

ERICSSON LM TELEPHONE CO  
Form 20-F  
April 08, 2013  
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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, 2012

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:

| Title of Each Class  | Name of Each Exchange on Which Registered                                |
|--|--|
| American Depositary Shares (each representing one B share)<br>B Shares * | <b>The NASDAQ Stock Market LLC</b><br><b>The NASDAQ Stock Market LLC</b> |

\* 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) | 3,043,295,752 |
| 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

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, 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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**FORM 20-F 2012 CROSS REFERENCE TABLE**

This document comprises the English version of our Swedish Annual Report for 2012 and our Annual Report on Form 20-F for the year ended December 31, 2012. Reference is made to the Form 20-F 2012 cross reference table on pages i to viii hereof and the Supplemental Information beginning on page 137, which contains certain other information required by Form 20-F. Only (i) the information in this document that is referenced in the Form 20-F 2012 cross reference table, (ii) the Supplemental Information, and (iii) the Exhibits required to be filed pursuant to the Form 20-F shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statement on Form F-3 filed on April 23, 2012 (File No. 333-180880) and any other documents filed by us pursuant to the Securities Act of 1933, as amended, which incorporates by reference the 2012 Form 20-F. Any information herein which is not referenced in the Form 20-F 2012 cross reference table or filed as an exhibit thereto shall not be deemed to be so incorporated by reference.

This annual report includes financial measures that were not calculated or presented in accordance with IFRS, and we refer to these measures as non-IFRS financial measures. Reconciliations of these non-IFRS financial measures to the most directly comparable IFRS financial measures can be found on page 234 and pages 261-265 of this annual report.

The information included on the websites that appear in the Annual Report on Form 20-F is not incorporated by reference in the report.

The following cross reference table indicates where information required by Form 20-F may be found in this document.

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| Exhibit 12   | 302 Certifications   |             |
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| Exhibit 15.1   | Consent of independent registered public accounting firm   |             |

Note: The Company's holding in ST-Ericsson SA meets the requirements of Rule 3-09 under Regulation S-X for the provision of separate financial statements of ST-Ericsson SA, a non-listed Swiss company that has a December 31 fiscal year end.

The Company intends to file the financial statements of ST-Ericsson SA as of and for the year ended December 31, 2012 as an amendment to this Annual Report on Form 20-F as soon as practicable after they become available.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**THIS IS ERICSSON**

We are a world-leading provider of communications networks, telecom services and support solutions.

Communication is changing the way we live and work. When one person connects, his or her world changes. With everything connected, our world changes. Ericsson plays a key role in this evolution, using innovation to empower people, business and society. We are enabling the networked society with efficient real-time solutions that allow us all to study, work and live our lives more freely, in sustainable societies.

Since the establishment of the Company in 1876, we are a leader in telecommunication and are now expanding our role into an ICT (Information and Communications Technology) solutions provider.

Our research and solutions development has made mobile communications and broadband possible. When you make a call or browse the internet on your handset, tablet or mobile PC, you will likely use one of our solutions.

Our offering comprises services, software and infrastructure, mainly for telecom operators.

40% of the world's mobile traffic runs through networks that are supplied by us

We provide solutions and services to all major telecom operators in the world

The networks we manage for operators serve about 950 million subscribers

We have more than 33,000 granted patents, comprising one of the industry's strongest patent portfolios.

**OUR SEGMENTS**

Today, we are more than 110,000 people serving customers in more than 180 countries. To best reflect our business, we report four business segments:

**Networks**

Networks provides the infrastructure that is the basis for all mobile communication. We deliver superior-performance and cost-efficient networks to ensure the best user experience.

**Global Services**

With 60,000 services professionals globally, we deliver managed services, consulting and systems integration, customer support, network design and optimization and network rollout.

**Support Solutions**

Support Solutions is the new name for former segment Multimedia and it signposts a change of direction. The segment focuses on software for operations support systems and business support systems (OSS and BSS), TV and media management, and m-commerce.

**Joint venture ST-Ericsson**

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ST-Ericsson offers modems and ModAps (integrated modem and application processor platforms) for handset and tablet manufacturers.

### **OUR REGIONS**

We secure an efficient go-to-market setup through ten regions. We strive for profitable growth through solid regional competence and strong customer relationships, backed by our global knowledge.

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In our ten regions, we work together with our customers to develop innovative and scalable solutions that help operators grow their revenues and reduce their costs.

Once a successful case is proven, we can roll out the same practice all over the world, sharing common processes, methods and tools. This ensures quality and efficiency.

