads of Group functions) or at the individual unit level (for Heads of regions or business units) and may also include operational targets like customer satisfaction and employee engagement.

The chart below illustrates how payouts to the ELT have varied with performance over the past five years.

The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are cascaded to unit-related targets throughout the Company, always subject to a two-level management approval process. The Remuneration Committee monitors the appropriateness and fairness of Group target levels throughout the performance year and has the authority to revise them should they cease to be relevant or stretching or to enhance shareholder value.

During 2012, approximately 76,200 employees participated in short-term variable remuneration plans.

Long-term variable remuneration

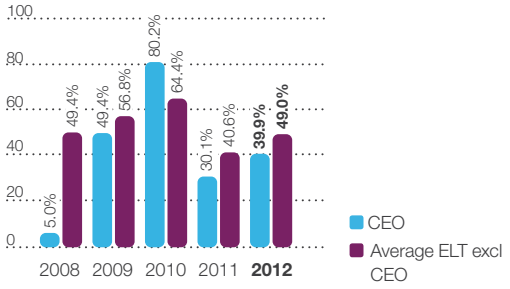
Share-based long-term variable remuneration plans are submitted each year for approval by shareholders at the AGM. All long-term variable remuneration plans are designed to form part of a well-balanced total remuneration package and to span over a minimum of three years. As these are variable plans, outcomes are unknown and rewards depend on long-term personal investment, corporate performance and resulting share price performance. During 2012, share-based remuneration was made up of three different but linked plans: the all-employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

The Stock Purchase Plan

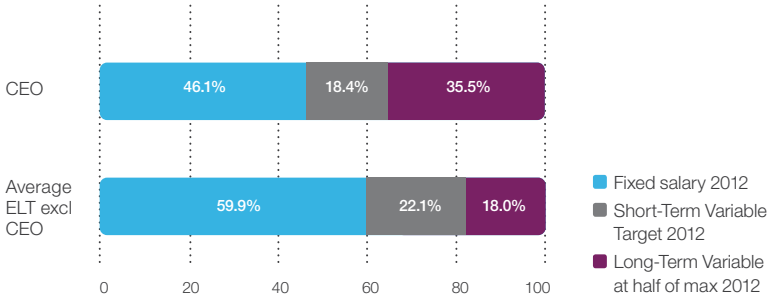
The all-employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate. This reinforces "One Ericsson" aligned with shareholder interests. Employees can save up to 7.5% of gross fixed salary (the President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration) for purchase of Class B shares at market price on NASDAQ OMX Stockholm or ADSs on NASDAQ New York (contribution shares) over a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs, as applicable. The plan was introduced in 2002 and employees in 71 countries participated during its first year. In December 2012, the number of participants was over 27,000, or approximately 28% of eligible employees in 100 countries.

Participants save each month, beginning with the August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third

Short-term variable remuneration payouts as percentage of opportunity



Fixed salary, short-term and long-term variable remuneration as percentage of total target remuneration



Short-term variable remuneration structure

	Short-term variable remuneration as percentage of fixed salary			Percentage of short-term variable remuneration maximal opportunity		
	Target level	Maximum level	Actual paid for 2012	Group financial targets	Unit/functional financial targets	Non-financial targets
CEO 2012	40%	80%	32%	90%	0%	10%
CEO 2013	40%	80%	–	100%	0%	0%
Average ELT 2012 [1]	36%	72%	37%	49%	27%	24%
Average ELT 2013 [1]	38%	76%	–	50%	24%	26%

[1] Excludes CEO – differences in target and maximum levels from year to year are due to changes in the composition of the ELT.

anniversary of each such investment and hence the matching spans over two financial years and two tax years.

The Key Contributor Retention Plan

The Key Contributor Retention Plan is part of Ericsson's talent management strategy. It is designed to recognize individuals for performance, critical skills and potential as well as to encourage retention of key employees.

Under the program, operating units around the world can nominate up to 10% of employees worldwide. Each unit nominates individuals that have been identified according to performance, critical skills and potential. The nominations are calibrated in management teams locally and are reviewed by both local and corporate Human Resources to ensure that there is a minimum of bias and a strong belief in the system.

Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month investment period. The plan was introduced in 2004.

The Executive Performance Stock Plan

The Executive Performance Stock Plan was first introduced in 2004. The plan is designed to focus management on driving long-term financial performance and to provide market competitive remuneration. Senior executives, including the ELT, are selected to obtain up to four or six extra shares (performance matching shares). This is in addition to the one matching share for each contribution share purchased under the all-employee Stock Purchase Plan. Performance matching is subject to the fulfillment of performance targets. Since 2010, the President and CEO may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share.

In the 2004 to 2010 plans, the performance targets were Earnings Per Share (EPS) targets.

To support the long-term strategy and value creation of the Company, new targets were defined for the 2011 plan. At the AGM 2012, the following targets for the 2012 Executive Performance Stock Plan were resolved on proposal by the Board:

- Up to one-third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated net sales between year 0 (2011 financial year) and year 3 (2014 financial year) is between 2% and 8%.
- Up to one-third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated operating income between year 0 (2011 financial year) and year 3 (2014 financial year) is between 5% and 15%.
- Up to one-third of the award will be based on the cash conversion during each of the years during the performance period, calculated as cash flow from operating activities divided by net income reconciled to cash. One-ninth of the total award will vest for any year, i.e. financial years 2012, 2013 and 2014, if cash conversion is at or above 70%.

Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, as determined by the Board of Directors, reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors. When undertaking its evaluation of performance outcomes the Board of Directors will consider, in particular, the impact of larger acquisitions, divestitures, the creation of joint ventures and any other significant capital event on the three targets on a case by case basis.

Benefits and terms of employment

Pension benefits follow the competitive practice in the employee's home country and may contain various supplementary plans, in addition to any national system for social security. Where possible, pension plans are operated on a defined contribution basis. Under these plans, Ericsson pays contributions into a plan but does not guarantee the ultimate benefit, unless local regulations or legislation prescribe that defined benefit plans that do give such guarantees have to be offered.

For the President and CEO and other members of the ELT employed in Sweden before 2011, a supplementary pension plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP). The pension age for these ELT members is normally 60 years.

The ELT members employed in Sweden from 2011 are normally covered by the defined contribution plan under the ITP1 scheme, with a pensionable age of 65 years.

For members of the ELT who are not employed in Sweden, local market competitive pension arrangements apply.

Other benefits, such as company car and medical insurance, are also set to be competitive in the local market. The ELT members may not receive loans from the Company.

The ELT members locally employed in Sweden have a mutual notice period of up to six months. Upon termination of employment by the Company, severance pay can amount to up to 18 months' fixed salary. For other ELT members, different notice period and severance pay agreements apply; however, no agreement exceeds the notice period of six months or the severance pay period of 18 months.

SHARE INFORMATION

STOCK EXCHANGE TRADING

The Ericsson Class A and Class B shares are listed on NASDAQ OMX Stockholm. In the United States, the Class B shares are listed on NASDAQ New York in the form of American Depositary Shares (ADS) evidenced by American Depositary Receipts (ADR) under the symbol ERIC. Each ADS represents one Class B share.

