

ERICSSON LM TELEPHONE CO

Form 20-F

April 04, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

☐ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**  
or

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Fiscal Year Ended December 31, 2011

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from/to

or

☐ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Date of event requiring this shell company report:

Commission file number 000 12033

# TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

## LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant's Name Into English)

**Kingdom of Sweden**

(Jurisdiction of Incorporation or Organization)

**SE-164 83 Stockholm, Sweden**

(Address of Principal Executive Offices)

**Roland Hagman, Vice President Group Function Financial Control**

**Telephone: +46 8 719 53 80, Facsimile: +46 8 719 42 22**

**SE-164 83 Stockholm, Sweden**

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
American Depositary Shares B Shares *	The NASDAQ Stock Market LLC The NASDAQ Stock Market LLC

\* Not for trading, but only in connection with the registration of the American Depositary Shares representing such B Shares pursuant to the requirements of the Securities and Exchange Commission

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

# Edgar Filing: ERICSSON LM TELEPHONE CO - Form 20-F

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

B shares (SEK 5.00 nominal value)	3,011,595,752
A shares (SEK 5.00 nominal value)	261,755,983
C shares (SEK 1.00 nominal value)	0

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. 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. 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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This annual report discloses and includes references to financial measures that may not be prepared or presented in accordance with IFRS, and we refer to these measures as non-IFRS measures. Reconciliations of these non-IFRS measures to the most relevant comparable IFRS measures can be found on page 41 and pages 242-245 of the annual report.

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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.

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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.

#### **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



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**FINANCIAL RESULTS IN SHORT**

**NET SALES**

SEK 226.9 (203.3) billion, +12%

**OPERATING MARGIN<sup>1)</sup>**

9.6% (12.0%)

**NET INCOME**

SEK 12.6 (11.2) billion, +12%

**NET CASH<sup>2)</sup>**

SEK 39.5 (51.3) billion

**CASH AND CASH EQUIVALENTS**

SEK 38.7 (30.9) billion

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**EPS<sup>3)</sup>**

SEK 3.77 (3.46), +9%

**DIVIDEND<sup>4)</sup>**

SEK 2.50 (2.25), +11%

- 1) Excl. share in earnings of JVs. For 2011 incl. restructuring charges of SEK 3.2 billion and for 2010 excl. restructuring charges of SEK 6.8 billion.
- 2) Cash and cash equivalents plus short-term investments less interest-bearing liabilities and post-employment benefits. For a reconciliation to the most directly comparable IFRS measures, see page 242–245.
- 3) EPS diluted, 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.

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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.

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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.

	<b>NETWORKS</b>	<b>GLOBAL SERVICES</b>	<b>MULTIMEDIA</b>
	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

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**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.

	<b>SONY ERICSSON</b>	<b>ST-ERICSSON</b>
	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.

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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.



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**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.

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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

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### **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.

## **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.

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### **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.

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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.

**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.

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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.

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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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**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.

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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.

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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.

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**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
<b>Income statement items</b>						
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
<b>Year-end position</b>						
Total assets	280,349	1%	281,815	269,809	285,684	245,117
Working capital as defined <sup>1)</sup>	109,552	4%	105,488	99,079	99,951	86,327
Capital employed as defined <sup>1)</sup>	186,307	2%	182,640	181,680	182,439	168,456
Gross cash as defined <sup>1)</sup>	80,542	8%	87,150	76,724	75,005	57,716
Net cash as defined <sup>1)</sup>	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
<b>Other information</b>						
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
Cash dividends per share, SEK	2.50 <sup>2)</sup>	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
<b>Number of shares outstanding (in millions)</b>						
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%
<b>Ratios</b>						
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 as defined <sup>1)</sup>	9.9%		11.0%	6.7%	9.4%	18.0%
Cash conversion	40%		112%	117%	92%	66%
Return on equity as defined <sup>1)</sup>	8.5%		7.8%	2.6%	8.2%	17.2%
Return on capital employed as defined <sup>1)</sup>	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

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Inventory turnover days	<b>78</b>		74	68	68	70
Trade receivables turnover	<b>3.6</b>		3.2	2.9	3.1	3.4
Payment readiness, SEK million	<b>86,570</b>	11%	96,951	88,960	84,917	64,678
<i>as percentage of net sales</i>	<b>38.1%</b>		47.7%	43.1%	40.6%	34.4%
<b>Statistical data, year-end</b>						
Number of employees	<b>104,525</b>	16%	90,261	82,493	78,740	74,011
<i>of which in Sweden</i>	<b>17,500</b>	2%	17,848	18,217	20,155	19,781
Export sales from Sweden, SEK million	<b>116,507</b>	16%	100,070	94,829	109,254	102,486

- 1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 242-245.
- 2) 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

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### 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 <sup>1)</sup>
Earnings per share, diluted (SEK) <sup>2)</sup>	3.77	3.46	1.14	3.52	6.84
Stockholders' equity per share, basic, end of period (SEK) <sup>3)</sup>	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) <sup>4)</sup>	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) Calculated on number of shares, end of period.

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

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

### 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.

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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.

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**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**

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

1) 2007 restated for reverse split 1:5 in 2008.

**SHARE PRICES ON NASDAQ NEW YORK**

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

1) 2007 restated for reverse split 1:5 in 2008.

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**SHARE PRICES ON NASDAQ OMX STOCKHOLM AND NASDAQ NEW YORK**

Period	NASDAQ OMX Stockholm				NASDAQ New York	
	SEK per Class A share		SEK per Class B share		USD per ADS <sup>1)</sup>	
	High	Low	High	Low	High	Low
<b>Annual high and low</b>						
2007 <sup>2)</sup>	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
<b>Quarterly high and low</b>						
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
<b>Monthly high and low</b>						
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
February 2012	68.00	62.10	67.90	61.90	10.39	9.14
March 2012	69.80	62.95	69.95	62.70	10.46	9.15

1) One ADS = 1 Class B share.

2) 2007 restated for reverse split 1:5 in 2008.

**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.

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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.

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**THE EXECUTIVE LEADERSHIP TEAM AND BOARD MEMBERS, OWNERSHIP**

	<b>Number of Class A shares</b>	<b>Number of Class B shares</b>	<b>Voting rights, percent</b>
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.

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

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

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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**

**TARGETS AND PERFORMANCE**

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 most directly comparable IFRS measures can be found on pages 41 and 242-245.

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 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.

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**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 of SEK 0.4 billion in 2011 and excluding restructuring charges of SEK 0.2 billion in 2010. The share in earnings in ST-Ericsson was SEK 2.7 ( 1.5) billion, including restructuring charges of SEK 0.1 billion in 2011 and excluding restructuring charges of SEK 0.3 billion 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.

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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 45 46. The targets remain for 2012.

### **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.

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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.

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Traffic per subscriber partly relates to the screen size of the device. On average, a mobile PC user generates about 2 Gbytes of data per month, while a high-traffic smartphone user generates approximately 500 Mbytes per month.

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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.

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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.

### **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 ecosystem, 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 of SEK 0.6 billion, in R&D in 2011. This compares with SEK 29.9 billion in 2010, excluding restructuring charges of SEK 1.7 billion. 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.

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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 a 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 approximately 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

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RBS 6000. At year-end, the 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.

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**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 believes it is the strongest holder of essential patents in the wireless industry, any company that uses connectivity today will likely require 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.

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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.

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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.

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**FINANCIAL RESULTS OF OPERATIONS****ABBREVIATED INCOME STATEMENT WITH RECONCILIATION IFRS NON-IFRS MEASURES**

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

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.

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### **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%.

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.

### **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.

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**MOST RECENT FIVE-YEAR AVERAGE SEASONALITY**

	<b>First quarter</b>	<b>Second quarter</b>	<b>Third quarter</b>	<b>Fourth quarter</b>
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.



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### **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). 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) <sup>1)</sup>	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 <sup>2)</sup>	22,400	20,800	18,300
Patents <sup>2)</sup>	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
<b>ASSETS</b>			
Non-current assets, total	<b>81.5</b>	83.4	87.4
<i>of which intangible assets</i>	<b>44.0</b>	46.8	48.2
<i>of which property, plant and equipment</i>	<b>10.8</b>	9.4	9.6
<i>of which financial assets</i>	<b>13.7</b>	14.5	15.3
<i>of which deferred tax assets</i>	<b>13.0</b>	12.7	14.3
Current assets, total	<b>198.8</b>	198.4	182.4
<i>of which inventory</i>	<b>33.1</b>	29.9	22.7
<i>of which trade receivables</i>	<b>64.5</b>	61.1	66.4
<i>of which other receivables/financing</i>	<b>20.7</b>	20.2	16.6
<i>of which short-term investments, cash and cash equivalents</i>	<b>80.5<sup>2)</sup></b>	87.2	76.7
<b>Total assets</b>	<b>280.3</b>	<b>281.8</b>	<b>269.8</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	<b>145.3</b>	146.8	141.0
Non-current liabilities	<b>38.1</b>	38.3	43.3
<i>of which post-employment benefits</i>	<b>10.0</b>	5.1	8.5
<i>of which borrowings</i>	<b>23.3</b>	27.0	30.0
<i>of which other non-current liabilities</i>	<b>4.8</b>	6.2	4.8
Current liabilities	<b>97.0</b>	96.8	85.5
<i>of which provisions</i>	<b>6.0</b>	9.4	12.0
<i>of which current borrowings</i>	<b>7.8</b>	3.8	2.1
<i>of which trade payables</i>	<b>25.3</b>	25.0	18.9
<i>of which other current liabilities</i>	<b>58.0</b>	58.6	52.5
<b>Total equity and liabilities<sup>1)</sup></b>	<b>280.3</b>	<b>281.8</b>	<b>269.8</b>

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.



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**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 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 48–49.

**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%.

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**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.

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**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.

**CASH FLOW****CASH FLOW (ABBREVIATED) JANUARY-DECEMBER**

<b>SEK billion</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net income	<b>12.6</b>	11.2	4.1
Income reconciled to cash	<b>25.2</b>	23.7	21.0
Changes in operating net assets	<b>15.2</b>	2.9	3.5
Cash flow from operating activities	<b>10.0</b>	26.6	24.5
Adjusted operating cash flow <sup>1)</sup>	<b>13.2</b>	29.8	28.7
Cash flow from investing activities	<b>4.5</b>	12.5	37.5
<i>of which capital expenditures, sales of PP&amp;E, product development</i>	<b>6.1</b>	5.2	4.9
<i>of which acquisitions/divestments, net</i>	<b>3.1</b>	2.8	18.1
<i>of which short-term investments for cash management purposes and other investing activities</i>	<b>13.8</b>	4.5	14.5
Cash flow before financing activities	<b>14.5</b>	14.0	13.0
Cash flow from financing activities	<b>6.5</b>	5.7	1.7
Cash conversion (Cash flow from operating activities divided by income reconciled to cash)	<b>40%</b>	112%	117%
Gross cash (Cash, cash equivalents and short-term investments)	<b>80.5<sup>2)</sup></b>	87.2	76.7
Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)	<b>39.5</b>	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.

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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.

**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.

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**CAPITAL EXPENDITURES 2007 - 2011**

SEK billion	2011	2010	2009	2008	2007
Capital expenditures	<b>5.0</b>	3.7	4.0	4.1	4.3
<i>of which in Sweden</i>	<b>1.7</b>	1.4	1.3	1.6	1.3
as percent of net sales	<b>2.2%</b>	1.8%	1.9%	2.0%	2.3%
<b><u>Cash flow from financing activities</u></b>					

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.



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**BUSINESS RESULTS REGIONS****SALES PER REGION AND SEGMENT 2011 AND 2010**

SEK billion	Networks		Global Services		Multimedia		Total 2011	Percent change
	2011	Percent change	2011	Percent change	2011	Percent change		
North America	28.9	5%	18.6	5%	1.3	7%	<b>48.8</b>	1%
Latin America	11.5	25%	9.5	23%	1.0	5%	<b>22.0</b>	23%
Northern Europe and Central Asia	9.7	34%	5.0	17%	0.5	20%	<b>15.2</b>	25%
Western and Central Europe	7.8	7%	10.3	2%	1.0	7%	<b>19.0</b>	4%
Mediterranean	10.7	1%	11.8	11%	1.3	5%	<b>23.8</b>	5%
Middle East	7.4	4%	6.8	4%	1.2	13%	<b>15.5</b>	2%
Sub-Saharan Africa	5.9	63%	3.4	26%	0.9	12%	<b>10.2</b>	11%
India	6.1	19%	3.1	13%	0.5	25%	<b>9.8</b>	13%
China and North East Asia	27.8	63%	9.9	19%	0.5	5%	<b>38.2</b>	47%
South East Asia and Oceania	7.6	3%	5.6	14%	0.7	26%	<b>13.9</b>	7%
Other*	9.1	53%	0.2	132%	1.7	57%	<b>10.6</b>	41%
<b>Total</b>	<b>132.4</b>	<b>17%</b>	<b>83.9</b>	<b>5%</b>	<b>10.6</b>	<b>1%</b>	<b>226.9</b>	<b>12%</b>
Share of total	58%		37%		5%		<b>100%</b>	

\* 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.

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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.

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**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.

**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.

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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.

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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

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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.

## **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.

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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.

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**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.

**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.



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### *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.

### **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.

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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.

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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.

**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.

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### **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 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.

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### **Climate change**

ICT represents about 2% of global CO<sub>2</sub> 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<sub>2</sub> 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](http://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.



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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.

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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.

## **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





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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.

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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.

## **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.

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**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

<b>Total non-restricted equity of the Parent Company</b>	<b>SEK 40,719,401,075</b>
--	---------------------------

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.