Solutions and services often go hand-in-hand as networks become more complex and often include products from several suppliers. Operators look for long-term services partnerships with companies such as Ericsson for support in every aspect of their business.

We serve our customers through regional competence organized into six engagement practices: Mobile Broadband; Communication Services; Fixed Broadband and Convergence; Managed Services; Operations and Business Support Systems; and Television and Media Management.

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**2012 IN REVIEW**

**JANUARY**

Ericsson strengthens its focus on IPR licensing, to get a fair return on R&D investments in patents development.

Any company that provides wireless connectivity will likely need a license from us.

**JANUARY**

Ericsson signs a deal to connect the entire vessel fleet of the world's largest shipping company, Maersk Line, using our capabilities to enable machine-to-machine communication.

**FEBRUARY**

Ericsson complements the heterogeneous network offering with telecom grade Wi-Fi through acquisition of Wi-Fi company BelAir Networks, enabling operators to further improve the mobile broadband user experience.

**MARCH**

Ericsson widens the scope of managed services to include such services for broadcasters by announcing the acquisition of the Broadcast Services Division of Technicolor.

**APRIL**

SOFTBANK MOBILE signs 4G/LTE contract with Ericsson in Japan. The network will cover three major cities in the country, together accounting for 70% of the data and voice traffic. Ericsson has deployed LTE networks on five continents.

**MAY**

Ericsson's efficient AIR radio base station is selected by T-Mobile as the first operator in the USA to launch this technology, which enables improvement of existing coverage and quick launch of LTE in 2013. The contract also includes consulting and systems integration and rollout services.

**JUNE**

At a briefing for journalists in San Francisco, Ericsson's President and CEO Hans Vestberg discusses how the rapid increases in subscribers and data usage impact the entire ICT industry. Network quality, user experience, billing and charging models and services offerings all need to be adapted.

**JULY**

MTN Nigeria boosts its ability to serve subscribers and their growing data needs by becoming the first African operator to deploy Ericsson's scalable SSR 8020 platform for wireless IP core networks. This is one of 39 SSR contracts that Ericsson won in 2012.

**AUGUST**

Italian operator FASTWEB signs a seven-year IT managed services contract with Ericsson. It includes data center consolidation and transformation, as well as managed operations for its IT infrastructure. Ericsson extends the scope of managed services from telecoms to data centers.





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**SEPTEMBER**

Ericsson partners in the Social Good Summit 2012 in New York, discussing how mobile broadband can be used to help tackle global challenges such as poverty and climate change.

**OCTOBER**

Ericsson is selected to implement a new LTE network for Vivo, a subsidiary of Telefônica, helping meet user demand for connectivity and mobile broadband services in Brazil. Ericsson has an LTE market share of more than 50% in Latin America.

**NOVEMBER**

Ericsson holds its annual Investor Day, focusing on profitable growth and how the company is transforming into a leading ICT solutions provider in telecoms.

**NOVEMBER**

The new Ericsson Mobility Report is launched, stating that Traffic in mobile networks continues to grow at an impressive rate worldwide, driven by uptake of smart devices and apps. This is a recurrent report on network traffic and market trends, based on data traffic measurements in live networks globally and on internal forecasts.

**DECEMBER**

Ericsson announces that Volvo Car Group will use Ericsson's Connected Vehicle Cloud to allow drivers, passengers and their cars to connect to services available in the cloud. Drivers and passengers can access applications for information, navigation and entertainment from a screen in the car.

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**GROUP OVERVIEW**

Our four business segments provide solutions and services which in combination create an industry-leading telecommunications portfolio.

| <b>Segment</b> | <b>NETWORKS</b>   | <b>GLOBAL SERVICES</b>   | <b>SUPPORT SOLUTIONS</b>  |
|----------------|---|--|---|
|                | <p><b>Headed by Johan Wibergh</b></p> <p>We develop and deliver superior-performance network infrastructure for 2G/GSM, 3G/WCDMA/HSPA &amp; CDMA, and 4G/LTE with solutions for:</p> <p style="padding-left: 40px;">Radio access, based on multi-standard radio base station RBS 6000</p> <p style="padding-left: 40px;">IP and transport; IP Edge routing based on SSR 8000 and transport solutions based on fiber and microwave</p> <p style="padding-left: 40px;">Core network; switching and IMS solutions based on the Ericsson Blade System platform.</p> | <p><b>Headed by Magnus Mandersson</b></p> <p>Globally, 60,000 service professionals deploy and operate networks, and integrate solutions to allow operators to monetize increasing data traffic and ensure high user experience in networks. We use global processes, methods and tools to ensure quality and efficiency in the networks. Global Services include:</p> <p style="padding-left: 40px;">Professional Services; consulting and systems integration, managed services, network design and optimization as well as customer support</p> <p style="padding-left: 40px;">Network Rollout.</p> | <p><b>Headed by Per Borgklint</b></p> <p>We develop and deliver software solutions for:</p> <p style="padding-left: 40px;">Operations and Business Support Systems (OSS and BSS); enabling management of networks and services, customer interaction and revenue management</p> <p style="padding-left: 40px;">TV and Media management; enabling operators, broadcasters and content owners to create multiscreen TV experience on all devices</p> <p style="padding-left: 40px;">M-Commerce; software solutions and hosted services to enable mobile financial services and global interoperability.</p> |