In 2012, approximately 2.4 (3.4) billion shares were traded on NASDAQ OMX Stockholm and about 1.1 (1.6) billion shares were traded on NASDAQ New York. A total of 3.5 (5) billion Ericsson shares where thus traded on the exchanges were we are listed. Trading volume in Ericsson shares decreased by approximately 27% on NASDAQ OMX Stockholm and by approximately 30% on NASDAQ New York compared to 2011.

The Ericsson share is also traded on other venues such as BATS Europe, Burgundy, Chi-X Europe.

The Ericsson share

Share listings	
NASDAQ OMX Stockholm	
NASDAQ New York	
Share data	
Total number of shares in issue	3,305,051,735
of which Class A shares, each carrying one vote [1]	261,755,983
of which Class B shares, each carrying one tenth of one vote [1]	3,043,295,752
Ericsson treasury shares, Class B	84,798,095
Quotient value	SEK 5.00
Market capitalization, December 31, 2012	approx. SEK 215 b.
ICB (Industry Classification Benchmark)	9500
Ticker codes	
NASDAQ OMX Stockholm	ERIC A/ERIC B
NASDAQ New York	ERIC
Bloomberg NASDAQ OMX Stockholm	ERICA SS/ERICB SS
Bloomberg NASDAQ	ERIC US
Reuters NASDAQ OMX Stockholm	ERICa.ST/ERICb.ST
Reuters NASDAQ	ERIC.O

[1] Both classes of shares have the same rights of participation in the net assets and earnings.

Changes in number of shares and capital stock 2008–2012

		Number of shares	Share capital
2008	June 2, reverse split 1:5	3,226,451,735	16,132,258,678
2008	July 23, new issue (Class C shares, later converted to Class B)	19,900,000	99,500,000
2008	December 31	3,246,351,735	16,231,758,678
2009	June 8, new issue (Class C shares, later converted to Class B)	27,000,000	135,000,000
2009	December 31	3,273,351,735	16,366,758,678
2010	December 31	3,273,351,735	16,366,758,678
2011	December 31	3,273,351,735	16,366,758,678
2012	June 29, new issue (Class C shares, later converted to Class B) [1]	31,700,000	158,500,000
2012	December 31	3,305,051,735	16,525,258,678

[1] The Annual General Meeting (AGM) 2012 resolved to issue 31.7 million Class C shares for the Long-Term Variable Remuneration Program (LTV). In accordance with an authorization from the AGM, in the second quarter 2012, the Board of Directors resolved to repurchase the new issued shares, which were subsequently converted into Class B shares. The quotient value of the repurchased shares was SEK 5.00, totaling SEK 158.5 million, representing less than one percent of capital stock, and the acquisition cost was approximately SEK 158.7 million.

Share performance indicators

	2012	2011	2010	2009	2008
Earnings per share, diluted (SEK) [1]	1.78	3.77	3.46	1.14	3.52
Earnings per share, diluted non-IFRS (SEK) [2]	2.74	4.72	4.80	2.87	4.24
Operating income per share (SEK) [3] [4]	3.25	5.58	7.42	5.80	7.50
Cash flow from operating activities per share (SEK) [3]	6.85	3.11	8.31	7.67	7.54
Stockholders' equity per share, basic, end of period (SEK) [5]	42.51	44.57	45.34	43.79	44.21
P/E ratio	36	19	22	57	17
Total shareholder return (%)	-3	–7	22	15	–20
Dividend per share (SEK) [6]	2.75	2.50	2.25	2.00	1.85

[1] Calculated on average number of shares outstanding, diluted.
[2] EPS, diluted, excluding amortizations and write-downs of acquired intangible assets, SEK.
[3] Calculated on average number of shares outstanding, basic.
[4] For 2010, 2009 and 2008 excluding restructuring charges.
[5] Calculated on number of shares, end of period.
[6] For 2012 as proposed by the Board of Directors.

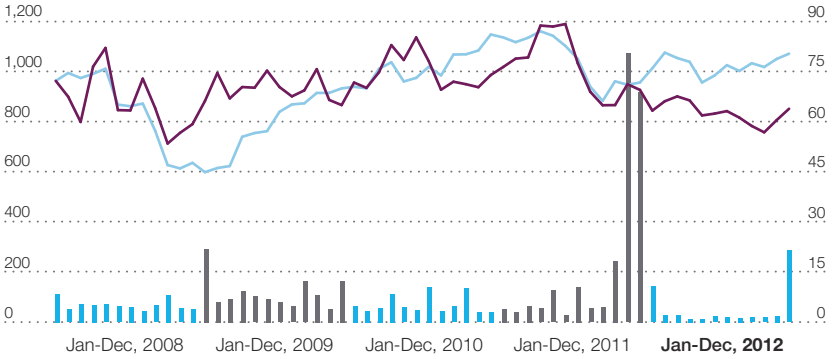
For definitions of the financial terms used, see Glossary, Financial Terminology and Exchange Rates.

SHARE TREND

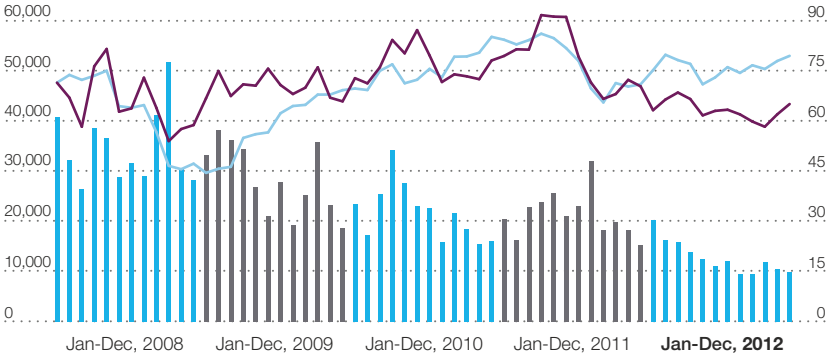
In 2012, Ericsson's total market capitalization decreased by about 7% to SEK 215 billion, compared to a decrease by 10% reaching SEK 230 billion in 2011. The OMX Stockholm Index on NASDAQ OMX Stockholm increased by 12% and the NASDAQ composite index increased by 16%. The S&P 500 Index increased by 13%.