**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

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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**

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*To the Shareholders of Telefonaktiebolaget LM Ericsson (publ)*

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, which can be found herein, under Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Stockholm, April 4, 2012

By: /s/ PricewaterhouseCoopers  
Name: PricewaterhouseCoopers AB



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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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
<b>Gross income</b>			<b>79,721</b>	<b>74,254</b>	<b>70,199</b>
<b>Gross margin (%)</b>			<b>35.1%</b>	<b>36.5%</b>	<b>34.0%</b>
Research and development expenses			32,638	31,558	33,055
Selling and administrative expenses			26,683	27,072	26,908
<b>Operating expenses</b>			<b>59,321</b>	<b>58,630</b>	<b>59,963</b>
Other operating income and expenses		C6	1,278	2,003	3,082
<b>Operating income before shares in earnings of joint ventures and associated companies</b>			<b>21,678</b>	<b>17,627</b>	<b>13,318</b>
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
<b>Operating income</b>			<b>17,900</b>	<b>16,455</b>	<b>5,918</b>
Financial income		C7	2,882	1,047	1,874
Financial expenses		C7	2,661	1,719	1,549
<b>Income after financial items</b>			<b>18,121</b>	<b>15,783</b>	<b>6,243</b>
Taxes		C8	5,552	4,548	2,116
<b>Net income</b>			<b>12,569</b>	<b>11,235</b>	<b>4,127</b>
Net income attributable to:					
Stockholders of the Parent Company			12,194	11,146	3,672
Non-controlling interest			375	89	455
<b>Other information</b>					
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) <sup>1)</sup>		C9	3.80	3.49	1.15
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK) <sup>1)</sup>		C9	3.77	3.46	1.14

1) Based on Net income attributable to stockholders of the Parent Company.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

January	December, SEK million	Notes	2011	2010	2009
<b>Net income</b>			<b>12,569</b>	11,235	4,127
<b>Other comprehensive income</b>					
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions		C16	<b>6,963</b>	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	<b>996</b>	966	665
Reclassification adjustments for gains/losses included in profit or loss		C16	<b>2,028</b>	238	3,850
Adjustments for amounts transferred to initial carrying amount of hedged items		C16		136	1,029
Changes in cumulative translation adjustments		C16	<b>964</b>	3,259	1,067
Share of other comprehensive income of joint ventures and associated companies		C16	<b>262</b>	434	259
Tax on items relating to components of Other comprehensive income		C16	<b>2,158</b>	1,120	1,040
<b>Total other comprehensive income</b>			<b>7,063</b>	322	485
<b>Total comprehensive income</b>			<b>5,506</b>	10,913	4,612
Total Comprehensive Income attributable to:					
Stockholders of the Parent Company			<b>5,081</b>	10,814	4,211
Non-controlling interest			<b>425</b>	99	401

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**CONSOLIDATED BALANCE SHEET**

December 31, SEK million	Notes	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
<b>Current assets</b>			
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
<b>TOTAL ASSETS</b>		<b>280,349</b>	<b>281,815</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stockholders' equity	C16	143,105	145,106
Non-controlling interest in equity of subsidiaries	C16	2,165	1,679
		145,270	146,785
<b>Non-current liabilities</b>			
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
<b>Current liabilities</b>			
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

	<b>97,029</b>	<b>96,763</b>
<b>TOTAL EQUITY AND LIABILITIES<sup>1)</sup></b>	<b>280,349</b>	<b>281,815</b>

1) Of which interest-bearing liabilities and post-employment benefits SEK 41,037 (35,855) million.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**CONSOLIDATED STATEMENT OF CASH FLOWS**

January	December, SEK million	Notes	2011	2010	2009
<b>Operating activities</b>					
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
<b>Changes in operating net assets</b>					
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
<b>Cash flow from operating activities</b>			<b>9,982</b>	<b>26,583</b>	<b>24,476</b>
<b>Investing activities</b>					
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
<b>Cash flow from investing activities</b>			<b>4,541</b>	<b>12,541</b>	<b>37,462</b>
<b>Cash flow before financing activities</b>			<b>14,523</b>	<b>14,042</b>	<b>12,986</b>
<b>Financing activities</b>					
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
<b>Cash flow from financing activities</b>			<b>6,494</b>	<b>5,670</b>	<b>1,701</b>
Effect of exchange rate changes on cash			217	306	328
<b>Net change in cash</b>			<b>7,812</b>	<b>8,066</b>	<b>15,015</b>
<b>Cash and cash equivalents, beginning of period</b>			<b>30,864</b>	<b>22,798</b>	<b>37,813</b>
<b>Cash and cash equivalents, end of period</b>		C25	<b>38,676</b>	<b>30,864</b>	<b>22,798</b>



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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
<b>January 1, 2011</b>		16,367	24,731	104,008	145,106	1,679	146,785
Total comprehensive income	C16			5,081	5,081	425	5,506
<b>Transactions with owners</b>							
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
<b>December 31, 2011</b>		<b>16,367</b>	<b>24,731</b>	<b>102,007</b>	<b>143,105</b>	<b>2,165</b>	<b>145,270</b>
<b>January 1, 2010</b>		16,367	24,731	98,772	139,870	1,157	141,027
Total comprehensive income	C16			10,814	10,814	99	10,913
<b>Transactions with owners</b>							
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
<b>December 31, 2010</b>		<b>16,367</b>	<b>24,731</b>	<b>104,008</b>	<b>145,106</b>	<b>1,679</b>	<b>146,785</b>
<b>January 1, 2009</b>		16,232	24,731	99,860	140,823	1,261	142,084
Total comprehensive income	C16			4,211	4,211	401	4,612
<b>Transactions with owners</b>							
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
<b>December 31, 2009</b>		<b>16,367</b>	<b>24,731</b>	<b>98,772</b>	<b>139,870</b>	<b>1,157</b>	<b>141,027</b>

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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 90.

#### **Basis of presentation**



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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.

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### **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.

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### **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 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

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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.



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**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 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.

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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.

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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.



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### **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.

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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.



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### **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.



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**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.

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### **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.

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### **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.



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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.

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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

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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

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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).

**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.

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**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 January 1, 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.



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### **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.

### **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



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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.

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### *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.

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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.

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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.

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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.

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**

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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.



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**Operating segments**

2011	Networks	Global Services	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations <sup>1)</sup>	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
<b>Net sales</b>	<b>132,395</b>	<b>83,884</b>	<b>10,642</b>	<b>46,992</b>	<b>10,693</b>	<b>284,606</b>		<b>57,685</b>	<b>226,921</b>
<b>Operating income</b>	<b>17,295</b>	<b>5,544</b>	<b>504</b>	<b>1,854</b>	<b>5,461</b>	<b>15,020</b>	<b>501</b>	<b>3,381</b>	<b>17,900</b>
Operating margin (%)	13%	7%	5%	4%	51%	5%			8%
Financial income									2,882
Financial expenses									2,661
<b>Income after financial items</b>									<b>18,121</b>
Taxes									5,552
<b>Net income</b>									<b>12,569</b>
<b>Other segment items</b>									
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.

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### Operating segments

2010	Networks	Global Services	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations <sup>1)</sup>	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
<b>Net sales</b>	<b>112,708</b>	<b>80,123</b>	<b>10,517</b>	<b>60,178</b>	<b>16,519</b>	<b>280,045</b>		<b>76,697</b>	<b>203,348</b>
<b>Operating income</b>	<b>12,481</b>	<b>6,513</b>	<b>643</b>	<b>1,523</b>	<b>3,527</b>	<b>16,347</b>	<b>805</b>	<b>913</b>	<b>16,455</b>
Operating margin (%)	11%	8%	6%	3%	21%	6%			8%
Financial income									1,047
Financial expenses									1,719
<b>Income after financial items</b>									<b>15,783</b>
Taxes									4,548
<b>Net income</b>									<b>11,235</b>
<b>Other segment items</b>									
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.

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**Operating segments**

2009	Networks <sup>1)</sup>	Global Services <sup>1)</sup>	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations <sup>2)</sup>	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
<b>Net sales</b>	<b>114,085</b>	<b>79,120</b>	<b>13,272</b>	<b>72,148</b>	<b>19,266</b>	<b>297,891</b>		<b>91,414</b>	<b>206,477</b>
<b>Operating income</b>	<b>7,598<sup>3)</sup></b>	<b>6,271<sup>4)</sup></b>	<b>655</b>	<b>10,820</b>	<b>2,615</b>	<b>1,089</b>	<b>855</b>	<b>5,684</b>	<b>5,918</b>
Operating margin (%)	7%	8%	5%	15%	14%	0%			3%
Financial income									1,874
Financial expenses									1,549
<b>Income after financial items</b>									<b>6,243</b>
Taxes									2,116
<b>Net income</b>									<b>4,127</b>
<b>Other segment items</b>									
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		80		46	4,459		46	4,413
Reversals of impairment losses	38	9	2			49			49
Restructuring expenses	8,358	2,434	385	1,754	890	13,821	82	2,644	11,259
Gains/losses from divestments	10	777 <sup>4)</sup>	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.

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**Regions**

	Net sales			Non-current assets <sup>3)</sup>		
	2011	2010	2009	2011	2010	2009
North America	48,785	49,473	23,912	6,296	7,251	8,359
<i>Of which the United States</i>	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 <sup>1)2)</sup>	15,225	12,171	11,981	41,008	42,112	44,091
Western & Central Europe <sup>2)</sup>	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
<i>Of which China</i>	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 <sup>1)2)</sup>	10,627	7,540	7,277			
<b>Total</b>	<b>226,921</b>	<b>203,348</b>	<b>206,477</b>	<b>60,797</b>	<b>66,056</b>	<b>69,375</b>
<i>1) Of which Sweden</i>	3,882	4,237	4,096	40,415	41,683	43,574
<i>2) Of which EU</i>	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 .

**C4 NET SALES****Net sales**

	2011	2010	2009
Sales of products and network rollout services	161,882	140,222	145,873
Of which:			
<i>Delivery-type contracts</i>	161,882	140,156	144,908
<i>Construction-type contracts</i>		66	965
Professional Services sales	58,834	58,529	56,123
License revenues	6,205	4,597	4,481
<b>Net sales</b>	<b>226,921</b>	<b>203,348</b>	<b>206,477</b>
Export sales from Sweden	116,507	100,070	94,829

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**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
<b>Expenses incurred</b>	<b>219,666</b>	<b>204,103</b>	<b>196,565</b>
Inventory changes <sup>1)</sup>	3,417	8,465	4,784
Additions to Capitalized development	1,515	1,647	1,443
<b>Expenses charged to the Income Statement</b>	<b>214,734</b>	<b>193,991</b>	<b>199,906</b>

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
<b>Total restructuring charges</b>	<b>3,184</b>	<b>6,814</b>	<b>11,259</b>

**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

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Capital gains/losses, net	<b>159</b>	237	910
Other operating revenues	<b>1,119</b>	1,766	2,172
<b>Total other operating income and expenses</b>	<b>1,278</b>	2,003	3,082

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**C7 FINANCIAL INCOME AND EXPENSES****Financial income and expenses**

	2011		2010		2009	
	Financial income	Financial expenses	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest on financial assets	1,940		811		1,287	
<i>Of which on financial assets at fair value through profit or loss</i>	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 <sup>1)</sup>	1,062	591	295	206	635	155
<i>Of which included in fair value hedge relationships</i>		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
<b>Total</b>	<b>2,882</b>	<b>2,661</b>	<b>1,047</b>	<b>1,719</b>	<b>1,874</b>	<b>1,549</b>

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
<i>Sub total</i>	<i>5,792</i>	<i>4,363</i>	<i>3,503</i>
Share of taxes in joint ventures and associated companies	240	185	1,387
<b>Tax expense</b>	<b>5,552</b>	<b>4,548</b>	<b>2,116</b>

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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
<i>Of which joint ventures and associated companies</i>	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
 <i>Effective tax rate</i>	 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	2011 Deferred tax liabilities	Net balance	Deferred tax assets	2010 Deferred tax liabilities	Net balance
Intangible assets and property, plant and equipment	968	2,941		543	3,725	
Current assets	3,193	100		3,398	110	
Post-employment benefits	2,233	618		1,163	636	
Provisions	1,441	23		2,019	12	
Other	3,423	64		3,989		
Loss carry-forwards	3,258			3,537		
 Deferred tax assets/liabilities	 14,516	 3,746	 10,770	 14,649	 4,483	 10,166
Netting of assets/liabilities	1,496	1,496		1,912	1,912	
 Deferred tax balances, net	 13,020	 2,250	 10,770	 12,737	 2,571	 10,166

**Changes in deferred taxes, net**

	2011	2010
Opening balance, net	10,166	12,057
Recognized in net income	1,433	307



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Recognized in other comprehensive income	<b>2,158</b>	1,120
Acquisitions/disposals of subsidiaries	<b>53</b>	606
Currency translation differences	<b>174</b>	472
<b>Closing balance, net</b>	<b>10,770</b>	10,166

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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**

<b>Year of expiration</b>	<b>Tax loss carry-forwards</b>	<b>Tax value</b>
2012	37	9
2013	239	67
2014	372	105
2015	233	66
2016	391	112
2017 or later	11,385	2,899
<b>Total</b>	<b>12,657</b>	<b>3,258</b>

Tax loss carry-forwards of Sony Ericsson and ST-Ericsson are not included, as they are recognized in accordance with the equity method.

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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
<b>Basic</b>			
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
<b>Earnings per share, basic (SEK)</b>	<b>3.80</b>	3.49	1.15
<b>Diluted</b>			
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
<b>Earnings per share, diluted (SEK)</b>	<b>3.77</b>	3.46	1.14

**C10 INTANGIBLE ASSETS****Intangible assets 2011**

	Capitalized development expenses For internal use				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
<b>Cost</b>								
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 <sup>1)</sup>					260	382		382
Sales/disposals					2	20	20	40
Translation difference					46	7	25	32
<b>Closing balance</b>	<b>8,125</b>	<b>2,213</b>	<b>1,478</b>	<b>11,816</b>	<b>27,455</b>	<b>14,188</b>	<b>25,689</b>	<b>39,877</b>
<b>Accumulated amortization</b>								
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

<b>Closing balance</b>	<b>3,187</b>	<b>1,975</b>	<b>1,318</b>	<b>6,480</b>	<b>1</b>	<b>5,502</b>	<b>16,078</b>	<b>21,580</b>
<b>Accumulated impairment losses</b>								
Opening balance	1,714	55	37	1,806			5,214	5,214
Impairment losses	7			7	18			
<b>Closing balance</b>	<b>1,721</b>	<b>55</b>	<b>37</b>	<b>1,813</b>	<b>18</b>		<b>5,214</b>	<b>5,214</b>
<b>Net carrying value</b>	<b>3,217</b>	<b>183</b>	<b>123</b>	<b>3,523</b>	<b>27,438</b>	<b>8,686</b>	<b>4,397</b>	<b>13,083</b>

1) For more information on acquired businesses, see Note C26, Business Combinations .

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**Intangible assets 2010**

	Capitalized development expenses For internal use				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
	To be marketed	Acquired costs	Internal costs	Total		Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
<b>Cost</b>								
Opening balance	5,221	2,060	1,376	<b>8,657</b>	<b>27,375</b>	10,624	24,898	<b>35,522</b>
Acquisitions/capitalization	1,389	153	102	<b>1,644</b>		521		<b>521</b>
Balances regarding acquired businesses <sup>1)</sup>					<b>1,256</b>	2,800	1,025	<b>3,825</b>
Sales/disposals							55	<b>55</b>
Translation difference					<b>1,480</b>	363	538	<b>901</b>
<b>Closing balance</b>	<b>6,610</b>	<b>2,213</b>	<b>1,478</b>	<b>10,301</b>	<b>27,151</b>	<b>13,582</b>	<b>25,330</b>	<b>38,912</b>
<b>Accumulated amortization</b>								
Opening balance	2,104	1,630	1,087	<b>4,821</b>		2,639	9,875	<b>12,514</b>
Amortization	422	145	97	<b>664</b>		1,450	3,549	<b>4,999</b>
Sales/disposals							27	<b>27</b>
Translation difference						152	294	<b>446</b>
<b>Closing balance</b>	<b>2,526</b>	<b>1,775</b>	<b>1,184</b>	<b>5,485</b>		<b>3,937</b>	<b>13,103</b>	<b>17,040</b>
<b>Accumulated impairment losses</b>								
Opening balance	1,665	55	37	<b>1,757</b>			4,269	<b>4,269</b>
Impairment losses <sup>2)</sup>	49			<b>49</b>			945	<b>945</b>
<b>Closing balance</b>	<b>1,714</b>	<b>55</b>	<b>37</b>	<b>1,806</b>			<b>5,214</b>	<b>5,214</b>
<b>Net carrying value</b>	<b>2,370</b>	<b>383</b>	<b>257</b>	<b>3,010</b>	<b>27,151</b>	<b>9,645</b>	<b>7,013</b>	<b>16,658</b>

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.

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.

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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.





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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 2011**

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
<b>Cost</b>					
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
<b>Closing balance</b>	<b>4,641</b>	<b>5,235</b>	<b>20,663</b>	<b>1,302</b>	<b>31,841</b>
<b>Accumulated depreciation</b>					
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
<b>Closing balance</b>	<b>2,165</b>	<b>3,485</b>	<b>15,094</b>		<b>20,744</b>
<b>Accumulated impairment losses</b>					
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
<b>Closing balance</b>	<b>43</b>	<b>148</b>	<b>118</b>		<b>309</b>
<b>Net carrying value</b>	<b>2,433</b>	<b>1,602</b>	<b>5,451</b>	<b>1,302</b>	<b>10,788</b>

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.