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**ST-ERICSSON\***

**Headed by Didier Lamouche**

A 50/50 joint venture with STMicroelectronics, ST-Ericsson offers modems and ModAps (integrated modem and application processor platforms) for leading handset and tablet manufacturers.

STMicroelectronics announced in October its intention to exit as a shareholder in ST-Ericsson. Ericsson is presently exploring various strategic options for the future of ST-Ericsson assets.

Ericsson continues to believe that the modem technology, which it originally contributed to the JV, has a strategic value for the wireless industry.

\* The Ericsson share of ST Ericsson's results is accounted for according to the equity method.

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**LETTER FROM THE CEO**

2012 was a year of growth in Global Services and Support Solutions, but more challenging for Networks. We have extended our leadership in several key growth areas and taken important steps in executing our strategy.

**Our mission is Innovating to empower people, business and society.**

**DEAR SHAREHOLDERS**

We can look back at 2012 in which the strong growth of mobile data continued across the world and 4G/LTE launches started across all regions. Broadband is a transformative technology that is already improving quality of life, productivity and sustainability globally. During the year we have clearly seen how the world is moving towards our vision of a networked society, and over time, this will create new business opportunities for Ericsson and our customers.

**Executing our strategy**

The work to leverage our strength in the growth areas mobile broadband, managed services and operations and business support solutions (OSS and BSS) has continued with both selective acquisitions and divestments to enhance and streamline the portfolio.

Key acquisitions in the year that have contributed to strengthening our leadership include BelAir in the area of mobile broadband, ConceptWave and Telcordia in the area of OSS and BSS as well as Technicolor's broadcast services division in the area of managed services.

In addition we completed the divestment of our share in Sony Ericsson and launched a new strategy for Support Solutions.

Our R&D and services investments form the foundation for the long-term strength of the company. Despite a challenging year for Networks, we remain almost the size of number two and three combined in the market when it comes to installed base of radio base stations and we have maintained a strong market share also in mobile network equipment. Global Services outperformed the market and solidified its leadership. In the fragmented telecom services market, Ericsson held a 13% market share for 2012, well ahead of its closest competitor.

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Our joint venture ST-Ericsson had a tough year. Following the announcement of STMicroelectronics' intention to exit as a shareholder, Ericsson will, together with STMicroelectronics, continue to explore various strategic options for ST-Ericsson assets. We continue to believe that the modem technology which we originally contributed to the JV has a strategic value to the wireless industry.

**Performance in 2012**

Sales in 2012 were flat compared to 2011, despite a challenging year for Networks.

Global Services contributed with both sales growth and stable operating profitability, and Support Solutions went from making losses in 2011 to achieving profitability.

Global Services and Support Solutions together represented close to 50% of Group sales, compared to 42% in 2011, highlighting the ongoing transformation into an ICT company combining services, software and hardware, into industry-leading solutions.

Profitability has been under pressure during the year due to operating losses in ST-Ericsson, the ongoing network modernization projects in Europe as well as the underlying business mix, with a higher share of coverage projects than capacity projects. Improving profitability has been a key priority throughout the year and we have taken actions globally to reduce costs and improve efficiency.

Throughout 2012 North America was our strongest region, driven by continued mobile broadband investments and a high demand for services. Our second largest region was North East Asia where sales grew in Japan, though not fully offsetting the lower sales of GSM in China and 3G in Korea.

**Financial strength**

We continue to have high focus on capital efficiency. We ended the year with strong cash flow, full-year cash conversion well above target and maintained our strong net cash position.

Financial strength allows us to make selective acquisitions to capture opportunities to consolidate the market, gain market share and fill portfolio gaps when relevant, and provide a good return to shareholders. It is also a competitive advantage in our customer relationships.

The Board of Directors proposes a dividend for 2012 of SEK 2.75 (2.50) per share.