Share turnover and price trend, NASDAQ OMX Stockholm

Class A shares, SEK m



Class B shares, SEK m

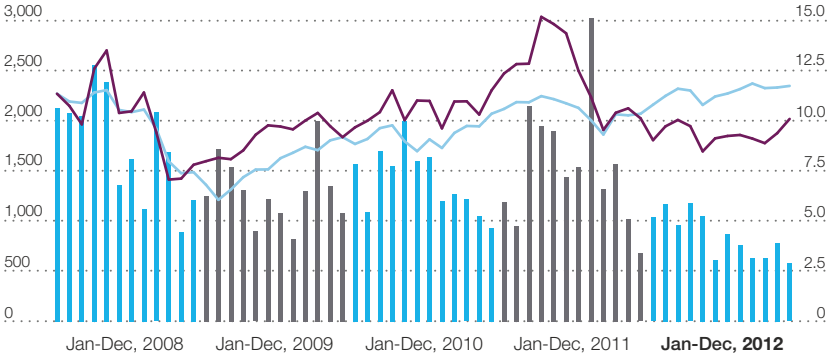


Turnover, SEK million — Price, SEK — OMX Stockholm (indexed to share price)

Volumes reflect trading on NASDAQ OMX Stockholm only. Source: Nasdaq OMX Stockholm

Share turnover and price trend, US market

ADS, USD m

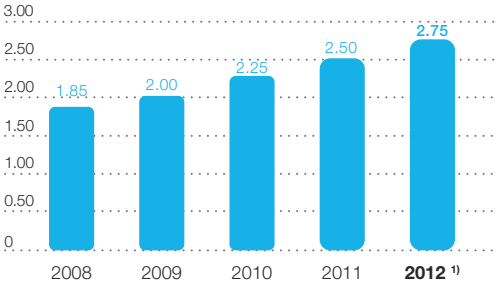


Turnover, USD million — Price, USD — S&P 500 (indexed to share price)

Volumes reflect trading on NASDAQ OMX Stockholm only. Source: Nasdaq New York

Dividend per share

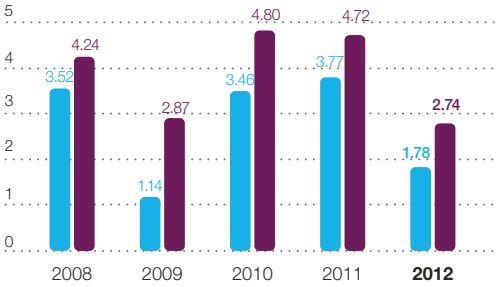
SEK



1) For 2012 as proposed by the Board of Directors.

Earnings per share, diluted

SEK



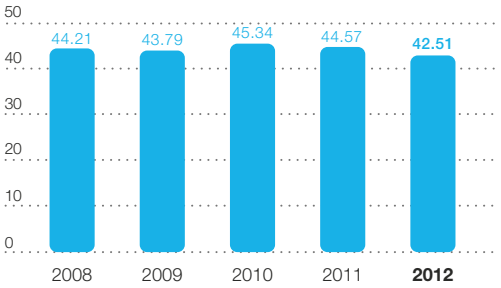
Earnings per share, diluted

Earnings per share, diluted (non-IFRS) 1)

1) EPS, diluted, excl. amortizations and write-downs of acquired intangible assets, SEK.

Stockholders' equity per share, basic

SEK



SHARE INFORMATION CONTINUED

OFFER AND LISTING DETAILS

Principal trading market – NASDAQ OMX Stockholm – share prices

The table below states the high and low share prices for our Class A and Class B shares as reported by NASDAQ OMX Stockholm for the last five years. Trading on the exchange generally continues until 5:30 p.m. (CET) each business day. In addition to trading on the exchange, there is also trading off the exchange and on alternative venues during trading hours and also after 5:30 p.m. (CET).

NASDAQ OMX Stockholm publishes a daily Official Price List of Shares which includes the volume of recorded transactions in each listed stock, together with the prices of the highest and lowest recorded trades of the day. The Official Price List of Shares reflects price and volume information for trades completed by the members. The equity securities listed on the NASDAQ OMX Stockholm Official Price List of Shares currently comprise the shares of 258 companies.

Host market NASDAQ New York – ADS prices

The table below states the high and low share prices quoted for our ADSs on NASDAQ New York for the last five years. The NASDAQ New York quotations represent prices between dealers, not including retail mark-ups, markdowns or commissions, and do not necessarily represent actual transactions.

Share prices on NASDAQ OMX Stockholm

(SEK)	2012	2011	2010	2009	2008
Class A at last day of trading	63.90	69.55	74.00	65.00	59.30
Class A high (January 3, 2012)	72.00	93.60	88.40	78.80	83.60
Class A low (November 16, 2012)	55.55	59.05	65.20	55.40	40.60
Class B at last day of trading	65.10	70.40	78.15	65.90	58.80
Class B high (January 3, 2012)	71.90	96.65	90.45	79.60	83.70
Class B low (July 18, 2012)	55.90	61.70	65.90	55.50	40.60

Source: Nasdaq OMX Stockholm

Share prices on NASDAQ New York

(USD)	2012	2011	2010	2009	2008
ADS at last day of trading	10.10	10.13	11.53	9.19	7.81
ADS high (April 3, 2012)	10.60	15.44	12.39	10.92	14.00
ADS low (May 17, 2012)	8.23	8.83	9.40	6.60	5.49

Source: Nasdaq New York

Share prices on NASDAQ OMX Stockholm and NASDAQ New York

	NASDAQ OMX Stockholm				NASDAQ New York	
	SEK per Class A share		SEK per Class B share		USD per ADS [1]	
Period	High	Low	High	Low	High	Low
Annual high and low						
2008	83.60	40.60	83.70	40.60	14.00	5.49
2009	78.80	55.40	79.60	55.50	10.92	6.60
2010	88.40	65.20	90.45	65.90	12.39	9.40
2011	93.60	59.05	96.65	61.70	15.44	8.83
2012	72.00	55.55	71.90	55.90	10.60	8.23
Quarterly high and low						
2011 First Quarter	80.05	70.50	83.00	73.25	13.06	10.99
2011 Second Quarter	93.60	73.00	96.65	75.30	15.44	12.06
2011 Third Quarter	91.80	60.50	93.80	63.15	14.82	9.33
2011 Fourth Quarter	71.50	59.05	72.55	61.70	11.25	8.83
2012 First Quarter	72.00	59.25	71.90	58.15	10.53	8.58
2012 Second Quarter	69.70	58.75	69.95	59.60	10.60	8.23
2012 Third Quarter	67.00	55.95	67.80	55.90	10.05	8.23
2012 Fourth Quarter	64.90	55.55	66.85	56.60	10.21	8.31
Monthly high and low						
August 2012	67.00	60.55	67.80	61.50	10.05	9.14
September 2012	62.55	58.35	64.10	59.85	9.79	8.91
October 2012	59.85	56.10	61.00	57.40	9.27	8.57
November 2012	60.50	55.55	62.30	56.60	9.41	8.31
December 2012	64.90	60.00	66.85	62.45	10.21	9.40
January 2013	74.30	62.90	76.95	64.50	11.82	9.78

[1] One ADS = 1 Class B share.

Source: Nasdaq OMX Stockholm and Nasdaq New York

SHAREHOLDERS

As of December 31, 2012, the Parent Company had 551 719 shareholders registered at Euroclear Sweden AB (the Central Securities Depository – CSD), of which 1 080 holders had a US address. According to information provided by our depositary, Citibank, there were 189,454,944 ADSs outstanding as of December 31, 2012, and 4,500 registered holders of such ADSs. A significant number of Ericsson ADSs are held by banks, brokers and/or nominees for the accounts of their customers. As of January 3, 2013, the total number of bank, broker and/or nominee accounts holding Ericsson ADSs was 169,190.

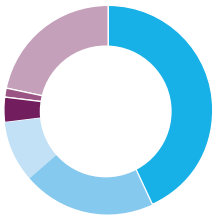
According to information known at year-end 2012, approximately 78% of our Class A and Class B shares were owned by institutions, Swedish and international.