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**Property, plant and equipment 2010**

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
<b>Cost</b>					
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
<b>Closing balance</b>	<b>4,238</b>	<b>5,004</b>	<b>18,576</b>	<b>814</b>	<b>28,632</b>
<b>Accumulated depreciation</b>					
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
<b>Closing balance</b>	<b>1,869</b>	<b>3,377</b>	<b>13,695</b>		<b>18,941</b>
<b>Accumulated impairment losses</b>					
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
<b>Closing balance</b>	<b>43</b>	<b>95</b>	<b>119</b>		<b>257</b>
<b>Net carrying value</b>	<b>2,326</b>	<b>1,532</b>	<b>4,762</b>	<b>814</b>	<b>9,434</b>

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
<b>Closing balance</b>	<b>4,663<sup>1)</sup></b>	<b>8,648<sup>1)</sup></b>	<b>1,302<sup>2)</sup></b>	<b>1,155<sup>2)</sup></b>	<b>5,965</b>	<b>9,803</b>

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
<b>Net assets</b>	<b>1,328</b>	<b>2,401</b>	<b>1,988</b>
<b>Net sales</b>	<b>23,496</b>	<b>30,089</b>	<b>36,074</b>
Income after financial items	1,095	705	5,540
Income taxes	85	231	1,252
<b>Net income</b>	<b>1,010</b>	<b>474</b>	<b>4,288</b>
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

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**Ericsson's share of assets, liabilities and income in associated company Ericsson Nikola Tesla D.D.**

	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
<b>Net assets</b>	<b>489</b>	<b>630</b>	<b>822</b>
Net sales	693	784	994
Income after financial items	13	17	90
Income taxes	3	1	1
<b>Net income</b>	<b>16</b>	<b>16</b>	<b>91</b>
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.

**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
<b>Net assets</b>	<b>3,277</b>	<b>6,189</b>	<b>8,274</b>
Net sales	5,346	8,260	9,633
Income after financial items	2,730	1,762	1,762
Income taxes	156	50	136
<b>Net income</b>	<b>2,574</b>	<b>1,712</b>	<b>1,626</b>
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	



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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
<b>Cost</b>								
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 <sup>1)</sup>							42	726
Revaluation					816	843		
Translation difference	107	134	11	2			116	189
<b>Closing balance</b>	<b>3,576</b>	<b>1,607</b>	<b>1,661</b>	<b>1,474</b>	<b>816</b>		<b>4,633</b>	<b>4,382</b>
<b>Accumulated impairment losses/allowances</b>								
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
<b>Closing balance</b>	<b>1,377</b>	<b>1,388</b>	<b>261</b>	<b>193</b>			<b>1,332</b>	<b>1,303</b>
<b>Net carrying value</b>	<b>2,199</b>	<b>219</b>	<b>1,400</b>	<b>1,281</b>	<b>816</b>		<b>3,301</b>	<b>3,079</b>

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
<b>Inventories, net</b>	<b>33,070</b>	<b>29,897</b>

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.

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**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
<b>Closing balance</b>	<b>3,343</b>	<b>3,090</b>	<b>2,961</b>

The amount of inventories recognized as expense and included in Cost of sales was SEK 60,544 (47,415) million.

**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
<b>Trade receivables, total</b>	<b>64,522</b>	<b>61,127</b>
Customer finance	4,671	4,725
Allowances for impairment	426	321
<b>Customer finance, net</b>	<b>4,245</b>	<b>4,404</b>
<i>Of which short term</i>	<i>2,845</i>	<i>3,123</i>
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



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Reclassification	<b>69</b>	33	10			
Translation difference	<b>19</b>	19	43	<b>1</b>	30	45
Balances regarding acquired/divested business			7			
<b>Closing balance</b>	<b>567</b>	766	924	<b>426</b>	321	772

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**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
<b>2011</b>				
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
<b>Total</b>	<b>64,740</b>	<b>567</b>	<b>4,671</b>	<b>426</b>
<b>2010</b>				
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
<b>Total</b>	<b>61,609</b>	<b>766</b>	<b>4,725</b>	<b>321</b>

**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

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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.

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**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		
<b>Total</b>	<b>100</b>	<b>100</b>

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

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**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 <sup>1)</sup>	2,003	3,042
Taxes	5,633	5,439
Other	3,962	3,565
<b>Total</b>	<b>17,837</b>	<b>17,146</b>

1) See also Note C20, Financial Risk Management and Financial Instruments .

**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
<b>Total</b>	<b>3,273,351,735</b>	<b>16,367</b>

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

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Number of shares Dec 31, 2011	3,273,351,735	16,367
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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).

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**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**

	Capital stock	Additional paid in capital	Retained earnings	Stock holders equity	Non- controlling interest (NCI)	Total equity
<b>2011</b>						
<b>January 1, 2011</b>	16,367	24,731	104,008	<b>145,106</b>	1,679	<b>146,785</b>
<b>Net income</b>						
Group			15,727	<b>15,727</b>	375	<b>16,102</b>
Joint ventures and associated companies			3,533	<b>3,533</b>		<b>3,533</b>
<b>Other comprehensive income</b>						
Remeasurements related to post-employment benefits						
Group			6,963	6,963		6,963
Joint ventures and associated companies			212	<b>212</b>		<b>212</b>
Cash flow hedges						
Gains/losses arising during the year						
Group			996	996		996
Joint ventures and associated companies			11	<b>11</b>		<b>11</b>
Reclassification adjustments for gains/losses included in profit or loss			2,028	<b>2,028</b>		<b>2,028</b>
Changes in cumulative translation adjustments						
Group			1,014	1,014	50	964
Joint ventures and associated companies			61	<b>61</b>		<b>61</b>
Tax on items relating to components of OCI <sup>3)</sup>			2,158 <sup>4)</sup>	<b>2,158</b>		<b>2,158</b>
<b>Total other comprehensive income</b>			7,113	<b>7,113</b>	50	<b>7,063</b>
<b>Total comprehensive income</b>			<b>5,081</b>	<b>5,081</b>	<b>425</b>	<b>5,506</b>
<b>Transactions with owners</b>						
Sale of own shares			92	<b>92</b>		<b>92</b>
Stock Purchase Plan						
Group			413	413		413
Joint ventures and associated companies						
Dividends paid			7,207	<b>7,207</b>	248	<b>7,455</b>
Transactions with non-controlling interest			380	<b>380</b>	309	<b>71</b>
<b>December 31, 2011</b>	<b>16,367</b>	<b>24,731</b>	<b>102,007</b>	<b>143,105</b>	<b>2,165</b>	<b>145,270</b>

- 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**

	Capital stock	Additional paid in capital	Retained earnings	Stock holders equity	Non- controlling interest (NCI)	Total equity
<b>2010</b>						
<b>January 1, 2010</b>	16,367	24,731	98,772	139,870	1,157	141,027
<b>Net income</b>						
Group			12,503	12,503	89	12,592
Joint ventures and associated companies			1,357	1,357		1,357
<b>Other comprehensive income</b>						
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
<b>Total other comprehensive income</b>			332	332	10	322
<b>Total comprehensive income</b>			10,814	10,814	99	10,913
<b>Transactions with owners</b>						
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
<b>December 31, 2010</b>	16,367	24,731	104,008	145,106	1,679	146,785

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**Equity and other comprehensive income 2009**

	Capital stock	Additional paid in capital	Retained earnings	Stockholders equity	Non- controlling interest (NCI)	Total equity
<b>2009</b>						
<b>January 1, 2009</b>	16,232	24,731	99,860	<b>140,823</b>	1,261	<b>142,084</b>
<b>Net income</b>						
Group			9,685	<b>9,685</b>	455	<b>10,140</b>
Joint ventures and associated companies			6,013	<b>6,013</b>		<b>6,013</b>
<b>Other comprehensive income</b>						
Remeasurements related to post-employment benefits						
Group			633	<b>633</b>		<b>633</b>
Joint ventures and associated companies			28	<b>28</b>		<b>28</b>
Revaluation of other investments in shares and participations						
Fair value remeasurement						
Group			2	<b>2</b>		<b>2</b>
Joint ventures and associated companies						
Cash flow hedges						
Gains/losses arising during the year						
Group			665	<b>665</b>		<b>665</b>
Joint ventures and associated companies			7	<b>7</b>		<b>7</b>
Reclassification adjustments for gains/losses included in profit or loss			3,850	<b>3,850</b>		<b>3,850</b>
Adjustments for amounts transferred to initial carrying amount of hedged items			1,029	<b>1,029</b>		<b>1,029</b>
Changes in cumulative translation adjustments						
Group			1,013	<b>1,013</b>	54	<b>1,067</b>
Joint ventures and associated companies			294	<b>294</b>		<b>294</b>
Tax on items relating to components of OCI			1,040	<b>1,040</b>		<b>1,040</b>
<b>Total other comprehensive income</b>			<b>539</b>	<b>539</b>	<b>54</b>	<b>485</b>
<b>Total comprehensive income</b>			<b>4,211</b>	<b>4,211</b>	<b>401</b>	<b>4,612</b>
<b>Transactions with owners</b>						
Stock issue	135			<b>135</b>		<b>135</b>
Sale of own shares			75	<b>75</b>		<b>75</b>
Repurchase of own shares			135	<b>135</b>		<b>135</b>
Stock Purchase and Stock Option Plans						
Group			658	<b>658</b>		<b>658</b>
Joint ventures and associated companies						
Dividends paid			5,897	<b>5,897</b>	421	<b>6,318</b>
Transactions with non-controlling interest					84	<b>84</b>
<b>December 31, 2009</b>	<b>16,367</b>	<b>24,731</b>	<b>98,772</b>	<b>139,870</b>	<b>1,157</b>	<b>141,027</b>

**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.



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**AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET****Amount recognized in the consolidated balance sheet**

	Sweden	UK	Eurozone	US	Other	Total
<b>2011</b>						
Defined benefit obligation (DBO) <sup>1)</sup>	20,643	6,307	3,687	3,133	2,605	36,375
Fair value of plan assets <sup>2)</sup>	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 <sup>3)</sup>		584	369		754	1,707
<b>Provision for post-employment benefits<sup>4)</sup></b>	<b>7,153</b>	<b>141</b>	<b>1,391</b>	<b>796</b>	<b>535</b>	<b>10,016</b>
<b>2010</b>						
Defined benefit obligation (DBO) <sup>1)</sup>	14,980	5,437	3,163	2,693	2,437	28,710
Fair value of plan assets <sup>2)</sup>	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 <sup>3)</sup>		290	643		939	1,872
<b>Provision for post-employment benefits<sup>4)</sup></b>	<b>2,591</b>	<b>36</b>	<b>1,297</b>	<b>645</b>	<b>523</b>	<b>5,092</b>

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.

**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.

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**PENSION COSTS FOR DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS**

	Sweden	UK	Eurozone	US	Other	Total
<b>2011</b>						
Pension cost for defined contribution plans	2,039	72	386	360	185	3,042
Pension cost for defined benefit plans <sup>1)</sup>	621	86	124	42	146	847
<b>Total</b>	<b>2,660</b>	<b>14</b>	<b>510</b>	<b>402</b>	<b>331</b>	<b>3,889</b>

Total pension cost expressed as a percentage of wages and salaries 8.9%

<b>2010</b>						
Pension cost for defined contribution plans	1,037	95	433	244	192	2,001
Pension cost for defined benefit plans <sup>1)</sup>	762	153	159	30	14	1,090
<b>Total</b>	<b>1,799</b>	<b>248</b>	<b>592</b>	<b>274</b>	<b>178</b>	<b>3,091</b>

Total pension cost expressed as a percentage of wages and salaries 7.1%

<b>2009</b>						
Pension cost for defined contribution plans	1,686	73	385	124	185	2,453
Pension cost for defined benefit plans <sup>1)</sup>	674	66	202	49	144	1,135
<b>Total</b>	<b>2,360</b>	<b>139</b>	<b>587</b>	<b>173</b>	<b>329</b>	<b>3,588</b>

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
<b>2011</b>						
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
<b>Total</b>	<b>621</b>	<b>86</b>	<b>124</b>	<b>42</b>	<b>146</b>	<b>847</b>

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<b>2010</b>						
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
<b>Total</b>	<b>762</b>	<b>153</b>	<b>159</b>	<b>30</b>	<b>14</b>	<b>1,090</b>
<b>2009</b>						
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
<b>Total</b>	<b>674</b>	<b>66</b>	<b>202</b>	<b>49</b>	<b>144</b>	<b>1,135</b>



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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
<b>2011</b>						
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
<b>Closing balance</b>	<b>20,643</b>	<b>6,307</b>	<b>3,687</b>	<b>3,133</b>	<b>2,605</b>	<b>36,375</b>

<i>Of which medical benefit schemes</i>				658		658
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<b>2010</b>						
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 <sup>1)</sup>			74		148	222
Other	1	20	95	30	8	114
Translation difference		461	466	148	7	1,082
<b>Closing balance</b>	<b>14,980</b>	<b>5,437</b>	<b>3,163</b>	<b>2,693</b>	<b>2,437</b>	<b>28,710</b>

<i>Of which medical benefit schemes</i>				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.



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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
<b>2011</b>						
DBO, closing balance	20,643	6,307	3,687	3,133	2,605	<b>36,375</b>
<i>Of which partially or fully funded</i>	<i>20,118</i>	<i>6,307</i>	<i>2,540</i>	<i>2,447</i>	<i>2,118</i>	<i><b>33,530</b></i>
<i>Of which unfunded</i>	<i>525</i>		<i>1,147</i>	<i>686</i>	<i>487</i>	<i><b>2,845</b></i>
<b>2010</b>						
DBO, closing balance	14,980	5,437	3,163	2,693	2,437	<b>28,710</b>
<i>Of which partially or fully funded</i>	<i>14,527</i>	<i>5,437</i>	<i>2,086</i>	<i>2,072</i>	<i>1,998</i>	<i><b>26,120</b></i>
<i>Of which unfunded</i>	<i>453</i>		<i>1,077</i>	<i>621</i>	<i>439</i>	<i><b>2,590</b></i>

**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
<b>2011</b>						
Opening balance	12,389	5,691	2,514	2,048	2,793	<b>25,435</b>
Expected return on plan assets	558	339	135	135	243	<b>1,410</b>
Actuarial gain/loss (+/ )	358	473	36	155	84	<b>150</b>
Employer contributions	1,086	272	125	54	125	<b>1,662</b>
Employee contributions		11	4		1	<b>16</b>
Pension payments	185	141	46	98	102	<b>572</b>
Other		14	1		4	<b>19</b>
Translation difference		119	30	43	195	<b>63</b>
<b>Closing balance</b>	<b>13,490</b>	<b>6,750</b>	<b>2,665</b>	<b>2,337</b>	<b>2,777</b>	<b>28,019</b>
<b>2010</b>						
Opening balance	10,927	5,336	2,406	1,974	2,563	<b>23,206</b>
Expected return on plan assets	511	322	141	130	253	<b>1,357</b>
Actuarial gain/loss (+/ )	222	265	105	103	42	<b>653</b>
Employer contributions	729	343	173	58	93	<b>1,396</b>
Employee contributions		11	3		5	<b>19</b>
Pension payments		119	43	103	119	<b>384</b>
Settlements					104	<b>104</b>
Business combinations <sup>1)</sup>					164	<b>164</b>
Other			53		4	<b>49</b>
Translation difference		467	324	114	16	<b>921</b>
<b>Closing balance</b>	<b>12,389</b>	<b>5,691</b>	<b>2,514</b>	<b>2,048</b>	<b>2,793</b>	<b>25,435</b>

- 1) Business combinations in 2010 are related to the acquisition of LG-Nortel.