**Sustainability and Corporate Responsibility**

Ericsson is strongly committed to sustainability and corporate responsibility.

Focus remains on reducing our carbon footprint and in 2012 we exceeded our target. We see an increasing interest from customers in driving energy efficiency in their networks, and using broadband to shape the low-carbon economy of the future.

We continue to advocate the use of broadband to enable access to education, better health and livelihood through our partnerships and programs such as Connect To Learn and Ericsson Response.

Responsibility and high governance standards guide all Ericsson employees in all parts of the world. Our aim is to be the trusted partner to all of our stakeholders and as such we put strong focus on evolving our governance framework with further integration of sustainability and corporate responsibility principles.

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Our Code of Business Ethics was updated during the year to reflect our ongoing commitment to respect human rights and the new UN Guiding Principles on Business and Human Rights.

During 2012 we also signed the World Economic Forum's Partnering Against Corruption Initiative, enhanced our anti-corruption program and broadened our whistle blower procedure.

**Strong long-term drivers**

We build our strength on the combination of our core assets: technology leadership, services leadership and global scale. We have strong and long-standing customer relationships and highly skilled and engaged employees. I have worked in this company for 24 years and the dedication and professionalism that Ericsson employees demonstrate never cease to impress me.

Our focus on profitable growth remains. While the macroeconomic and political uncertainty continues in certain regions, the industry fundamentals remain attractive. We have a strong portfolio, position and capabilities to continue to support our customers in a transforming ICT market and look forward to a year of leveraging our leadership position and continuing our journey into the networked society.

**Hans Vestberg**

President and CEO

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**MARKET TRENDS**

Everything is going mobile. The uptake of mobile broadband, driven by increasing use of smartphones, tablets and apps is driving change for people, business and society.

**Market trends 2012**

**USERS**

Higher demand for data capacity due to:

Smartphone uptake acceleration

Increasing use of mobile broadband

Changing lifestyle with mobility and cloud-based services.

**OPERATORS**

Focus on:

Superior-performance broadband networks

Increasing efficiency through transformation and outsourcing

Creating new value streams from networks.

**THE NETWORKED SOCIETY**

In the networked society, connectivity will be the starting point for new ways of innovating, collaborating and socializing. It's about creating freedom, empowerment and opportunity that will transform industries and society while helping find solutions to some of the greatest challenges facing our planet.

When one person connects, his or her world changes. With everything connected, our world changes. We believe ICT will be a fundamental driver of this transformation. For our customers the networked society will offer opportunities to expand their existing businesses, and to engage in new business areas, such as cloud services and industry-specific services.

Operators' revenue growth and potential for efficiencies will steer their investments going forward. As a result, although the total addressable telecom market is growing at a modest pace, our portfolio momentum areas—mobile broadband, managed services as well as OSS and BSS—are set for higher growth.

Fundamentally, we believe the market is strong, fueled by higher smartphone penetration and growing mobile data usage. As a market leader, we understand the possibilities—and have the ability to drive rethinking, reinvention and innovation of our industry.



In 2012, mobile data traffic doubled. We expect it will continue to grow at a high rate in the coming years. The main driver is the change in user behavior, leading to increasing user expectations on network and application performance. Demand for greater mobile data capacity will also affect how operators choose to develop and operate networks and services.

**CHANGING USER BEHAVIOR**

The rapid increase in mobile data traffic will, in the coming years, be fuelled by three trends: increased smartphone uptake, the increasing use of mobile broadband, and the breakthrough of cloud-based services.

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**Smartphone uptake is accelerating**

While voice traffic is increasing at a steady rate, mobile data traffic is increasing exponentially. This increase is driven largely by smartphone use. Clearly phones are no longer simply for talking and texting – most of the time spent on a smartphone is dedicated to activities such as watching videos, playing games, shopping and engaging in social media.

Today 15–20% of the worldwide installed base of mobile phone subscriptions use smartphones – the number of smartphone subscriptions was 1.1 billion at the end of 2012 and we estimate that it will reach 3.3 billion by the end of 2018.

**Mobile broadband use is increasing**

People and businesses increasingly demand good network coverage, high-speed and high-quality broadband access at all times.

The number of mobile broadband subscriptions is increasing rapidly, from approximately 1.5 billion in 2012, to an estimated 6.5 billion in 2018. As the number of subscriptions increases, so does the data volume per subscription. By the end of 2018, we estimate that both mobile PCs and smartphones will generate four times as much data per device per month as today. Global mobile data traffic is estimated to grow twelve-fold between 2012 and 2018.