Our major shareholders do not have different voting rights than other shareholders holding the same classes of shares.

As far as we know, the Company is not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person(s) separately or jointly.

Geographical ownership breakdown of share capital including retail shareholders and treasury shares

Percent of capital



	2012	2011
Sweden	43.22%	45..51%
United States	20.59%	21.40%
United Kingdom	9.44%	8.92%
Norway	3.70%	3.42%
Netherlands	1.44%	1.07%
Other countries	21.61%	19.68%

Source: Capital Precision

The table shows the total number of shares in the Parent Company owned by the Executive Leadership Team and Board members (including Deputy employee representatives) as a group as of December 31, 2012.

The Executive Leadership Team and Board members, ownership

	Number of Class A shares	Number of Class B shares	Voting rights, percent
The Executive Leadership Team and Board members as a group (31 persons)	0	559,450	0.01

For individual holdings, see Corporate Governance Report.

The following table shows share information, as of December 31, 2012, with respect to our 15 largest shareholders, ranked by voting rights, as well as percentage of voting rights as of December 31, 2012, 2011 and 2010.

Largest shareholders, December 31, 2012 and percentage of voting rights, December 31, 2012, 2011 and 2010

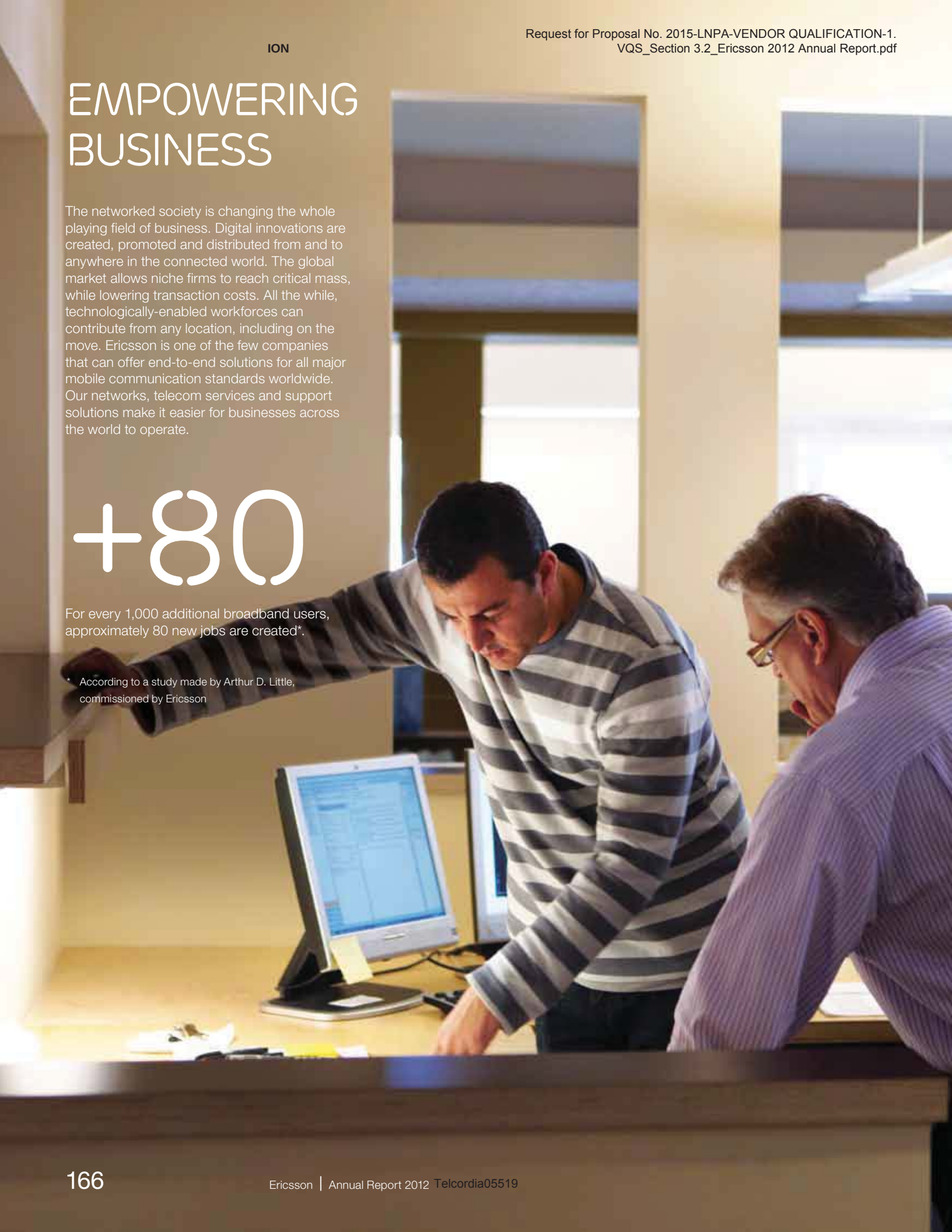
Identity of person or group [1]	Number of Class A shares	Of total Class A shares, percent	Number of Class B shares	Of total Class B shares, percent	2012 Voting rights, percent	2011 Voting rights, percent	2010 Voting rights, percent
Investor AB	115,018,707	43.94	59,284,545	1.95	21.37	21.48	19.33
AB Industrivärden	84,708,520	32.36	0	0.00	14.96	14.34	13.80
Handelsbankens Pensionsstiftelse	21,057,443	8.04	0	0.00	3.72	4.20	3.52
Swedbank Robur Fonder AB	1,505,751	0.58	138,107,152	4.54	2.71	2.79	2.73
AFA Försäkring AB	11,423,000	4.36	9,151,631	0.30	2.18	2.31	0.45
Blackrock Fund Advisors	0	0.00	77,802,606	2.56	1.37	1.46	1.44
Norges Bank Investment Management	0	0.00	77,226,311	2.54	1.36	1.24	0.89
Skandia Liv	6,263,167	2.39	11,414,818	0.38	1.31	1.36	2.98
AMF Pensionsförsäkring AB	0	0.00	71,108,980	2.34	1.26	1.34	1.34
Aberdeen Asset Managers Ltd.	0	0.00	65,706,158	2.16	1.16	1.05	1.01
Dodge & Cox, Inc.	0	0.00	64,443,081	2.12	1.14	0.96	1.43
Pensionskassan SHB Försäkringsförening	6,381,570	2.44	0	0.00	1.13	1.39	2.07
Orbis Investment Management Ltd.	0	0.00	62,271,048	2.05	1.10	0.35	0.06
OppenheimerFunds, Inc.	0	0.00	62,070,708	2.04	1.10	1.20	1.29
Handelsbanken Fonder AB	261,500	0.10	58,019,980	1.91	1.07	0.96	1.05
Others	15,136,325	5.78	2,286,688,734	75.14	43.07	43.57	46.61
Total	**261,755,983**	**100**	**3,043,295,752**	**100**	**100**	**100**	**100**

[1] Source: Capital Precision

Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2012 Annual Report.pdf

EMPOWERING BUSINESS

The networked society is changing the whole playing field of business. Digital innovations are created, promoted and distributed from and to anywhere in the connected world. The global market allows niche firms to reach critical mass, while lowering transaction costs. All the while, technologically-enabled workforces can contribute from any location, including on the move. Ericsson is one of the few companies that can offer end-to-end solutions for all major mobile communication standards worldwide. Our networks, telecom services and support solutions make it easier for businesses across the world to operate.