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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	<b>1,560</b>
2010	733	587	246	233	211	<b>2,010</b>

**Asset allocation**

	Sweden	UK	Eurozone	US	Other	Total
<b>2011</b>						
Equities	4,503	1,666	1,348	1,062	356	<b>8,935</b>
Interest-bearing securities	8,239	4,245	1,020	1,210	1,846	<b>16,560</b>
Other	748	839	297	65	575	<b>2,524</b>
<b>Total</b>	<b>13,490</b>	<b>6,750</b>	<b>2,665</b>	<b>2,337</b>	<b>2,777</b>	<b>28,019</b>

*Of which Ericsson securities*

<b>2010</b>						
Equities	4,326	2,028	1,277	1,134	458	<b>9,223</b>
Interest-bearing securities	7,508	3,207	970	870	1,837	<b>14,392</b>
Other	555	456	267	44	498	<b>1,820</b>
<b>Total</b>	<b>12,389</b>	<b>5,691</b>	<b>2,514</b>	<b>2,048</b>	<b>2,793</b>	<b>25,435</b>

*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.

**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.

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**Multi-year summary**

	2011	2010	2009	2008	2007
Plan assets	<b>28,019</b>	25,435	23,206	19,037	20,236
DBO	<b>36,375</b>	28,710	30,717	28,010	25,226
Deficit/Surplus ( /+)	<b>8,356</b>	3,275	7,511	8,973	4,990
Actuarial gains and losses ( /+)					
Experience-based adjustments of pension obligations	<b>463</b>	177	310	57	76
Experience-based adjustments of plan assets	<b>150</b>	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	<b>1,849</b>	5,326
Recognized gain/loss ( /+) during the year	<b>6,034</b>	3,514
Translation difference	<b>28</b>	37
Cumulative gain/loss ( /+) at end of year	<b>7,911</b>	1,849

**Total remeasurements in other comprehensive income related to post-employment benefits**

	2011	2010
Actuarial gains and losses (+/ )	<b>6,034</b>	3,514
The effect of asset ceiling	<b>208</b>	29
Swedish special payroll taxes	<b>1,137</b>	407
Total Group	<b>6,963</b>	3,892
Actuarial gains and losses for joint ventures and associated companies	<b>212</b>	27

**ACTUARIAL ASSUMPTIONS****Financial and demographic actuarial assumptions**

	Sweden	UK	Eurozone <sup>1)</sup>	US <sup>1)</sup>	Other <sup>1)</sup>
<b>2011</b>					
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

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<b>2010</b>					
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.

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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.

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



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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
<b>2011</b>					
<b>Opening balance</b>	<b>2,469</b>	<b>3,230</b>	<b>1,105</b>	<b>2,940</b>	<b>9,744</b>
Additions	1,433	1,806	563	1,005	<b>4,807</b>
Reversal of excess amounts	440	407	164	908	<b>1,919</b>
<i>Negative effect on Income Statement</i>					<b>2,888</b>
Cash out/utilization	1,527	3,223	662	575	<b>5,987</b>
Balances regarding divested/acquired businesses	21			2	<b>23</b>
Reclassification		48	111	87	<b>246</b>
Translation differences	68	31	13	45	<b>157</b>
<b>Closing balance</b>	<b>1,888</b>	<b>1,327</b>	<b>718</b>	<b>2,332</b>	<b>6,265</b>
<b>2010</b>					
<b>Opening balance</b>	<b>2,533</b>	<b>4,299</b>	<b>1,694</b>	<b>3,905</b>	<b>12,431</b>
Additions	1,743	2,640	1,285	1,046	<b>6,714</b>
Reversal of excess amounts	297	335	353	869	<b>1,854</b>
<i>Negative effect on Income Statement</i>					<b>4,860</b>
Cash out/utilization	1,466	3,261	1,547	880	<b>7,154</b>
Balances regarding divested/acquired businesses	182		28		<b>210</b>
Reclassification	182	176	62	200	<b>144</b>
Translation differences	44	289	64	62	<b>459</b>
<b>Closing balance</b>	<b>2,469</b>	<b>3,230</b>	<b>1,105</b>	<b>2,940</b>	<b>9,744</b>

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.



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**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.

**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
<b>Borrowings, current</b>		
Current part of non-current borrowings <sup>1)</sup>	4,314	760
Other current borrowings	3,451	3,048
Total current borrowings	7,765	3,808
<b>Borrowings, non-current</b>		
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
<b>Total interest-bearing liabilities</b>	<b>31,021</b>	<b>30,763</b>



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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 <sup>2)</sup>	
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 <sup>3)</sup>	
2007-2014	375	1.704%	EUR	3,345	June 14, 2014 <sup>4)</sup>	
2007-2017	500	5.380%	EUR	5,161 <sup>1)</sup>	June 27, 2017	719
2009-2013	600	5.000%	EUR	5,450 <sup>1)</sup>	June 24, 2013	109
2009-2016	300	3.62125%	USD	2,069	June 23, 2016 <sup>5)</sup>	
2010-2020	170	2.96125%	USD	1,172	December 23, 2020 <sup>6)</sup>	
<b>Total</b>				<b>20,658</b>		<b>839</b>

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).

**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

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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

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.



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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
<b>Net sales</b>				
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%
<b>Pre-hedge total</b>			<b>225.2</b>	<b>100%</b>
Hedge			1.7	
<b>Total Net sales</b>			<b>226.9</b>	
<b>Net cost</b>				
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%

<b>Pre-hedge total</b>	<b>209.3</b>	<b>100%</b>
Hedge	0.3	
<b>Total Net cost</b>	<b>209.0</b>	
<b>Operating income</b>	<b>17.9</b>	

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### **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, 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

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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 market 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<sup>1)</sup>**

Fair value	2011		2010	
	Asset	Liability	Asset	Liability
<b>Currency derivatives</b>				
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
<b>Total currency derivatives</b>	<b>921</b>	<b>1,274</b>	<b>1,528</b>	<b>1,613<sup>2)</sup></b>
<i>Of which designated in cash flow hedge relations</i>	<i>333</i>	<i>638</i>	<i>662</i>	
<i>Of which designated in net investment hedge relations</i>				<i>3</i>
<b>Interest rate derivatives</b>				
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
<b>Total interest rate derivatives</b>	<b>1,898<sup>3)</sup></b>	<b>1,966</b>	<b>1,515</b>	<b>329<sup>2)</sup></b>
<i>Of which designated in fair value hedge relations</i>	<i>1,002</i>		<i>862</i>	



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- 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 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.

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**Cash, cash equivalents and short-term investments**

(SEK billion)	Remaining time to maturity				Total
	< 3 months	< 1 year	1 5 years	>5 years	
Bank Deposits	33.7	0.2			33.9
<b>Type of issuer/counterpart</b>					
Governments	6.3	3.8	13.2	1.7	25.0
Corporations <sup>1)</sup>	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<sup>1)</sup>**

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
<b>Total</b>	<b>3.4</b>	<b>16.4</b>	<b>4.0</b>	<b>23.8</b>

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.



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**Funding programs<sup>1)</sup>**

	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.

**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<sup>1)</sup>**

SEK billion	Book value		Fair value	
	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 receivables	Short- term invest- ments	Cash equiva- lents	Borrowings	Trade payables	Other financial assets	Other current receivables	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
<b>Total</b>	<b>4.2</b>	<b>64.5</b>	<b>41.9</b>	<b>9.1</b>	<b>31.0</b>	<b>25.3</b>	<b>4.1</b>	<b>2.0</b>	<b>3.2</b>		<b>66.3</b>	<b>73.4</b>

**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 <sup>1)</sup>	9,717	9,127
Deferred revenues	8,722	11,415
Derivatives with a negative value <sup>2)</sup>	3,240	1,039
Other <sup>3)</sup>	6,253	6,050
<b>Total</b>	<b>57,970</b>	<b>58,605</b>

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
<b>Total</b>	<b>25,309</b>	<b>24,959</b>

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**C23 ASSETS PLEDGED AS COLLATERAL****Assets pledged as collateral**

	2011	2010
Chattel mortgages	185	191
Bank deposits	267	467
<b>Total</b>	<b>452</b>	<b>658</b>

**C24 CONTINGENT LIABILITIES****Contingent liabilities**

	2011	2010
Contingent liabilities	609	875
<b>Total</b>	<b>609</b>	<b>875</b>

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.

**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.

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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).

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**Adjustments to reconcile net income to cash**

	2011	2010	2009
<b>Property, plant and equipment</b>			
Depreciation	3,499	3,299	3,550
Impairment losses/reversals of impairments	47	3	48
<b>Total</b>	<b>3,546</b>	<b>3,296</b>	<b>3,502</b>
<b>Intangible assets</b>			
<i>Amortization</i>			
Capitalized development expenses	995	664	647
Intellectual Property Rights, brands and other intangible assets	4,470	4,999	3,562
<b>Total amortization</b>	<b>5,465</b>	<b>5,663</b>	<b>4,209</b>
<i>Impairments</i>			
Capitalized development expenses	7	49	157
Intellectual Property Rights, brands and other intangible assets	18	945	4,255
<b>Total</b>	<b>5,490</b>	<b>6,657</b>	<b>8,621</b>
<b>Total depreciation, amortization and impairment losses on property, plant and equipment and intangible assets</b>	<b>9,036</b>	<b>9,953</b>	<b>12,123</b>
Taxes	1,994	351	1,011
Dividends from joint ventures/ associated companies <sup>1)</sup>	177	119	70
Undistributed earnings in joint ventures/associated companies <sup>1)</sup>	3,533	1,357	6,013
Gains/losses on sales of investments and operations, intangible assets and PP&E, net <sup>2)</sup>	159	237	910
Other non-cash items <sup>2) 3)</sup>	1,968	947	571
<b>Total adjustments to reconcile net income to cash</b>	<b>12,613</b>	<b>12,490</b>	<b>16,856</b>

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
<b>2011</b>		
Cash flow from business combinations <sup>1)</sup>	1,232	28
Acquisitions/divestments of other investments	1,949	81
<b>Total</b>	<b>3,181</b>	<b>53</b>

**2010**

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Cash flow from business combinations <sup>1)</sup>	3,286	454
<b>Total</b>	<b>3,286</b>	<b>454</b>
<b>2009</b>		
Cash flow from business combinations <sup>1)</sup>	9,633	1,239
Capital contribution to joint venture	9,688	
<b>Total</b>	<b>19,321</b>	<b>1,239</b>

1) See also Note C26, Business Combinations .



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**C26 BUSINESS COMBINATIONS****Acquisitions and divestments****Acquisitions***Acquisitions 2009-2011*

	2011	2010	2009
Cash	1,162	3,789	9,633
<b>Total consideration</b>	<b>1,162</b>	<b>3,789</b>	<b>9,633</b>
<b>Acquisition-related costs</b>	<b>77<sup>1)</sup></b>	<b>67<sup>1)</sup></b>	
<b>Net asset acquired</b>			
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
<b>Total identifiable net assets</b>	<b>848</b>	<b>3,281</b>	<b>6,099</b>
<b>Non-controlling interest</b>	<b>54</b>	<b>748</b>	
<b>Goodwill</b>	<b>260</b>	<b>1,256</b>	<b>3,534</b>
	<b>1,162</b>	<b>3,789</b>	<b>9,633</b>

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 a 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 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.

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**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
<b>Cash</b>	<b>28</b>	454	1,239
<b>Net assets disposed of</b>			
Property, plant and equipment	1	21	5
Investments in associates	10		
Other assets	38	372	586
Other liabilities	224	183	38
	<b>175</b>	210	553
Net gains from divestments	<b>158</b>	357	780
Less Cash and cash equivalents	11	113	94
<b>Cash flow effect</b>	<b>28</b>	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

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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

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*Divestments 2009 - 2011*

<b>Company</b>	<b>Description</b>	<b>Transaction date</b>
EFI	Sale of Ericsson Federal Inc. (EFI).	Dec, 2010
TEMS	Tools for air interface monitoring and radio network planning.	Jun, 2009
<b>C27</b>	<b>LEASING</b>	

**Leasing with the Company as lessee**

Assets under finance leases, recorded as property, plant and equipment, consist of:

**Finance leases**

	<b>2011</b>	<b>2010</b>
<b><u>Cost</u></b>		
Real estate	<b>1,856</b>	1,846
Machinery	<b>3</b>	3
	<b>1,859</b>	1,849
<b><u>Accumulated depreciation</u></b>		
Real estate	<b>725</b>	687
Machinery	<b>3</b>	3
	<b>728</b>	690
<b><u>Accumulated impairment losses</u></b>		
Real estate	<b>42</b>	54
<b><u>Net carrying value</u></b>	<b>1,089</b>	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**

	<b>Finance leases</b>	<b>Operating leases</b>
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

<b>Total</b>	<b>1,691</b>	<b>11,028</b>
Future finance charges <sup>1)</sup>	498	n/a
Present value of finance lease liabilities	1,193	11,028

1) Average effective interest rate on lease payables is 5.66%.

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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**

	<b>Finance leases</b>	<b>Operating leases</b>
2012	36	178
2013	18	204
2014	21	210
2015	23	173
2016	18	14
2017 and later		25
<b>Total</b>	<b>116</b>	<b>804</b>
Unearned financial income	n/a	n/a
Uncollectible lease payments	n/a	n/a
<b>Net investments in financial leases</b>	<b>n/a</b>	<b>n/a</b>

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****REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS****Remuneration to the Board of Directors**

<b>Board member</b>	<b>Board fees</b>	<b>Number of synthetic shares/ portion of Board fee</b>	<b>Value at grant date of synthetic shares allocated 2011 A</b>	<b>Number of previously allocated synthetic shares</b>	<b>Net change in value of allocated synthetic shares<sup>1)</sup> B</b>	<b>Committee fees</b>	<b>Total fees paid in cash<sup>2)</sup> C</b>	<b>Total remuneration 2011 (A+B+C)</b>
Leif Johansson	3,750,000	0/0%				400,000	5,453,930 <sup>3)</sup>	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 <sup>3)</sup>	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
<i>Employee</i>								
<i>Representatives</i>								
Pehr Claesson	18,000						18,000	18,000
Anna Guldstrand <sup>4)</sup>	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
<b>Total</b>	<b>12,106,500</b>	<b>27,150</b>	<b>2,474,638</b>	<b>100,852.20</b>	<b>924,904</b>	<b>2,200,000</b>	<b>13,255,398</b>	<b>14,805,132<sup>5)</sup></b>
Total <sup>6)</sup>	12,106,500	27,150	2,474,638	220,239.80	1,337,226	2,200,000	13,255,398	14,392,810 <sup>5)</sup>

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.



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- 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.

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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.

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-weighted 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-weighted 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.



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**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
<b>Total</b>	<b>33,986,451</b>	<b>34,074,515</b>	<b>154,037,309</b>	<b>177,141,565</b>	<b>188,023,760</b>	<b>211,216,080</b>

**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.

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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.

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

	The President and CEO	Other members of the ELT
Number of Class B shares		
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.

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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.

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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

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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**

<b>Plan</b>	<b>Contribution period</b>	<b>Number of participants at launch</b>	<b>Take-up rate percent of eligible employees</b>
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.

**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.

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The tables to the right shows all Executive Performance Stock Plans as per December 31, 2011.

**Executive performance stock plans**

	2011 <sup>1)</sup>	Executive Performance Stock Plan		2008
		2010	2009	
Base year EPS <sup>2)</sup>		1.14	2.90	4.43
Target average annual EPS growth range <sup>3)</sup>		5% to 15%	5% to 15%	5% to 15%
Matching share vesting range <sup>4)</sup>	0.67 to 4	0.67 to 4	0.67 to 4	0.67 to 4
	1 to 6	1 to 6	1 to 6	1 to 6
	1.5 to 9	1.5 to 9	1.33 to 8	1.33 to 8
Maximum opportunity as percentage of fixed salary <sup>5)</sup>	30%	30%	30%	30%
	45%	45%	45%	45%
	162%	162%	72%	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) <sup>1)</sup>	23.74	Compound annual growth of 5 15%		
Cash Flow (Cash Conversion)		70%	70%	70%

- 1) Consolidated operating margin excluding restructuring for 2010.

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**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 <sup>1)</sup>	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 <sup>2)</sup>	F=B+C	D E	3.4	10.6	9.1	6.1	29.2	
Compensation costs charged during 2011 (MSEK)	G		9 <sup>3)</sup>	115 <sup>3)</sup>	145 <sup>3)</sup>	116 <sup>3)</sup>	28 <sup>3)</sup>	413 <sup>4)</sup>

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

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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.

**EMPLOYEE NUMBERS, WAGES AND SALARIES****Employee numbers****Average number of employees**

	Women	2011 Men	Total	Women	2010 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 <sup>1) 2)</sup>	5,656	14,927	20,583	5,821	15,227	21,048
Western & Central Europe <sup>2)</sup>	1,663	8,968	10,631	1,817	9,338	11,155
Mediterranean <sup>2)</sup>	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
<b>Total</b>	<b>22,394</b>	<b>80,736</b>	<b>103,130</b>	<b>20,394</b>	<b>71,431</b>	<b>91,825</b>
1) <i>Of which Sweden</i>	4,188	12,881	17,069	4,355	13,066	17,421
2) <i>Of which EU</i>	9,575	31,667	41,242	9,843	32,045	41,888

**Number of employees at year-end**

Employees by region	2011	2010
North America	14,801	13,498
Latin America	11,191	7,181
Northern Europe & Central Asia <sup>1) 2)</sup>	20,987	21,425
Western & Central Europe <sup>2)</sup>	10,806	10,818
Mediterranean <sup>2)</sup>	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

<b>Total</b>		<b>104,525</b>	90,261
1)	<i>Of which Sweden</i>	<b>17,500</b>	17,848
2)	<i>Of which EU</i>	<b>41,596</b>	40,743

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**Employees by gender and age at year-end 2011**

	<b>Women</b>	<b>Men</b>	<b>Percent of total</b>
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%
<b>Percent of total</b>	<b>22%</b>	<b>78%</b>	<b>100%</b>

**Number of employees related to cost of sales and operating expenses**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cost of sales	<b>58,800</b>	45,628	41,521
Operating expenses	<b>45,725</b>	44,633	40,972
<b>Total</b>	<b>104,525</b>	90,261	82,493

**Employee movements**

	<b>2011</b>	<b>2010</b>
Head count at year-end	<b>104,525</b>	90,261
Employees who have left the Company	<b>10,571</b>	10,066
Employees who have joined the Company	<b>24,835</b>	17,834
Temporary employees	<b>901</b>	978

**Employee wages and salaries****Wages and salaries and social security expenses**

	<b>2011</b>	<b>2010</b>
Wages and salaries	<b>43,707</b>	43,390
Social security expenses	<b>15,198</b>	13,793
<i>Of which pension costs</i>	<b>3,888</b>	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

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Salary and other remuneration	<b>223</b>	289
<i>Of which annual variable remuneration</i>	<b>22</b>	<i>43</i>
Pension costs	<b>20</b>	29

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**Board members, presidents and group management by gender at year end**

	2011		2010	
	Women	Men	Women	Men
<b>Parent Company</b>				
Board members and President	20%	80%	33%	67%
Group Management	29%	71%	14%	86%
<b>Subsidiaries</b>				
Board members and Presidents	11%	89%	10%	90%

**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

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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
<b>Related party transactions</b>			
Sales	182	403	740
Purchases	781	629	624
<b>Related party balances</b>			
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.



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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
<b>Related party transactions</b>			
Sales	465	563	654
License revenues	4	2	7
Purchases	595	566	569
Ericsson's share of dividends	154	104	66
<b>Related party balances</b>			
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.

**C30 FEES TO AUDITORS****Fees to auditors**

	PwC	Others	Total
<b>2011</b>			
Audit fees	77	9	86
Audit related fees	10		10
Tax services fees	20	3	23
Other fees	16		16
<b>Total</b>	<b>123</b>	<b>12</b>	<b>135</b>
<b>2010</b>			
Audit fees	79	5	84
Audit related fees	17	1	18
Tax services fees	16	2	18
Other fees	7	2	9

<b>Total</b>	<b>119</b>	<b>10</b>	<b>129</b>
<b>2009</b>			
Audit fees <sup>1)</sup>	88	3	91
Audit related fees <sup>1)</sup>	18		18
Tax services fees	16	2	18
Other fees <sup>1)</sup>	3	2	5
<b>Total</b>	<b>125</b>	<b>7</b>	<b>132</b>

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

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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**

SEK billion	Payment due by period				Total
	<1 year	1–3 years	3–5 years	>5 years	
Long-term debt <sup>1) 2)</sup>	5.4	10.0	6.7	6.0	28.1
Finance lease obligations <sup>3)</sup>	0.2	0.4	0.2	0.9	1.7
Operating leases <sup>3)</sup>	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 <sup>4)</sup>	7.1				7.1
Trade payables	25.3				25.3
Commitments for customer financing <sup>5)</sup>	8.6				8.6
<b>Total</b>	<b>49.8</b>	<b>14.3</b>	<b>8.8</b>	<b>11.0</b>	<b>83.9</b>

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.





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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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## **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** .

### **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;

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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 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.

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### **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

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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 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.

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### **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.





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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

### **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 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.

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### **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 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.

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### **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 on 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

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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.

## **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.

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**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.

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### **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, 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;

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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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**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, 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

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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

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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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**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

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.

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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](http://www.corporategovernanceboard.se)).

### **Compliance with applicable stock exchange rules**

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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.

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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.

## **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.

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**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.

**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.



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**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)

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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

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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](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

Sweden

[boardsecretariat@ericsson.com](mailto:boardsecretariat@ericsson.com)

**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)

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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**

Telefonaktiebolaget LM Ericsson

The Nomination Committee

c/o General Counsel's Office

SE-164 83 Stockholm

Sweden

[nomination.committee@ericsson.com](mailto:nomination.committee@ericsson.com)

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

### **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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.

### **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.

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**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.

**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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

### **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 192. 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.

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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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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**

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.

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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.

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.

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### **Work of the audit committee in 2011**

The Audit Committee held 8 meetings in 2011. Directors' attendance is reflected in the table on page 192. 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.

### **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**



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The Finance Committee held 6 meetings in 2011. Directors' attendance is reflected in the table on page 192. 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.

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### **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 192.

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.

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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.

**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](http://www.ericsson.com/thecompany/investors/general-meetings). (Information on the Ericsson website does not form part of this Report.)

**Directors' attendance and fees 2011**

Board member	Fees resolved by the AGM 2011		Number of Board/Committee meetings attended			
	Board fees <sup>1)</sup>	Committee fees	Board	Audit Committee	Finance Committee	Remuneration Committee
Leif Johansson <sup>2)</sup>	3,750,000	400,000	8		3	5
Michael Treschow <sup>3)</sup>			4		2	3
Sverker Martin-Löf <sup>4)</sup>	825,000	250,000	11	5		
Jacob Wallenberg <sup>2)</sup>	825,000	175,000	8		3	
Marcus Wallenberg <sup>3)</sup>			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 <sup>5)</sup>	18,000 <sup>6)</sup>		12		3	
Anna Guldstrand <sup>7)</sup>	6,000 <sup>6)</sup>		4		3	
Jan Hedlund	16,500 <sup>6)</sup>		11	7		
Karin Åberg	18,000 <sup>6)</sup>		12			7
Kristina Davidsson	18,000 <sup>6)</sup>		12			
Karin Lennartsson	18,000 <sup>6)</sup>		12			
Roger Svensson <sup>8)</sup>	12,000 <sup>6)</sup>		8			
<b>Total number of meetings</b>			<b>12</b>	<b>8</b>	<b>6</b>	<b>8</b>

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

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- 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.

### **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 Ecolan AB.

**Holdings in Ericsson<sup>1)</sup>:** 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.

**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<sup>1)</sup>:** 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.

- 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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**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<sup>1</sup>:** 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. 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<sup>1</sup>:** 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.

**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<sup>1</sup>:** 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.

- 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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**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<sup>1)</sup>:** 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<sup>1)</sup>:** 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<sup>1)</sup>:** 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<sup>1)</sup>:** 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.

**Holdings in Ericsson<sup>1)</sup>:** 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.

**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<sup>1)</sup>:** 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

- 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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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.

**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<sup>1)</sup>:** 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.

## **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<sup>1)</sup>:** 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<sup>1)</sup>:** 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**<sup>1)</sup>: 2,289 Class B shares.

Employed since 1995. Working as a Service Engineer within the IT organization.

- 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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**Kristina Davidsson** (first appointed 2006)

*Deputy employee representative*

Born 1955. Appointed by the union IF Metall.

**Holdings in Ericsson<sup>1</sup>**: 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<sup>1</sup>**: 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<sup>1</sup>**: 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.

## **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.

- 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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**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.

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### **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 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.

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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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 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.

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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.

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**MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM**

**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<sup>1)</sup>:** 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<sup>1)</sup>:** 6,837 Class B shares.

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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**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<sup>1)</sup>:** 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<sup>1)</sup>:** 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<sup>1)</sup>:** 11,704 Class B shares.

**Background:** Previously Head of Market Unit Italy and Market Unit South East Europe.

- 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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**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<sup>1)</sup>:** 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 <sup>1)</sup>:** 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.

**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<sup>1)</sup>:** 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.

- 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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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**Holdings in Ericsson**<sup>1)</sup>: 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**<sup>1)</sup>: 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**<sup>1)</sup>: 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**<sup>1)</sup>: 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.

- 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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**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**<sup>1)</sup>: 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**<sup>1)</sup>: 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**<sup>1)</sup>: 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.





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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.

Ericsson's website ([www.ericsson.com/investors](http://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.

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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.

#### **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, segregation of duties and appropriate delegation of authority. This requires specific approval of material transactions and ensures adequate asset management.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

### **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

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

## **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).

### **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.





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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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<sup>\*</sup>.

**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?
<b><u>Short term: Remuneration delivered over 12 months or less</u></b>				
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
<b><u>Long term: Remuneration delivered over 3 years or more</u></b>				
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

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	share in addition to the SPP one  Get up to 4, 6 or, for CEO, 9 further matching shares to the SPP one for long- term performance
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\* Information on the Ericsson website ([www.ericsson.com](http://www.ericsson.com)) does not form part of this Report.

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### **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 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

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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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.



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**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 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 <sup>1)</sup>	34%	68%	29%	61%	23%	16%
Average ELT 2012 <sup>1)</sup>	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.

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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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 218 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.



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### ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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 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. (Base year 2010 excluding restructuring)

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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

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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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**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.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Ericsson's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Ericsson's internal control system related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Although the purpose of internal control systems is to ensure adequate risk management all internal control systems, no matter how well designed, have inherent limitations which may result in that misstatements are not prevented or detected. Therefore, even systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial statement preparation and presentation.

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.

Ericsson's management assessed the effectiveness of Ericsson's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that, as of December 31, 2011, Ericsson's internal control over financial reporting was effective. The effectiveness of the Company's internal control over financial reporting as of December 31, 2011, has been audited by PricewaterhouseCoopers AB, an independent registered public accounting firm. PricewaterhouseCoopers AB has issued an attestation report on Ericsson's internal control over financial reporting, which appears on page 70.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2011

**SUPPLEMENTAL INFORMATION**

The following information is provided to comply with certain requirements of Form 20-F which are not satisfied in full by the information in the Swedish Annual Report.

**GENERAL FACTS ON THE COMPANY**

**Legal name of the Parent Company:**

Telefonaktiebolaget LM Ericsson (publ)

**Organization number:**

556016-0680

**Legal form of the Parent Company:** A Swedish limited liability company, organized under the Swedish Companies Act. The terms Ericsson , the Company , the Group , us , we , and our all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries.

**Country of incorporation:** Sweden.

**Date of incorporation:** The Parent Company was incorporated on August 18, 1918, as a result of a merger between AB LM Ericsson & Co. and Stockholms Allmänna Telefon AB.

**Domicile:** Our registered office is Telefonaktiebolaget LM Ericsson, SE 164 83 Stockholm, Sweden. Our headquarters are located at Torshamnsgatan 23, Kista, Sweden.

**Telephone number:** +46 10 719 0000

**Website:** [www.ericsson.com](http://www.ericsson.com)

**Agent in the US:** Ericsson Inc., Vice President Legal Affairs, 6300 Legacy Drive, Plano, Texas 75024. Telephone number: +1 972 583 0000.

**Shares:** Ericsson's Class A and Class B shares are traded on NASDAQ OMX Stockholm. In the US, our American Depository Shares (ADS), each representing one underlying Class B share, are traded on NASDAQ.

**Parent Company operations:** The business of the Parent Company, Telefonaktiebolaget LM Ericsson, consists mainly of corporate management, holding company functions and internal banking activities. Parent Company operations also include customer credit management activities performed by Ericsson Credit AB on a commission basis.

**Subsidiaries and associated companies:** For a listing of our significant subsidiaries, please see section Investments . In addition to our joint ventures Sony Ericsson and ST-Ericsson, we are engaged in a number of other minor joint ventures, cooperative arrangements and venture capital initiatives. For more information regarding risks associated with joint ventures, strategic alliances and third-party agreements please see Risk Factors, Market, Technology and Business Risks .

**Documents on display:** We file annual reports and other information (normally in Swedish only) for certain domestic legal entities with Bolagsverket (Swedish Companies Registration Office) pursuant to Swedish rules and regulations.

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You may order any of these reports from their website [www.bolagsverket.se](http://www.bolagsverket.se). If you access these reports, please be aware that the information included may not be indicative of our published consolidated results in all aspects. Other than information related to the Parent Company, only consolidated numbers for the Group totals are included in our reports. **Filing in the US:** Annual reports and other information are filed with the Securities and Exchange Commission (SEC) in the United States, pursuant to the rules and regulations that apply to foreign private issuers. Electronic access to these documents may be obtained from the SEC's website, [www.sec.gov/edgar/searchedgar/webusers.htm](http://www.sec.gov/edgar/searchedgar/webusers.htm), where they are stored in the EDGAR database.

## **COMPANY HISTORY AND DEVELOPMENT**

### **Innovating to empower people, business and society**

Our origins date back to 1876 when Alexander Graham Bell filed a patent application in the United States for the telephone. The same year, Lars Magnus Ericsson opened a small workshop in Stockholm to repair telegraph instruments and sell his own telephone equipment.