+80

For every 1,000 additional broadband users, approximately 80 new jobs are created*.

* According to a study made by Arthur D. Little, commissioned by Ericsson

 Telcordia05519

GLOSSARY

2G
The first digital generation of mobile systems. Includes GSM, TDMA, PDC and cdmaOne.

3G
3rd generation mobile system. includes WCDMA/HSPA, CDMA2000 and TD-SCDMA.

4G
See LTE.

All-IP
A single, common IP infrastructure that can handle all network services, including fixed and mobile communications, for voice and data services as well as video services such as TV.

Backhaul
Transmission between radio base stations and the core network.

BSS
Business support systems

CaGR
Compound Annual Growth Rate.

Capex
Capital expenditure.

CDMA
(Code Division Multiple Access)
A radio technology on which the cdmaOne (2G) and CDMA2000 (3G) mobile communication standards are both based.

CLOUD
When data and applications reside in the network.

Edge
A mobile standard, developed as an enhancement of GSM. Enables the transmission of data at speeds up to 250 kbps. (Evolved EDGE up to 1 Mbps)

GDP
(Gross Domestic Product)
The total annual cost of all finished goods and services produced within a country.

GPON
(Gigabit Passive Optical Network) Used for fiber-optic communication to the home (FTTH).

GSM
(Global System for Mobile Communications) A first digital generation mobile system.

HSPA
(High Speed Packet Access)
Enhancement of 3G/WCDMA that enables mobile broadband.

ICT
Information and Communication Technology.

IMS
(IP Multimedia Subsystem)
A standard for offering voice and multimedia services over mobile and fixed networks using internet technology (IP).

IP
(Internet Protocol)
Defines how information travels between network elements across the internet.

IPR
Intellectual Property Rights

IPTV
(IP Television)
A technology that delivers digital television via fixed broadband access.

JV
(Joint Venture)
A business enterprise in which two or more companies enter a partnership.

LTE
(Long-Term Evolution)
The next evolutionary step of mobile technology beyond HSPA, allowing data rates above 100 Mbps.

Managed services
Management of operator networks and/or hosting of their services.

Mobile broadband
Wireless high-speed internet access using the HSPA, LTE and CDMA2000EV-DO technologies.

OSS
Operations support systems

Penetration
The number of subscriptions divided by the population in a geographical area.

PETAbyte
Million gigabytes.

RAN
Radio Access Network.

TD-SCDMA
(Time Division Synchronous Code Division Multiple Access), an alternative to WCDMA used in China.

WCDMA
(Wideband Code Division Multiple Access)
A 3G mobile communication standard. WCDMA builds on the same core network infrastructure as GSM.

xDSL
Digital Subscriber Line technologies for broadband multimedia communications in fixed-line networks. Examples: IP-DSL, ADSL and VDSL.

The terms “Ericsson”, “the Company”, “the Group”, “us”, “we”, and “our” all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries.

FINANCIAL TERMINOLOGY

Capital employed
Total assets less non-interest-bearing provisions and liabilities. (which includes: provisions, non-current; deferred tax liabilities; other non-current liabilities; provisions, current; trade payables; other current liabilities).

Capital turnover
Net sales divided by average capital employed.

Cash conversion
Cash flow from operating activities divided by the sum of net income and adjustments to reconcile net income to cash, expressed as percent.

Cash dividends per share
Dividends paid divided by average number of shares, basic.

Compound annual growth rate (CAGR)
The year-over-year growth rate over a specified period of time.

Days sales outstanding (DSO)
Trade receivables balance at quarter end divided by net sales in the quarter and multiplied by 90 days. If the amount of trade receivables is larger than last quarter's sales, the excess amount is divided by net sales in the previous quarter and multiplied by 90 days, and total DSO are the 90 days of the most current quarter plus the additional days from the previous quarter.

Earnings per share (EPS)
Basic earnings per share: profit or loss attributable to stockholders of the Parent Company divided by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share: the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

EPS (non-IFRS)
EPS, diluted, excluding amortizations and write-down of acquired intangible assets and including restructuring charges.

EBITA margin
Earnings before interest, taxes, amortization and write-downs of acquired intangibles (intellectual property rights, trademarks and other intangible assets, see Note C10 "Intangible assets") as a percentage of net sales.

Equity ratio
Equity, expressed as a percentage of total assets.

Gross cash
Cash and cash equivalents plus short-term investments.

Inventory turnover days (ITO-days)
365 divided by inventory turnover, calculated as total cost of sales divided by the average inventories for the year (net of advances from customers).

Net cash
Cash and cash equivalents plus short-term investments less interest-bearing liabilities (which include: borrowings, non-current and borrowings, current) and post-employment benefits.

P/E ratio
The P/E ratio is calculated as the price of a Class B share at last day of trading divided by Earnings per share, basic.

Payable days
The average balance of trade payables at the beginning and at the end of the year divided by cost of sales for the year, and multiplied by 365 days.

Payment readiness
Cash and cash equivalents and short-term investments less short-term borrowings plus long-term unused credit commitments. Payment readiness is also shown as a percentage of net sales.

Return on capital employed
The total of Operating income plus Financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31).

Return on equity
Net income attributable to stockholders of the Parent Company as a percentage of average Stockholders' equity (based on the amounts at January 1 and December 31).

Stockholders' equity per share
Stockholders' equity divided by the number of shares outstanding at end of period, basic.

Total shareholder return (TSR)
The increase or decrease in Class B share price during the period, adjusted for dividends paid, expressed as a percentage of the share price at the start of the period.

Trade receivables turnover
Net sales divided by average trade receivables.

Value at risk (VaR)
A statistical method that expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time.

Working capital
Current assets less current non-interest-bearing provisions and liabilities (which include: provisions, current; trade payables; other current liabilities).

EXCHANGE RATES

Exchange rates used in the consolidation

	January–December	
	2012	2011
SEK/EUR		
Average rate	8.70	9.02
Closing rate	8.58	8.92
SEK/USD		
Average rate	6.73	6.48
Closing rate	6.51	6.90

SHAREHOLDER INFORMATION

FOR PRINTED PUBLICATIONS

A printed copy of the Annual Report is provided on request.

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SE-120 88 Stockholm, Sweden
Phone: +46 8 449 89 57
Email: ericsson@strd.se

IN THE UNITED STATES:

Ericsson's Transfer Agent Citibank:
Citibank Shareholder Services
Registered holders:
+1 877 881 59 69
Interested investors:
+1 781 575 45 55
Email:
citibank@shareholders-online.com
www.citi.com/dr

Ordering a hard copy of the Annual Report:
+1 888 301 2504

Telefonaktiebolaget LM Ericsson's shareholders are invited to participate in the Annual General Meeting to be held on Tuesday, April 9, 2013, at 3 p.m. at Kistamässan, Arne Beurlings Torg 5, Kista, Stockholm, Sweden.