Today, Ericsson is a leading provider of communications equipment, telecom services and multimedia solutions. Our customers, in over 180 countries, are mainly operators of mobile and fixed networks worldwide. We manage networks, or parts of networks, for 900 million subscribers.

## **TECHNICAL MILESTONES**

1878 Telegraph to telephone

1923 Manual switching to automatic switching

1981 Fixed communications to mobile communications

1998 Integration of voice and data in mobile networks

2001 Launch of WCDMA/3G networks in Western Europe

2006 Launch of HSPA mobile broadband networks globally

2009 Mobile broadband traffic gains momentum and first LTE network launched

2011 Our multi-standard radio base station RBS 6000 accounts for 95% of radio base station deliveries.

## **EXCHANGE RATES**

The following tables provide information with respect to the exchange rate for SEK per USD 1.00, based on the noon buying rate for cable transfers in SEK as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate of March 30, 2012, was SEK 6.6191 per USD 1.00. The average is computed using the noon buying rate on the last business day of each month during the period

indicated.

**Average exchange rates**

<b>Year ended December 31</b>	<b>Average</b>
2007	6.7232
2008	6.6424
2009	7.6232
2010	7.1895
2011	6.4263

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**Exchange rates, monthly high and low**

Month	High	Low
September 2011	6.9087	6.3742
October 2011	6.9050	6.3575
November 2011	7.0013	6.5507
December 2011	7.0054	6.7128
January 2012	7.0137	6.735
February 2012	6.7389	6.5561
Effects of exchange rate fluctuations on our business is described in the Notes to the Consolidated Financial Statements Note C20, Financial Risk Management and Financial Instruments.		

**PRIMARY MANUFACTURING AND ASSEMBLY FACILITIES**

We continuously adjust our production capacity to meet expected customer demand. At year-end 2011, our overall capacity utilization was close to 100%. The table Primary manufacturing and assembly facilities summarizes where we have major sites and the total floor space at year-end. In Sweden, the majority of the floor space within our production facilities is used for node assembly and verification.

**Primary manufacturing and assembly facilities**

	Sites	2011 Thousands of sq meters	Sites	2010 Thousands of sq meters	Sites	2009 Thousands of sq meters
Sweden	7	429.3	6	204.4	8	224.7
China	5	91.1	4	61.1	4	46.4
Estonia	1	23.7	1	20.6	1	26.6
Italy	2	33.7	2	20.1	2	20.1
Brazil	1	20.1	1	23.3	1	23.3
India	1	80.7	1	15.6	1	13.6
<b>Total</b>	<b>17</b>	<b>678.6</b>	<b>15</b>	<b>345.1</b>	<b>17</b>	<b>354.7</b>

**OPERATING RESULTS****Years ended December 31, 2010 and 2011**

Please refer to Board of Directors Report.

**Years ended December 31, 2009 and 2010****Net sales****Consolidated**

Consolidated net sales decreased by SEK 2%, to SEK 203.3 billion in 2010 from SEK 206.5 billion in 2009.

The cautious operator investments that started to impact in the second half of 2009 continued during the first half 2010. In the second half of 2010 demand for mobile broadband started to increase. During part of the year, the Company struggled with the industry-wide component shortage. At year end, the supply of components had normalized. Despite necessary inflow of components, the Company could at year-end not fully meet the increased demand on certain mobile broadband products. In 2010, voice related sales decreased and the increase in demand for



mobile broadband products and services could not fully compensate for that decline.

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Sales were also negatively impacted by the strong SEK. Sales for comparable units, adjusted for currency exchange rate effects and hedging, decreased 7%. The demand varied considerably between markets.

As of January 1, 2010, Ericsson reports the following segments: Networks, Global Services, Multimedia, Sony Ericsson and ST-Ericsson. The only change compared to previous years is that Network Rollout is now included in Global Services instead of in Networks. All other segments are unchanged.

#### **Networks**

Net sales in segment Networks decreased by 1% to SEK 112.7 billion in 2010 from SEK 114.0 billion in 2009. Sales were positively impacted by the acquisition of Nortel businesses. There was a negative impact from the industry-wide component shortage during the year.

In November 2009, Nortel's CDMA and LTE business were consolidated in Networks. Nortel's GSM business was consolidated on March 31, 2010. On June 30, 2010, the former LG-Nortel business, now named LG-Ericsson, was consolidated in Networks.

Mobile broadband sales increased during the year, especially driven by demand in North America and Japan. The increased demand related to radio, backhaul and packet core. Voice-related sales, i.e. 2G radio and core, was slow in the year and could not be compensated for by the increase in mobile broadband. The operating margin was 15% (14%).

#### **Global Services**

Global Services sales increased by 1% to SEK 80.1 (79.2) billion. Operating margin was 11% (11%). Global Services includes Professional Services and Network Rollout. Professional Services consists of managed services, consulting and systems integration, customer support and education. Professional Services increased 4% to SEK 58.5 (56.1) billion and in local currencies 9%, in line with previous years' growth pace. Managed Services increased 21% to SEK 21.1 (17.4) billion. The increase was primarily driven by the contract with the US-based operator Sprint, which started in September 2009. The contract value was USD 5.5 billion for seven years at the time of the announcement. Network Rollout decreased 7% to SEK 21.6 (23.1) billion. Network Rollout includes turnkey projects with a large part of third party sourcing, making it a lower-margin business.

#### **Multimedia**

Multimedia sales declined 21% to SEK 10.5 (13.3) billion. Operating margin was 4% (8%). The segment showed a strong recovery in the last quarter, mainly as a result of increased operator investments in revenue management as well as continued good development for TV solutions.

In 2010, a program for return to profitability was initiated. The program includes phase-out of products, reduction of sourcing and supply costs and decoupling of software and hardware using commercial off-the-shelf hardware.

#### **Geographical regions**

As of January 1, 2010, the geographical reporting structure was changed from five geographical areas to ten regions, mirroring the new internal geographical organization. A part called Other is also reported, consisting of business not reported in the geographical structure, e.g. embedded modules, cables, power modules as well as intellectual property rights and licenses.

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The following regions increased their sales in 2010: North America by 107% and Northern Europe & Central Asia by 2% (and Other by 4%). China & North East Asia was flat. The following regions decreased their sales: Latin America by 11%, Western & Central Europe by 12%, Mediterranean by 10%, Middle East by 17%, Sub-Saharan Africa by 40%, India by 43% and South East Asia & Oceania by 29%.

## **Financial results of operations**

Gross margin improved to 36.5% compared to 34.0% in 2009, due to business mix with a higher proportion of network upgrades and expansions. Cost of sales was also reduced as a result of efficiency work.

Operating expenses were slightly reduced to SEK 58.6 billion in 2010 compared to SEK 60.0 billion in 2009. Operating expenses measured as a percentage of net sales was 28.8% in 2010 compared with 29.0% in 2009.

Operating income increased significantly to SEK 16.5 (5.9) billion due to improved earnings in Sony Ericsson. The operating margin was 8.1% (2.9%). There was a negative contribution from joint ventures of SEK 1.2 billion, compared to SEK 7.4 billion in 2009.

Earnings per share (EPS) diluted was SEK 3.46 (1.14). The increase was a result of improved net income. The AGM resolved on a dividend of SEK 2.25 (2.00) per share for 2010.

## **Financial position**

Net cash increased to SEK 51.3 (36.1) billion, mainly due to a strong operating cash flow. 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. During 2010, Ericsson made five acquisitions and strengthened its market position in the US and Korea and added competence in consulting and systems integration.

Equity increased by SEK 5.8 billion to SEK 146.8 (141.0) billion. Net income was SEK 11.2 (4.1) billion and a dividend of SEK 6.7 (6.3) billion was paid during the year. The equity ratio was maintained at a healthy level of 52% (52%).

Return on equity increased to 7.8% (2.6%), primarily due to improved earnings in JV Sony Ericsson and less restructuring charges. Return on capital employed (ROCE) improved to 9.6% (4.3%).

## **Cash flow**

At the end of 2010, gross cash had increased by SEK 10.4 billion to SEK 87.2 (76.7) billion. The increase was mainly attributed to a strong cash flow from operating activities of SEK 26.6 (24.5) billion, offsetting investing activities of SEK 12.5 (37.5) billion and a dividend to shareholders of SEK 6.7 (6.3) billion. Net cash increased to SEK 51.3 (36.1) billion.

Cash outlays for recurring investing activities increased slightly to SEK 5.2 (4.9) billion. Acquisitions and divestments during 2010 were net SEK 2.8 (18.1) billion. Cash outflow for short-term investments for cash management purposes and other investing activities was net SEK 4.5 (14.5) billion, largely attributable to SEK 3.0 (17.1) billion of short-term investments.

In 2010, the cash used in financing activities was SEK 5.7 (1.7) billion. Dividends paid of SEK 6.7 billion were partly offset by increased borrowings of SEK 1.1 billion and other financing activities of SEK 0.1 billion.

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### **Restructuring in 2009 and 2010**

The restructuring charges in 2010 were SEK 6.8 billion compared to SEK 11.3 billion in 2009. Cash outlays was SEK 3.3 (4.2) billion. Charges of SEK 4.2 billion were taken in 2010 related to a cost reduction program initiated in 2009 and completed in 2010. In the second half of 2010, an additional SEK 2.6 billion in charges were taken. These charges primarily relate to efficiency activities in service delivery, product development and administration. At the end of 2010, cash outlays of SEK 3.2 billion remained to be made.

### **MEMORANDUM AND ARTICLES OF ASSOCIATION**

Telefonaktiebolaget LM Ericsson is entered under no. 556016 0680 in the Company Register kept by the Swedish Companies Registration Office. Our Company's objective and purposes are described in §2 of the Articles of Association.

Our Articles of Association do not stipulate anything regarding

a) a director's power to vote on a proposal, arrangement, or contract in which the director is materially interested, b) our directors' power to vote for compensation to themselves, c) our directors' borrowing powers, d) retirements rules for our directors or e) the number of shares required for a director's qualification. Applicable provisions are found in the Swedish Companies Act, as referred to in Certain Powers of Directors and the President below.

There are no age limit restrictions for directors and they are not required to own any shares in the Company.

### **Share Capital, Increases of Share Capital and Preferential Rights of Shareholders**

The Articles of Association of Ericsson provide that the share capital of the Company may not be less than SEK 6,000 million nor more than SEK 24,000 million, and that the number of shares in the Company shall amount to no less than 3,000,000,000 and no more than 12,000,000,000. The registered share capital is SEK 16,366,758,678 and the Company has in total issued SEK 3,273,351,735 shares.

The Company's shares are divided into three series: Class A shares, Class B shares and Class C shares; however, no Class C shares are currently outstanding. Under the Swedish Companies Act of 2005, applicable as of January 1, 2006 (the Swedish Companies Act), shareholders must approve each issue of additional shares either by deciding on the share issue at a shareholders' meeting, or by a shareholders' approval of a decision on a share issue by the Board, or by giving an authorization to the Board to decide about a share issue. If we decide to issue new Class A, Class B and Class C shares by means of a cash issue, or an issue against payment through set-off of claims, Class A, Class B and Class C shareholders (except for Ericsson and its subsidiaries, in the event they hold shares in Ericsson) have a primary preferential right to subscribe for new shares of the same type in relation to the number of shares previously held by them. Shares not subscribed for through a preferential right shall be offered to all shareholders for subscription on a pro rata basis. If we decide to issue new shares of only one series by means of a cash issue or an issue against payment through set-off of claims, all shareholders, regardless of whether their shares are Class A, Class B or Class C, are entitled to a preferential right to subscribe for new shares in proportion to the number of shares previously held by them. Shareholders may vote to waive shareholders' preferential rights at a general meeting.

If we decide to issue warrants or convertibles through a cash issue or an issue against payment through set-off of claims, the shareholders have preferential rights to subscribe to warrants as if the issue were of the shares that may be subscribed to pursuant to the warrant and, respectively, preferential rights to subscribe to convertibles as if the issue were of the shares that the convertibles may be converted to.

The above does not constitute any restriction to waive the shareholders' preferential rights when deciding on either a cash issue, an issue against payment through set-off of claims, an issue of warrants or an issue of convertibles.

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### **Dividends**

Our Class A and Class B shareholders have the same right to dividends, while Class C shareholders have a right to a yearly dividend as described in article 15 of our Articles of Association. No Class C shares are currently outstanding.

Under Swedish law, only a general meeting of shareholders may decide on payment of dividends, which may not exceed the amount proposed by the Board of Directors (except in certain limited circumstances), and may only be paid from funds legally available for that purpose. Under Swedish law, no interim dividends may be paid in respect of any fiscal period for which audited financial statements of the company have not yet been adopted by the annual general meeting of shareholders. The market practice in Sweden is for dividends to be paid annually. Under the Swedish Companies Act, dividends to shareholders and other transfers of value from a company such as purchases of own shares (see below) may only be made in case the company's restricted equity remains fully covered after the transfer of value has been made. The calculation shall be based upon the most recently adopted balance sheet, and any changes in the restricted equity that has occurred after the balance sheet date shall be taken into account. In addition, dividends to shareholders and other transfers of value from the company may only be made if this is justifiable taken into account the type of business activities of the company, their scope and risks related thereto and the company's need for financial resources, its liquidity and financial position. In respect of parent companies, also the business activities of the group, their scope and risks related thereto and the group's need for financial resources, its liquidity and financial position should be taken into account.

The Company's shares are registered in the computerized book-entry share registration system administered by Euroclear Sweden AB (Euroclear). The rights attached to shares eligible for dividends accrue to those persons whose names are recorded in the register of shareholders on the record day. The dividends are then sent to a specified account as directed by the person registered with Euroclear, or to the address of that person. The relevant record day must, in most circumstances, be specified in the resolution declaring a dividend or resolving upon a capital increase or any similar matter in which shareholders have preferential rights, or the Board of Directors must be authorized to determine the relevant record day.

Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on issues of shares with preferential rights for the shareholders, shares, as well as rights. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is adopted for share issues. Specific authority to act as a nominee must be obtained from Euroclear. The nominee must issue a public report to Euroclear every third month, listing all beneficial holders of more than 500 shares. Euroclear is required to keep a register with regard to any holding on behalf of a single beneficial owner in excess of 500 shares in any one company. This list must reveal the names of the beneficial owner and must be open to public inspection.

### **Voting**

In a general meeting of Ericsson, each Class A share shall carry one vote, each Class B share one tenth of one vote and each Class C share one-thousandth of one vote.

We are required to publish notices to attend annual general meetings no earlier than six weeks and no later than four weeks prior to the general meeting and the same notice period requirements apply regarding extraordinary general meetings concerning changes in our articles of association. Notices to attend other types of extraordinary general meetings at Ericsson must be published no earlier than six weeks and no later than three weeks prior to the general meeting.

Directors are elected during the annual general meeting for a period of one year at a time and do not stand for reelection at staggered intervals.

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A shareholder may attend and vote at the meeting in person or by proxy. For companies whose shares are registered in a central securities depositary register, proxies are valid for up to five years from the date of issuance. Any shareholder wishing to attend a general meeting must notify us no later than on the day specified in the notice, preferably before 4:00 p.m. (CET). We are required to accept all notifications of attendance received at least five business days (Saturdays normally included) prior to the meeting. A person designated in the register as a nominee (including the depositary of the ADSs) is not entitled to vote at a general meeting, nor is a beneficial owner whose share is registered in the name of a nominee (including the depositary of the ADSs) unless the beneficial owner first arranges to have such owner's own name entered in the register of shareholders maintained by Euroclear no later than the designated record day.