Registration and notice of attendance

Shareholders who wish to attend the Annual General Meeting must:

- Be recorded in the share register kept by Euroclear Sweden AB (the Swedish Securities Registry) on Wednesday, April 3, 2013, and
- Give notice of attendance to the Company at the latest on Wednesday, April 3, 2013. Notice of attendance can be given by telephone: +46 8 402 90 54 on weekdays between 10 a.m. and 4 p.m., or on Ericsson's website: www.ericsson.com.

Notice of attendance may also be given in writing to:
Telefonaktiebolaget LM Ericsson
General Meeting of Shareholders
Box 7835, SE-103 98 Stockholm, Sweden

When giving notice of attendance, please state name, date of birth, address, telephone number and number of assistants, if any.

The meeting will be conducted in Swedish and simultaneously interpreted into English.

Shares registered in the name of a nominee

In addition to giving notice of attendance, shareholders having their shares registered in the name of a nominee, must request the nominee to temporarily enter the shareholder into the share register as per Wednesday, April 3, 2013, in order to be entitled to attend the meeting. The shareholders should inform the nominee to that effect well before that day.

Proxy

Shareholders represented by proxy shall issue and submit to the Company a power of attorney for the representative. A power of attorney issued by a legal entity must be accompanied by a copy of the entity's certificate of registration, or if no such certificate exist, a corresponding document of authority. Such documents must not be older than one year unless the power of attorney explicitly provides that it is valid for a longer period, up to a maximum of five years. In order to facilitate the registration at the Annual General Meeting, the power of attorney in original, certificates of registration and other documents of authority should be sent to the Company in advance to the address above for receipt by Monday, April 8, 2013. Forms of power of attorney in Swedish and English are available on Ericsson's website: www.ericsson.com/investors.

Dividend

The Board of Directors has decided to propose the Annual General Meeting to resolve on a dividend of SEK 2.75 per share for the year 2012 and that Friday, April 12, 2013 will be the record date for dividend.

Financial information from Ericsson

Interim reports 2013:

- Q1, April 24, 2013
- Q2, July 18, 2013
- Q3, October 24, 2013
- Q4, January 30, 2014

Annual Report 2013:
March, 2014
2012 Form 20-F for the US market:
March-April 2013

WHERE YOU CAN FIND OUT MORE

Information about Ericsson and its development is available on our website:
www.ericsson.com
Annual and interim reports and other relevant shareholder information can be found at:
www.ericsson.com/investors

Ericsson headquarters
Torshamnsgatan 23
Kista, Stockholm, Sweden

Registered office
Telefonaktiebolaget LM Ericsson
SE–164 83 Stockholm, Sweden

Investor relations
For questions on the Company, please contact Investor Relations:
Telephone: +46 10 719 00 00
Email: investor.relations@ericsson.com

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Request for Proposal No. 2015-LNPA-VENDOR QUALIFICATION-1.
VQS_Section 3.2_Ericsson 2012 Annual Report.pdf

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Vendor Qualification Survey (VQS) Section 3 – Vendor Qualification Criteria

VQS_Section 3.2_Financial Responsibility and Stability (capability to perform for the duration of the Master Agreements)

In order to be recommended for selection under the RFP vendor selection process as a Primary Vendor, a Respondent must possess sufficient financial responsibility and stability commensurate with the scope and duration of the Services to be delivered pursuant to the Master Agreements. Please provide a concise description of the financial condition of the Respondent as the Primary Vendor and of all Sub-Contractor(s), if any, that the Respondent will engage or include in providing the Services required by the RFP. In addition to answering all questions in the Vendor Qualification survey, please attach:

- *The most recent audited financial statements and annual report for the previous three years of the Respondent and all such Sub-Contractor(s), if any.*
- *Responses must include all characteristics of the Respondent's (and all such Sub-Contractor(s)', if any) financial strength and wherewithal to demonstrate that they can perform under a multi-year business contract of the magnitude and duration potentially to be awarded under the RFP.*

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iconectiv CONFIDENTIAL – RESTRICTED ACCESS
This document and the confidential information it contains shall be used by NAPM LLC solely in consideration of a possible business arrangement with iconectiv and for no other purpose, and shall only be distributed, routed or made available to authorized persons having a need to know in accordance with the NDA executed between the NAPM LLC and Telcordia Technologies, Inc. on October 1, 2012.
Telcordia Technologies, Inc. dba iconectiv.

1 Telcordia

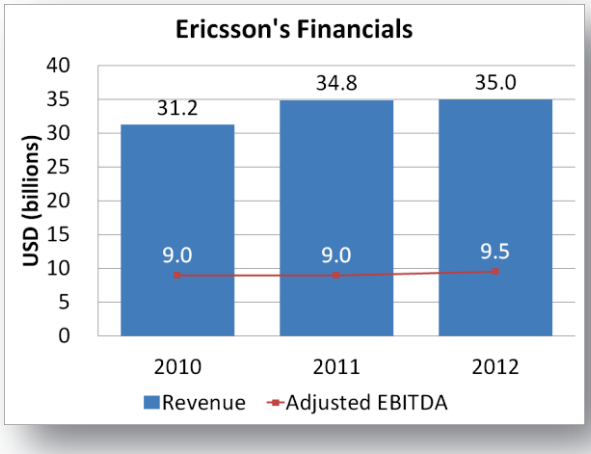
1.1 Overview

As a wholly owned subsidiary of Ericsson, Telcordia does not issue separate financial statements. Consequently, Telcordia's financial solvency is certified through the consolidated audited financial statements of its parent Ericsson. Telcordia's global market leadership position in number portability and other interconnection solutions is further strengthened by the financial backing and stability of Ericsson, which are shared below.

Ericsson builds its strength on the combination of core assets: technology leadership, services leadership and global scale. With a well-diversified customer base, Ericsson has strong and long-standing customer relationships with over 400 customers in 180 countries, and employs over 100,000 highly skilled and engaged employees. Ericsson, which has been in business for 137 years, boasts a strong balance sheet with a significantly large cash position to ensure the financial flexibility to invest in future growth and to capture new business opportunities, such as this multi-year NPAC contract.

Telcordia is extremely well-positioned to endure negative economic impacts as it is backed by a parent with substantial financial wherewithal as demonstrated by considerable revenues, market capitalization and net cash position, and robust cash generating ability. Furthermore, Ericsson has more than proved its longevity as it has withstood every economic downturn over the past 137 years.

1.2 Financial Strength



In 2010, 2011 and 2012, Ericsson generated consolidated revenues of $31.2, 34.8 and 35.0 billion, respectively, growing revenues by a compounded annual growth rate of 6%. In 2010, 2011 and 2012, Ericsson generated adjusted Earnings Before Interest, Taxes and Depreciation (EBITDA) of $9.0, 9.0 and 9.5 billion, respectively. Ericsson generated $3 billion in 2012 operating cash flow, ended 2012 with a gross cash position of $12 billion, a net cash position (with total cash exceeding total debt) of $6 billion. In 2012 Ericsson's free cash flow (cash flow from operations less capital expenditures) from continuing operations totaled $2.6 billion. Furthermore, Ericsson yielded an operating margin of 9.7%, which remains the highest among its traditional publicly listed telecom competitors and boasted a sizeable March 2013 market capitalization of approximately $40 billion.