Under the Swedish Companies Act, resolutions are passed by a simple majority of votes cast at the meeting with the chairman of the meeting having a decisive vote (except in respect of elections), unless otherwise required by law or a company's articles of association. Under the Swedish Companies Act, certain resolutions require special quorums and majorities, including, but not limited to, the following:

- A** a resolution to amend the articles of association requires a majority of two-thirds of the votes cast as well as two-thirds of the shares represented at the meeting, except in those circumstances described in B-D below;
- B** a resolution to amend the articles of association which reduces any shareholder's rights to profits or assets, restricts the transferability of shares or alters the legal relationship between shares, normally requires the unanimous approval of the shareholders present at the meeting and who hold nine-tenths of all outstanding shares;
- C** a resolution to amend the articles of association for the purpose of limiting the number of shares with which a shareholder may vote at a general meeting or allocating part of the net profit for the fiscal year to a restricted fund or limiting the use of the company's profits or assets in a liquidation or dissolution, normally requires the approval of shareholders representing two-thirds of the votes cast and nine-tenths of the shares represented at the meeting;
- D** a resolution of the kind referred to under B or C above may, however, be taken with a lower supermajority requirement if the amendments referred to therein will only adversely affect specific shares or classes of shares. In such cases, the requirement under A above will apply together with the following separate supermajority: (a) where only a class of shares is adversely affected, approval of the owners of one-half of all shares of such class and nine-tenths of the shares of such class represented at the meeting, or (b) where the shares adversely affected do not constitute a class of shares, the unanimous approval of all such affected outstanding shares present at the meeting and who hold nine-tenths of all outstanding shares adversely affected;
- E** a resolution to issue, approve or authorize the issuance for cash of new shares, warrants or convertibles with a deviation from the preferential right for existing shareholders requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting;
- F** a resolution to reduce the outstanding share capital requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting. In case there are several classes of shares in a company, the above described majority requirement shall apply also within each share class represented at the meeting and for which the rights of the shares are adversely affected; and
- G** a resolution to approve a merger requires a two-thirds majority of the votes cast at the meeting and two-thirds of the shares represented at the meeting (however, under certain circumstances a higher majority is required).

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At a general meeting of shareholders, a shareholder or proxy for one or more shareholders may cast full number of votes represented by the holder's shares.

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### **Purchase of Own Shares**

A Swedish public limited liability company whose shares are traded on a regulated market place within the European Economic Area ( EEA ) or a market place comparable to a regulated market place outside the EEA is entitled to purchase its own shares under certain conditions. A purchase by us of our own shares may take place only if (a) the purchase has been decided upon by a general meeting of shareholders or the Board has been authorized by a general meeting of shareholders, in both cases by a two thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting, (b) the purchase is effected on a regulated market place within the EEA or a market place comparable to a regulated market place outside the EEA (in the latter case with the approval of the Swedish Financial Supervisory Authority the SFSA ) or pursuant to an offer to all shareholders or holders of a specific class of shares, (c) the Company's restricted equity will still be fully covered and the purchase is justifiable taken into account the type of business activities of the Company and the group, their scope and risks related thereto and the Company's and the group's need for financial resources, its liquidity and financial position, and (d) we and our subsidiaries do not hold or, as a result of purchase, will not hold in excess of 10% of all our outstanding shares. As of December 31, 2011, the Company held an aggregate of 62,846,503 treasury stock of Class B shares.

### **Investment Restrictions**

There are no limitations imposed by Swedish law or by our Articles of Association in respect of the rights of non-residents or foreign persons to purchase, own or sell securities issued by us.

There are, however, certain flagging and ownership examination rules that apply, irrespective of nationality.

Pursuant to the Swedish Financial Instruments Trading Act any change in a holding of shares, depository receipts with voting rights or financial instruments that entitle the holder to acquire shares in issue in a Swedish limited liability company whose shares are admitted for trading on a regulated market place within the EEA shall be reported by the holder to the company and the SFSA, where the change entails that the holder's portion of all shares or votes in the company reaches, exceeds or falls below any of the limits of 5, 10, 15, 20, 25, 30, 50, 66 2/3 or 90 per cent. Such a change should, as a main rule, be reported not later than the trading day following the day on which the party with a duty to report has entered into an agreement for the acquisition or transfer of shares or any other change to the shareholding has occurred.

In addition, the Act on Reporting Obligations Regarding Certain Holdings of Financial Instruments requires, among other things, certain individuals who own shares representing 10% or more of the share capital or the voting rights in a Swedish public limited liability company whose shares are traded on a regulated market within the EEA to report such ownership to the SFSA, which keeps a public register based on the information contained in such reports, and also to report any changes in such ownership within five business days.

### **EXCHANGE CONTROLS**

There is no Swedish legislation affecting a) the import or export of capital or b) the remittance of dividends, interest or other payments to non-resident holders of our securities except that, subject to the provisions in any tax treaty, dividends are subject to withholding tax.

### **TAXATION**

#### **General**

The taxation discussion set forth below does not purport to be a complete analysis or listing of all potential tax effects relevant to the acquisition, ownership or disposition of Class B shares or ADSs. The statements of United States and Swedish tax laws set forth below are based on the laws in force as of the date of this report and



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may be subject to any changes in United States or Swedish law, and in any double taxation convention or treaty between the United States and Sweden, occurring after that date, which changes may then have retroactive effect.

Specific tax provisions may apply for certain categories of tax payers. Your tax treatment if you are a holder of Class B shares or ADSs depends in part on your particular situation. If you are a holder of Class B shares or ADSs, you should therefore consult a tax advisor as to the tax consequences relating to your particular circumstances resulting from the ownership of Class B shares or ADSs.

The tax consequences to holders of ADSs, as discussed below, apply equally to holders of Class B shares.

### **Certain Swedish Tax Considerations**

This section describes the material Swedish income and net wealth tax consequences for a holder of ADSs or Class B shares who is not considered to be a Swedish resident for Swedish tax purposes. This section applies to you only if you are a holder of portfolio investments representing less than 10% of capital and votes and is not applicable if the ADSs or Class B shares pertain to a permanent establishment or fixed place of business in Sweden.

#### **Taxation on capital gains**

Generally, non-residents of Sweden are not liable for Swedish capital gains taxation with respect to the sale of ADSs or Class B shares. However, under Swedish tax law, capital gains from the sale of shares in Swedish companies and certain other securities by an individual may be taxed in Sweden at a rate of 30% if the seller has been a resident of Sweden or has lived permanently in Sweden at any time during the year of the sale or the 10 calendar years preceding the year of the sale (absent treaty provisions to the contrary). The provision is applicable on ADSs or Class B shares. From 1 January 2008 the rule has been extended so that it also applies to shares in foreign companies, provided that the shares were acquired during the time that the person was liable to tax in Sweden.

This provision may, however, be limited by tax treaties that Sweden has concluded with other countries. Under the tax treaty between Sweden and the United States (the U.S. Tax Treaty), this provision applies for ten years from the date the individual became a non-resident of Sweden.

#### **Taxation on dividends**

A Swedish dividend withholding tax at a rate of 30% is imposed on dividends paid by a Swedish corporation, such as us, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish corporation, including payments as a result of redemption of shares and repurchase of stock through an offer directed to its shareholders. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under the U.S. Tax Treaty, the withholding tax on dividends paid on portfolio investments to eligible U.S. holders is reduced to 15%.

Under all Swedish tax treaties, except the tax treaty with Switzerland, withholding tax at the applicable treaty rate should be withheld by the payer of the dividends. With regard to dividends paid from shares in corporations registered with the Euroclear Sweden (such as our shares), a reduced rate of dividend withholding tax under a tax treaty is generally applied at the source by the Euroclear Sweden or, if the shares are registered with a nominee, the nominee, as long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to the Euroclear Sweden or the nominee.

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In those cases where Swedish withholding tax is withheld at the rate of 30% and the person who received the dividends is entitled to a reduced rate of withholding tax under a tax treaty, a refund may be claimed from the Swedish tax authorities before the end of the fifth calendar year following the year that the distribution was made.

### **Taxation on interest**

No Swedish withholding tax is payable on interest paid to non-residents of Sweden.

### **Net wealth taxation**

The Swedish net wealth tax has been abolished from 1 January 2007.

### **Certain United States Federal Income Tax Consequences**

The following discussion is a summary of the material United States federal income tax consequences relevant to the ownership and disposition of ADSs or Class B shares. This discussion is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. The discussion is not a full discussion of all tax considerations that may be relevant to the ownership and disposition of ADSs or Class B shares. The discussion applies only if you will hold the ADSs and/or the Class B shares as capital assets and you use the USD as your functional currency. It does not deal with the tax treatment of investors subject to special rules, such as grantor trusts, real estate investment trusts, regulated investment companies, banks, brokers or dealers in securities, traders in securities or currencies that elect to use a mark-to-market method of recording for their securities holdings, financial institutions, insurance companies, tax-exempt entities, investors liable for alternative minimum tax, holders (either actually or constructively) of 10% or more of our Class B shares, persons holding ADSs and/or Class B shares as part of a hedging, straddle, conversion or constructive sale transaction and persons who are resident or ordinarily resident in Sweden. In addition, investors holding ADSs and/or Class B shares indirectly through partnerships are subject to special rules not discussed below. You should consult your own tax advisors about the United States federal, state, local and foreign tax consequences to you of the ownership and disposition of the ADSs or Class B shares.

The discussion below applies to you only if you are a beneficial owner of ADSs and/or Class B shares not resident in Sweden for purposes of the U.S. Tax Treaty and you are, for United States federal income tax purposes, (1) a citizen or resident of the United States, (2) a corporation or any other entity treated as a corporation that is organized in or under the laws of the United States or its political subdivisions, including the District of Columbia, (3) a trust if all of the trust's substantial decisions are subject to the control of one or more United States persons and the primary supervision of the trust is subject to a United States court, or if a valid election is in effect with respect to the trust to be taxed as a United States person, or (4) an estate the income of which is subject to United States federal income taxation regardless of its source.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with the terms. If you hold ADSs, you will be treated as the holder of the underlying Class B shares represented by those ADSs for United States federal income tax purposes.

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### **Taxation Of Adss Or Class B Shares**

#### *Dividends*

Subject to the passive foreign investment company rules discussed below, the gross amount of dividends paid (before reduction for any Swedish withholding taxes) with respect to the ADSs or Class B shares generally will be included in your gross income as ordinary income from foreign sources to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of earnings and profits will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADSs or Class B shares and thereafter as capital gain. The dividends will not be eligible for the dividends received deduction available to corporations in respect of dividends received from other U.S. corporations. The amount of any dividend paid in SEK will be the U.S. dollar value of the dividend payment based on the exchange rate in effect on the date of receipt by you (or constructive receipt), in the case of Class B shares or by the depositary, in the case of ADSs, whether or not the payment is converted into USD at that time. Your tax basis in the SEK received will equal such USD amount. Gain or loss, if any, recognized on a subsequent sale or conversion of the SEK will be U.S. source ordinary income or loss.

If you are a non-corporate holder of ADSs or Class B shares, dividends you receive on the ADSs or Class B shares for taxable years beginning before January 1, 2013, may be taxed at the lower applicable capital gains rate provided that (1) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, (2) certain holding period requirements are met, (3) you are not under any obligation to make related payments with respect to substantially similar or related property and (4) either (a) in the case of ADSs our ADSs continue to be listed on the Nasdaq Stock Market (or a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended) or (b) we are eligible for the benefits of the U.S. Tax Treaty. You should consult your own tax advisors regarding the availability of the lower rate for dividends paid with respect to ADSs or Class B shares.

Subject to certain limitations, you will generally be entitled to receive credit against your United States federal income tax liability (or a deduction against your United States federal taxable income) with respect to any Swedish tax withheld in accordance with the U.S. Tax Treaty and paid over to Sweden. If a refund of the tax withheld is available to you under the laws of Sweden or under the U.S. Tax Treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your United States federal income tax liability (and will not be eligible for the deduction in computing your United States federal taxable income). For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, and will generally be treated as passive category income (or, in the case of certain holders, general category income).

#### **Sale or exchange of ADSs or Class B shares**

Subject to the passive foreign investment company rules discussed below, you will generally recognize capital gain or loss on the sale or other disposition of the ADSs or Class B shares equal to the difference between the USD value of the amount realized and your adjusted tax basis (determined in USD) in the ADSs or Class B shares. Such gain or loss will be capital gain or loss and will generally be treated as arising from U.S. sources for foreign tax credit limitation purposes.

The amount realized on a disposition of ADSs or Class B shares will generally be the amount of cash you receive for the ADSs or Class B shares (which, in the case of payment in a non-U.S. currency, will equal the USD value of the payment received determined on (a) the date of receipt of payment if you are a cash basis taxpayer and (b) the date of disposition if you are an accrual basis taxpayer). If the ADSs or Class B shares are treated as traded on an established securities market, if you are a cash basis taxpayer (or, if you are an accrual basis taxpayer, if you so elect) you will determine the USD value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

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You will have a tax basis in any foreign currency received equal to the USD amount realized. Any gain or loss you realize on a subsequent conversion of foreign currency will be U.S. source ordinary income or loss.

#### **Passive foreign investment company status**

A non-U.S. corporation is a passive foreign investment company (a PFIC ) in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (a) at least 75% of its gross income is passive income or (b) at least 50% of the quarterly average value of its assets is attributable to assets that produce or are held to produce passive income. Based on the market value of our shares, the composition of our assets and income and our operations, we believe we were not a PFIC during the year 2011. However, whether or not we will be considered a PFIC will depend on the nature and source of our income and the value of our assets, as determined from time to time. If we are treated as a PFIC, we will not provide information necessary for the qualified electing fund election as the term is defined in the relevant provisions of the Code. You should consult your own tax advisors about the consequences of our potential classification as a PFIC.

If we were a PFIC, for any taxable year in which you held ADSs or Class B shares, you would be subject to special rules with respect to:

any gain realized on the sale or other disposition of ADSs or Class B shares; and

any excess distribution made to you (generally, any distributions to you in respect of ADSs or Class B shares during a single taxable year that are, in the aggregate, greater than 125% of the average annual distributions received by you in respect of ADSs or Class B shares during the three preceding taxable years or, if shorter, your holding period for ADSs or Class B shares).

Under these rules:

the gain or excess distribution would be allocated ratably over your holding period for ADSs or Class B shares;

the amount allocated to the taxable year in which the gain or excess distribution was realized and any year before we became a PFIC would be taxable as ordinary income and

the amount allocated to each prior year, other than the current year and any taxable year prior to the first taxable year in which we were a PFIC, would be subject to tax at the highest applicable marginal tax rate in effect for each such year; and an interest charge would be imposed.

If we are a PFIC for any taxable year, you will also be deemed to own shares in any of our subsidiaries that are also PFICs in such a year. As an alternative to the special rules described above, holders of marketable stock in a PFIC may elect mark-to-market treatment with respect to their ADSs or Class B shares. ADSs or Class B shares will not be considered marketable stock unless they are regularly traded on a qualified exchange or other market. If the mark-to-market election is available and you elect mark-to-market treatment you will, in general, include as ordinary income each year an amount equal to the increase in value of your ADSs or Class B shares for that year (measured at the close of your taxable year) and will generally be allowed a deduction for any decrease in the value of your Class B shares for the year, but only to the extent of previously included mark-to-market income. However, a mark-to-market election would likely be unavailable with respect to your proportionate share in any of our subsidiaries that are PFICs.

If you own ADSs or Class B shares during any year in which we are a PFIC, you may be required to make an annual return on IRS Form 8621 regarding distributions received with respect to ADSs or Class B shares and any gain realized on the disposition of your ADSs or Class B shares.



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**Information reporting and backup withholding**

In general, information reporting requirements may apply to dividends paid in respect of ADSs or Class B shares and the proceeds received on the sale or exchange of the ADSs or Class B shares within the United States or by a broker with certain United States connections. Backup withholding, currently at a rate of 28%, may apply to payments to you of dividends paid in respect of ADSs or Class B shares or the proceeds of a sale or other disposition of ADSs or Class B shares if you fail to provide an accurate taxpayer identification number (certified on IRS Form W-9) or, upon request, to certify that you are not subject to backup withholding, or otherwise to comply with the applicable requirements of backup withholding. The amount of any backup withholding from a payment to you will be allowed as a credit against your United States federal income tax liability and a refund of any excess amount withheld under the backup withholding rules may be obtained by filing the appropriate claim for refund with the IRS and furnishing any required information.

**Additional reporting requirements**

Certain holders who are individuals may be required to report information relating to an interest in ADSs or Class B shares, subject to certain exceptions (including an exception for ADSs or Class B shares held in accounts maintained by certain financial institutions). Holders should consult their tax advisors regarding the effects, if any, of these requirements on their ownership and deposition of ADSs or Class B shares.

**DEPOSITARY FEES AND CHARGES****Fees and charges payable by ADS holders**

Service	Rate	By whom paid
1) Receipt of deposits and issuance of receipts	USD 5 per 100 American Depositary Shares of fraction thereof	Party to whom receipts are issued
2) Delivery of deposited shares against surrender of receipts	USD 5 per 100 American Depositary Shares or fraction thereof	Party surrendering receipts
3) Payments of dividends distributions or rights offering in respect of shares	No charge	Not applicable

Except as otherwise provided in the Deposit Agreement, any and all other expenses of the Depositary, including, without limitation, expenses or charges for printing, stationery, postage, insurances, cables, etc, are to be borne by the Depositary, or by the Company in accordance with agreements entered into from time to time with the Company.

**Fees payable by the Depositary to the Issuer**

Citibank, as depositary, has agreed to reimburse Ericsson USD 5 million per year for expenses related to our ADS program (the Program), including Program-related legal fees, expenses related to investor relations in the US, US investor presentations, ADS-related financial advertising and public relations, fees and expenses of Citibank as administrator of the ADS Direct Plan, fees in relation to our Form 20-F and SOX compliance.

Citibank has further agreed to waive other ADS program related expenses amounting to USD 50,000 associated with the administration of the Program.

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**INDEPENDENCE REQUIREMENTS**

The Ericsson Board of Directors is subject to, and applies, a variety of independence requirements. However, it has sought and received exemptions from certain Sarbanes-Oxley Act and NASDAQ requirements, including those that are contrary to Swedish Law, see [NASDAQ Corporate Governance Exemptions](#) for more information.

**NASDAQ Marketplace Rules**

Independence requirements on the board of directors:

A majority of the members of the board of directors must be independent in line with the NASDAQ rules. Ericsson has obtained an exemption from NASDAQ which means employee representative directors can be exempt from NASDAQ's independence requirements.

**Sarbanes-Oxley Act of 2002 and corresponding NASDAQ rules**

Independence requirements on the audit committee:

All members of the audit committee must be independent in line with the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 includes a specific exemption for non-executive employee representatives. The Company does not consider that reliance on the exemption adversely affect the ability of the Audit Committee to act independently or satisfy other SEC requirements.

**NASDAQ Corporate Governance Exemptions**

Following a 2005 amendment to NASDAQ's Marketplace Rules, foreign private issuers such as Ericsson may follow home-country practice in lieu of certain NASDAQ corporate governance requirements.

Before the amendment was adopted, NASDAQ's Marketplace Rules stated that, upon application, foreign private issuers could be exempt from certain corporate governance requirements. This only applied when the requirements were contrary to the laws, rules or regulations, or generally accepted business practices of the issuer's home jurisdiction.

Ericsson has received exemptions from NASDAQ's corporate governance requirements under the Marketplace Rules (and is entitled to continue to rely thereon under the 2005 amendment). This is in order to allow:

Employee representatives to be elected to the Board of Directors and serve on Committees (including the Audit Committee), in accordance with Swedish law.

Shareholders to participate in the election of Directors and the Nomination Committee, in accordance with Swedish law and common market practice respectively.

Employee representatives on the Board to attend all Board and Committee meetings (including those of the Audit Committee), in accordance with Swedish laws concerning attendance and decision making processes.

The Company does not consider that reliance on the exemption from the audit committee independence requirements adversely affects the ability of the Audit Committee to act independently or satisfy other SEC requirements.





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In addition, Ericsson relies on the exemption provided by the 2005 amendment to overcome the requirements regarding quorums for its General Meetings of Shareholders since they are contrary to Swedish law.

**AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES**

The Audit Committee reviews and approves the scope of audits to be performed (external and internal) and analyzes the results and costs of the audits. The Committee makes recommendations to the Board of Directors regarding the auditor's performance. It also makes recommendations to the Nomination Committee regarding the external auditor's fees. 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. The policies and procedures include a list of prohibited services and services that require pre-approval by the Committee. Such services fall into two broad categories:

General pre-approval certain services regarding taxes, transactions, risk management, business improvement, corporate finance, attestation and accounting and so called general services. These services have received general pre-approval by the Audit Committee, provided that the estimated fee for each project does not exceed SEK 1 million. The external auditor must advise the Audit Committee of services rendered under the general pre-approval policy.

Specific pre-approval all other non-audit related services must receive specific pre-approval. The Audit Committee Chairman has the delegated authority for specific pre-approval in between Committee meetings, provided that the fee in each case does not exceed SEK 2.5 million. The Chairman reports any pre-approval to the Audit Committee at its next meeting. For matters which may not be handled by the Chairman and require specific pre-approval by the Audit Committee, the auditor submits an application to the Parent Company for final approval by the Audit Committee

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**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
<b><u>Subsidiary companies</u></b>						
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	Cfa Ericsson S.A.C.I.		Argentina	95 <sup>1)</sup>	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 <sup>2)</sup>	90	17

Other countries (the rest of the world)						155
<b>Total</b>						<b>79,511</b>
<b><u>Joint ventures and associated companies</u></b>						
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
<b>Total</b>						<b>13,066</b>

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### 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
<b>Subsidiary companies</b>				
II	Ericsson Cables Holding AB	556044-9489	Sweden	100
I	Ericsson France SAS		France	100
I	Ericsson Telekommunikation GmbH & Co. KG <sup>1)</sup>		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	Druett Corporation Inc.		United States	100
I	Optimi Corporation		United States	100
I	Redback Networks Inc.		United States	100
I	Ericsson Telecomunicações 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.

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**RECONCILIATIONS TO IFRS****Ericsson expenses**

SEK billion	2011	IFRS 2010	2009	Restructuring Charges			Non-IFRS		
				2011	2010	2009	2011	2010	2009
Selling and administrative expenses	26.7	27.1	26.9	1.4	1.8	1.0	25.3	25.3	25.9
R&D expenses	32.6	31.6	33.1	0.6	1.7	6.0	32.1	29.9	27.0
Net sales	226.9	203.3	206.5				226.9	203.3	206.5
R&D expenses as a percent of net sales	14.4%	15.5%	16.0%				14.1%	14.7%	13.1%

**Ericsson ebita margin (including restructuring)**

SEK billion	2011	2010	2009	2008	2007
Net income	12.6	11.2	4.1	11.7	22.1
Interest	0.2	0.7	0.3	1.0	-0.1
Tax	5.6	4.5	2.1	5.6	8.6
Amortization and write-downs of acquired intangibles	4.5	5.9	7.8	3.3	3.1
EBITA	22.4	22.4	13.8	19.6	33.8
Net sales	226.9	203.3	206.5	208.9	187.8
EBITA margin (%)	9.9%	11.0%	6.7%	9.4%	18.0%

**Adjusted operating cash flows**

SEK billion	2011	2010	2009
Operating cash flow	10.0	26.6	24.5
Restructuring cash outlays	3.2	3.3	4.2
Adjusted operating cash flows	13.2	29.8	28.7

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**Segment net sales, operating income and operating margin**

SEK billion	2011	2010	2009
<b>Net sales</b>			
Networks	132.4	112.7	114.1
Global Services	83.9	80.1	79.1
Multimedia	10.6	10.5	13.3
<b>Operating income</b>			
Networks	17.3	12.5	7.6
Global Services	5.5	6.5	6.3
Multimedia	0.5	0.6	0.7
<b>Operating margin</b>			
Networks	13%	11%	7%
Global Services	7%	8%	8%
Multimedia	5%	6%	5%
<b>Restructuring charges</b>			
Networks	1.6	3.9	8.4
Global Services	1.4	2.7	2.4
Multimedia	0.1	0.2	0.4
<b>Operating income excl. restructuring charges</b>			
Networks	18.9	16.4	16.0
Global Services	6.9	9.2	8.7
Multimedia	0.4	0.4	1.0
<b>Operating margin excl. restructuring charges</b>			
Networks	14%	15%	14%
Global Services	8%	11%	11%
Multimedia	3%	4%	8%

**Capital employed**

	2011	2010	2009	2008	2007
Total assets	280,349	281,815	269,809	285,684	245,117
Non-interest-bearing provisions and liabilities					
Provisions, non-current	280	353	461	311	368
Deferred tax liabilities	2,250	2,571	2,270	2,738	2,799
Other non-current liabilities	2,248	3,296	2,035	1,622	1,714
Provisions, current	5,985	9,391	11,970	14,039	9,358
Trade payables	25,309	24,959	18,864	23,504	17,427
Other current liabilities	57,970	58,605	52,529	61,032	44,995
<b>Capital employed</b>	<b>186,307</b>	<b>182,640</b>	<b>181,680</b>	<b>182,439</b>	<b>168,456</b>



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**Return on capital employed**

	2011	2010	2009	2008	2007
Operating income	17,900	16,455	5,918	16,252	30,646
Financial income	2,882	1,047	1,874	3,458	1,778
Average capital employed <sup>1)</sup>					
Capital employed at January 1	182,640	181,680	182,439	168,456	142,447
Capital employed at December 31	186,307	182,640	181,680	182,439	168,456
Average capital employed	184,474	182,160	182,060	175,448	155,452
<b>Return on capital employed<sup>2)</sup></b>	<b>11.3%</b>	<b>9.6%</b>	<b>4.3%</b>	<b>11.3%</b>	<b>20.9%</b>

1) Average capital employed is the average of the amounts of capital employed at January 1 and December 31.

2) Return on capital employed is the total of operating income and financial income as a percentage of average capital employed.

**Gross cash and net cash**

	2011	2010	2009	2008	2007
Cash + Cash equivalents	38,676	30,864	22,798	37,813	28,310
Short term investments	41,866	56,286	53,926	37,192	29,406
<b>Gross cash</b>	<b>80,542</b>	<b>87,150</b>	<b>76,724</b>	<b>75,005</b>	<b>57,716</b>
Post-employment benefits	10,016	5,092	8,533	9,873	6,188
Interest-bearing liabilities					
Borrowings non-current	23,256	26,955	29,996	24,939	21,320
Borrowings current	7,765	3,808	2,124	5,542	5,896
<b>Net cash</b>	<b>39,505</b>	<b>51,295</b>	<b>36,071</b>	<b>34,651</b>	<b>24,312</b>

**Return on equity**

	2011	2010	2009	2008	2007
Net income attributable to stockholders	12,194	11,146	3,672	11,273	21,836
Average stockholder equity <sup>1)</sup>					
Stockholder equity at January 1	145,106	139,870	140,823	134,112	120,113
Stockholder at December 31	143,105	145,106	139,870	140,823	134,112
Average stockholder equity	144,106	142,488	140,347	137,468	127,113
<b>Return on equity<sup>2)</sup></b>	<b>8.5%</b>	<b>7.8%</b>	<b>2.6%</b>	<b>8.2%</b>	<b>17.2%</b>

1) Average stockholder equity is based on the amounts at January 1 and December 31.

2) Return on equity is net income attributable to shareholders as a percentage of average stockholder equity.





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**Working capital**

	2011	2010	2009	2008	2007
Current assets	<b>198,816</b>	198,443	182,442	198,525	158,107
Current non-interest-bearing provisions and liabilities					
Provisions, current	<b>5,985</b>	9,391	11,970	14,039	9,358
Trade payables	<b>25,309</b>	24,959	18,864	23,504	17,427
Other current liabilities	<b>57,970</b>	58,605	52,529	61,032	44,995
<b>Working capital<sup>1)</sup></b>	<b>109,552</b>	105,488	99,079	99,951	86,327

1) Working capital is Current assets less current non-interest-bearing provisions and liabilities

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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.

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**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.

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**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.

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**FINANCIAL TERMINOLOGY**

**Capital employed<sup>1)</sup>**

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 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<sup>1)</sup>**

Earnings Before Interest, Taxes, Amortization and write-downs of acquired intangibles (Intellectual property rights, trademarks and other intangible assets, see Note C10) as a percentage of net sales.

**Equity ratio**

Equity, expressed as a percentage of total assets.

**Gross Cash<sup>1)</sup>**

Cash and cash equivalents plus short-term investments.





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**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<sup>1)</sup>**

Cash and cash equivalents plus short-term investments less interest-bearing liabilities (which include: Borrowings non-current and Borrowings current) 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<sup>1)</sup>**

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<sup>1)</sup>**

Net income attributable to stockholders of the Parent Company as a percentage of average Parent 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<sup>1)</sup>**

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Current assets less current non-interest-bearing provisions and liabilities (which include: Provisions, current; Trade payables; Other current liabilities).

- 1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 242 245.

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**EXCHANGE RATES**

**EXCHANGE RATES USED IN THE CONSOLIDATION**

	<b>January 2011</b>	<b>December 2010</b>
<b>SEK/EUR</b>		
Average rate	9.02	9.56
Closing rate	8.92	9.02
<b>SEK/USD</b>		
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  
SE 120 88 Stockholm, Sweden

Phone: +46 8 449 89 57

Email: [ericsson@strd.se](mailto:ericsson@strd.se)

In the United States,  
Ericsson's Transfer Agent Citibank:

Citibank Shareholder Services

Registered holders: +1 877 881 59 69

(toll free within the U.S.)

Interested investors: +1 781 575 45 55

(toll free within the U.S.)

Email: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)

[www.citi.com/dr](http://www.citi.com/dr)

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[asp?target=NA012918](https://secure.wilink.com/asp/NA012918/hqgold/NA012918_search_ENG.asp?target=NA012918)

**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](http://www.ericsson.com)

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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](http://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](http://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](http://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.

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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](http://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.

**Contact information**

**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:

Investor Relations for Europe, Middle East, Africa and Asia Pacific: Telefonaktiebolaget LM Ericsson SE-164 83 Stockholm, Sweden  
Telephone: +46 10 719 00 00 Email: [investor.relations@ericsson.com](mailto:investor.relations@ericsson.com)

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](mailto:investor.relations@ericsson.com)



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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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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TELEFONAKTIEBOLAGET LM ERICSSON

April 4, 2012

By:                   /s/   ROLAND HAGMAN  
                              **Roland Hagman**

By:                   /s/   NINA MACPHERSON  
                              **Nina Macpherson**