Please note that the Ericsson financial metrics shared above were extracted from the attached 2012 Ericsson annual report and converted from the Swedish Krona (SEK) to the U.S. Dollar (USD) based on a 4/1/2013 exchange rate of 6.5154 SEK/USD as posted in the Wall Street Journal.

1.3 Annual Reports Including Audited Financials

Ericsson's audited financial statements are included in the three attached Ericsson annual reports to shareholders for the years 2010, 2011 and 2012.

2 SUB-CONTRACTOR: SUNGARD

2.1 Overview

Pioneering disaster recovery in the 1970s, SunGard Data Systems, Inc. is one of the world's leading software and technology services companies. SunGard is the largest privately held software and services company and is ranked 480 on the Fortune 500. They provide software and technology services to financial services, education and public sector organizations. They also provide disaster recovery services, managed services, information availability consulting services and business continuity management software. Sungard serves approximately 25,000 customers in more than 70 countries. Sungard's revenue is highly diversified by customer. During each of the past three fiscal years, no single customer has accounted for more than 3% of total revenue. Sungard's solid liquidity position assures its customers that SunGard is, and will continue to be, a reliable and stable service provider for years to come.

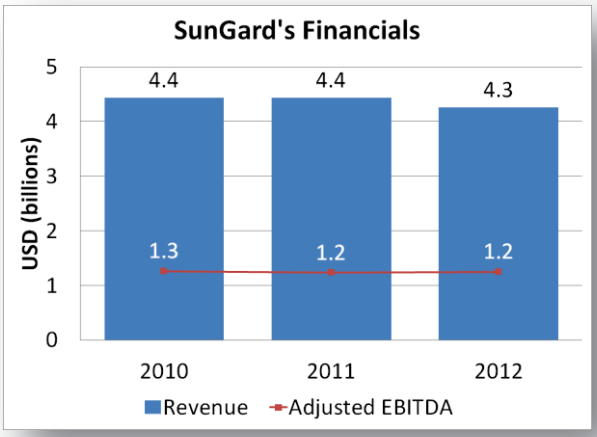
Formerly listed on the NYSE (ticker symbol SDS) on August 11, 2005 the company was acquired by a consortium of seven private equity investment firms in a transaction valued at $11.3 billion. The partners in the acquisition were Silver Lake Partners, Bain Capital, Blackstone Group, Goldman Sachs Capital Partners, Kohlberg Kravis Roberts & Co., Providence Equity Partners, and Texas Pacific Group.

Combining deep domain datacenter and information availability experience, diversified operations and resulting financials with the backing by a consortium of the world's leading private equity firms, ensures long-term strength, wherewithal and stability that should comfort any prospective customer requiring mission critical services.

2.2 Financial Strength

In 2010, 2011 and 2012, SunGard generated consolidated revenues of $4.4, 4.4 and 4.3 billion, respectively. 70% of the company's revenues is highly recurring due to longer term contracts and significant switching costs. Consolidated adjusted EBITDA for the same time period was $1.3, 1.2 and 1.2 billion.

In 2010, 2011 and 2012, Sungard generated consolidated cash flow from continuing operations of $601, 606 and 645 million, respectively. At the end of 2012 SunGard had cash and equivalents of $546 million. In 2012 SunGard's free cash flow (cash flow from operations less capital expenditures) from continuing operations totaled $385M.



2.3 Annual Reports Including Audited Financials

Sungard's audited financial statements are included in the three attached Sungard 10Ks or annual reports to the SEC for the years 2010, 2011 and 2012.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2010 or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from to**

Commission File Numbers:

SunGard Capital Corp.	**000-53653**
SunGard Capital Corp. II	**000-53654**
SunGard Data Systems Inc.	**001-12989**

SunGard® Capital Corp.
SunGard® Capital Corp. II
SunGard® Data Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-3059890**
Delaware	**20-3060101**
Delaware	**51-0267091**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

680 East Swedesford Road, Wayne, Pennsylvania 19087
(Address of principal executive offices, including zip code)

484-582-2000
(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Restricted Stock Units Granting Conditional Rights to Units Consisting of:

Class A Common Stock of SunGard Capital Corp., par value $0.001 per share,

Class L Common Stock of SunGard Capital Corp., par value $0.001 per share, and

Preferred Stock of SunGard Capital Corp. II, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

SunGard Capital Corp.	Yes ☐	No ☑
SunGard Capital Corp. II	Yes ☐	No ☑
SunGard Data Systems Inc.	Yes ☐	No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

SunGard Capital Corp.	Yes ☐	No ☑
SunGard Capital Corp. II	Yes ☐	No ☑
SunGard Data Systems Inc.	Yes ☑	No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

SunGard Capital Corp.	Yes ☑	No ☐
SunGard Capital Corp. II	Yes ☑	No ☐
SunGard Data Systems Inc.	Yes ☐	No ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

SunGard Capital Corp.	Yes ☐	No ☐
SunGard Capital Corp. II	Yes ☐	No ☐
SunGard Data Systems Inc.	Yes ☐	No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K.

SunGard Capital Corp. ☐ SunGard Capital Corp. II ☐ SunGard Data Systems Inc. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

SunGard Capital Corp.	Large accelerated filer ☐.	Accelerated filer ☐.	Non-accelerated filer ☑.	Smaller reporting company ☐.
SunGard Capital Corp.II	Large accelerated filer ☐.	Accelerated filer ☐.	Non-accelerated filer ☑.	Smaller reporting company ☐.
SunGard Data Systems Inc.	Large accelerated filer ☐.	Accelerated filer ☐.	Non-accelerated filer ☑.	Smaller reporting company ☐.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

SunGard Capital Corp.	Yes ☐	No ☑
SunGard Capital Corp. II	Yes ☐	No ☑
SunGard Data Systems Inc.	Yes ☐	No ☑

The aggregate market value of the registrants' voting stock held by nonaffiliates is zero. The registrants are privately held corporations.

The number of shares of the registrants' common stock outstanding as of February 15, 2011:

SunGard Capital Corp.:	255,240,191 shares of Class A common stock and 28,359,958 shares of Class L common stock
SunGard Capital Corp. II:	100 shares of common stock
SunGard Data Systems Inc.:	100 shares of common stock

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

		Page
Forward-Looking Statements		1
	PART I	
Item 1.	Business	1
	Who We Are	1
	Our Strengths	2
	Our Business Strategy	4
	Business Segment Overview	6
	Financial Systems	6
	Higher Education	8
	Public Sector	9
	Availability Services	10
	Acquisitions	11
	Product Development	12
	Marketing	12
	Brand and Intellectual Property	12
	Competition	12
	Employees	13
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	(Removed and Reserved)	25
	PART II	
Item 5.	Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 8.	Financial Statements and Supplementary Data	56
Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	113
Item 9A.	Controls and Procedures	113
Item 9B.	Other Information	113
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	114
Item 11.	Executive Compensation	118
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	144
Item 13.	Certain Relationships and Related Transactions, and Director Independence	150
Item 14.	Principal Accountant Fees and Services	151
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	153
Signatures		154
List of Exhibits		155

Explanatory Note

This Annual Report on Form 10-K is a combined report being filed separately by three registrants: SunGard Capital Corp. ("SCC"), SunGard Capital Corp. II ("SCCII") and SunGard Data Systems Inc. ("SunGard"). SCC and SCCII are collectively referred to as the "Parent Companies." Unless the context indicates otherwise, any reference in this report to the "Company," "we," "us" and "our" refer to the Parent Companies together with their direct and indirect subsidiaries, including SunGard. Each registrant hereto is filing on its own behalf all of the information contained in this annual report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Forward-Looking Statements

Certain of the matters we discuss in this Report on Form 10-K may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates," or "anticipates" or similar expressions which concern our strategy, plans or intentions. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We describe some of the factors that we believe could affect our results in ITEM 1A—RISK FACTORS. We assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

PART I

ITEM 1. BUSINESS

Who We Are

We are one of the world's leading software and technology services companies. We provide software and technology services to financial services, higher education and public sector organizations. We also provide disaster recovery services, managed services, information availability consulting services and business continuity management software. We serve more than 25,000 customers in more than 70 countries. Our high quality software solutions, excellent customer support and specialized technology services result in strong customer retention rates across all of our business segments and create long-term customer relationships. We believe that we are one of the most efficient operators of mission-critical IT solutions as a result of the economies of scale we derive from serving multiple customers on shared processing platforms.

We have four business segments: Financial Systems ("FS"), Higher Education ("HE"), Public Sector ("PS") and Availability Services ("AS").

FS provides mission-critical software and technology services to virtually every type of financial services institution, including buy-side and sell-side institutions, third-party administrators, wealth managers, retail banks, insurance companies, corporate treasuries and energy trading firms. Our broad range of complementary software solutions and associated technology services help financial services institutions automate the business processes associated with trading, managing portfolios and accounting for investment assets.

HE provides software and technology services primarily to colleges and universities as well as to school districts. Education institutions rely on our broad portfolio of solutions and technology services to improve the way they teach, learn, manage and connect with their constituents.

PS provides software and technology services designed to meet the specialized needs of local, state and federal governments, public safety and justice agencies, utilities and other public sector institutions as well as nonprofits.

AS provides disaster recovery services, managed services, information availability consulting services and business continuity management software to 10,000 customers in North America and Europe. With five million square feet of data center and operations space, AS assists IT organizations across virtually all industry and government sectors to prepare for and recover from emergencies by helping them minimize their computer downtime and optimize their uptime. Through direct sales and channel partners, AS helps organizations ensure their people and customers have uninterrupted access to the information systems they need in order to do business.

We were acquired in August 2005 in a leveraged buy-out ("LBO") by a consortium of private equity investment funds associated with Bain Capital Partners, The Blackstone Group, Goldman, Sachs & Co., Kohlberg Kravis Roberts & Co., Providence Equity Partners, Silver Lake and TPG. As a result of the LBO, we are highly leveraged and our equity is not publicly traded.

Our Sponsors continually evaluate various strategic alternatives with respect to the Company, including a potential spin-off of the AS business to our current equity holders. We expect that if we were to spin-off any business segment, that business segment would incur new debt and we would repay a portion of our existing indebtedness. Additionally, it is possible that along with any spin-off, we would receive cash proceeds from an issuance of equity of one of our Parent Companies. There can be no assurance that we will ultimately pursue any strategic alternatives with respect to any business segment, including AS, or an equity issuance or, if we do, what the structure or timing for any such transaction would be.

To the extent required by ITEM 1 of Form 10-K, financial information regarding our business segments is included in Note 12 to our Consolidated Financial Statements on page 100.

Our Strengths

Leading franchise, attractive industry dynamics and global expansion opportunities. We believe that our businesses have leading positions and strong customer relationships in industries with attractive growth prospects and significant opportunities for global expansion.

- ***Leading industry positions.*** We believe that our FS business is a leader in the sectors in which it participates within the highly fragmented global market for financial services software and technology services. We believe that our HE and PS businesses are both leading providers of software and technology services to education institutions and the public sector, respectively, and that AS is the pioneer and a leading provider in the information availability services industry. We believe that our strong customer relationships in the highly fragmented software and technology services sectors that we serve help us to maintain leading positions. Our customers use our solutions to manage their most mission-critical business processes, which we believe results in high switching costs that promote the retention of our solutions, provide opportunities to sell additional software and technology services, and create barriers to entry for other vendors. We believe that these factors provide us with competitive advantages that should enhance our growth potential.

- ***Attractive industry dynamics.*** We believe that over the long term each of our primary business segments has good growth potential. We believe that our FS business will benefit from several key industry dynamics: the general increase in IT spending associated with increasing compliance, regulatory and risk management requirements; the shift from internal to outsourced IT spending; and an increasing need of our customers for real time information. We anticipate that our HE business will benefit from key trends in education: investment in higher education as an essential driver of economic growth; the growing emphasis within education on performance management and data-driven decision making; the ongoing transformation of education by online and mobile technologies; and the global demand for both higher education and lifelong learning. We believe that our AS business will continue to benefit from the increasing criticality of IT availability to support day-to-day business operations and commerce. We believe that our strong relationships with our customers in the relatively fragmented software and processing sectors that we serve and our extensive experience and the significant total capital that we have invested in AS help us to maintain leading positions. We believe that these factors should provide us with competitive advantages and enhance our growth potential.
- ***Global opportunities.*** We believe that our FS, HE and AS businesses will benefit from the growth in developing economies in Asia Pacific and Latin America. As financial services practices evolve and mature in these developing economies, we believe that local institutions will look to leading global software and technology services providers with deep domain expertise, a suite of proven software capabilities and a local presence to provide implementation and support. We believe that our largest customers that seek to expand their businesses around the world seek to enhance efficiency by scaling their software and processing platforms globally. We believe that our industry footprint, global delivery capabilities and suite of solutions will provide us a competitive advantage.

Highly attractive business model. We have substantial recurring revenue, maintain a diversified and stable customer base and generate significant operating cash flow.

- ***Extensive portfolio of software and technology services across our businesses with substantial recurring revenue.*** With a large portfolio of proprietary products and services in each of our four business segments, we have a diversified and stable business. With the exception of our broker/dealer business, we believe that our FS revenue is more insulated from changes in trading and transaction volumes than the financial services industry at large because our FS customers generally pay us monthly fees that are based on metrics such as number of accounts, trades or transactions, users or number of hours of service. Our portfolio of solutions and the largely recurring nature of our revenue across all four of our segments have reduced volatility in our revenue and operating income. Moreover, our specialized technology services and customized solutions help support and automate our customers' mission-critical business processes and help increase the level of efficiency for our customers, which we believe reduces customer defections to other vendors or to in-house solutions.
- ***Diversified and stable customer base.*** Our base of more than 25,000 customers includes most of the world's largest financial services firms, a variety of other financial services firms, corporate and government treasury departments, energy companies, higher education institutions, school districts, local governments and not-for-profit organizations. Our AS business serves customers across virtually all industries. In addition, our track record of helping our customers improve their operational efficiency, achieve high levels of availability and address regulatory requirements results in stable, long-term customer relationships. Our