The largest contributor to increased data traffic is video, which is also watched on smartphones and tablets. Online video now constitutes on average 25–40% of traffic in mobile networks.

With the increasing use of apps, coverage is expected everywhere. But, when a user runs an app that requires higher performance (e.g. throughput) than needed for voice, the actual coverage area for the app will be smaller than that for voice.

In a network, every app has its own coverage area; a video application has a smaller coverage area than a music-streaming app which in turn has a smaller coverage area than voice.

Understanding of app coverage is therefore essential in order for operators to make the right investments in a network.

**Cloud for availability everywhere**

For many businesses and individuals, content is delivered as a cloud service – that is, as a service over the internet. Users see the benefits of accessing applications and data from any computer, phone or tablet anywhere, and at any time. Often they choose not to own the content but to stream it, gaining access to movies, TV, music and much more. Cloud-based services add to the demand for mobile capacity.

**CHANGING OPERATOR NEEDS**

The changes in how people, businesses and society at large operate, use the internet and interact will demand greater speed, capacity, quality of service and operational efficiency. To meet these demands, operators are upgrading their networks, revising how they can increase their operational efficiency and how they should best monetize the increased data traffic.

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**Focus on superior-performance broadband networks**

As user demand for coverage, speed and quality increases, superior-performance networks have become a key differentiator for operators. 3G/HSPA coverage is expected to increase from over 50% of the world's population today, to 85% by the end of 2017. We anticipate that by 2017, half the world's population will be covered by 4G/LTE networks. Operators come to Ericsson to expand network coverage and to upgrade networks for higher speed and capacity. To maintain superior performance there is also a continuous need for network tuning and optimization as traffic increases.

**Focus on operational efficiency**

To improve efficiency and reduce cost, operators increasingly choose to outsource the network and field operations, allowing them to focus on strategy, marketing and customer care. In a managed services project, Ericsson transforms the customer's operations and implements our processes, methods and tools.

**Monetizing data traffic**

The demands created by mobile connectivity present new opportunities for operators. They are developing business models to monetize the increasing data use, with tiered pricing plans aligned to user needs, based for example on volume, time or speed. Increasingly, quality of service is becoming a differentiator for operators, as some focus on pure network development and others choose to be providers of premium services such as media, m-commerce and mobile finance.

Ericsson Operations Support Systems (OSS) enable the monitoring and optimization of the performance of operators' increasingly complex networks and services, while our Business Support Systems (BSS) enable monetization of services and enhance their customer interaction capabilities.

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**OUR COMPETITIVE ASSETS**

The unique combination of core assets drives our performance throughout the business.

**TECHNOLOGY LEADERSHIP**

**Combining superior performance and thought leadership**

Innovation is an important element of our corporate culture and a foundation for our competitiveness. Our long-time pioneering in telecommunications technologies is reflected in one of the industry's largest patent portfolios. Through research into new technologies and a strong contribution to the creation of open standards, we strive to be first-to-market with new solutions. Our networks are designed and optimized for superior end-user experience. They are built to accommodate future traffic increase and the increasing number of connected devices.

**SERVICES LEADERSHIP**

**Meeting operator objectives of business efficiency & revenue growth**

Service delivery is industrialized in four Global Services Centers and local resources in our ten regions, where we use the same processes, methods and tools. This ensures standardized services packages of high quality. Our services professionals have advanced multi-vendor and multi-technology competence. They create value for customers by improving network efficiency and user experience as well as by supporting them in business innovation and revenue growth.

**GLOBAL SCALE**

**Combining global scale advantages with local presence**

We have a geographically diversified business, with customers in more than 180 countries. We have established relationships with all major telecom operators in the world, supporting networks with over 2.5 billion subscriptions. Focus on global standards means that we can provide global products. Economies of scale in R&D and production ensure that the products are efficient and of high quality.

**Ericsson's core values**

Our values are the foundation of our culture. They guide us in our daily work, in how we relate to each other and the world around us and in the way we do business.

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**OUR PEOPLE**

At the end of the day it is our people that make the real difference. Our people strategy centers on building the best talent in the industry.

Our people are at the heart of everything we do, and they made us the industry leader we are today.

But what brought us here will not keep us here. Our industry is changing, and we work every day to secure high performance in everything we do.

In order to maintain our technology and services leadership, and to leverage our global scale, we have developed a business-aligned people strategy.

Grounded on our core values – professionalism, respect and perseverance – our people strategy focuses on building the best talent in the industry. To achieve this we have four objectives:

**Attract exceptional talent**

We leverage a strategic and aligned approach to attracting the best talent at all levels in all the markets where we have employees.

**Rigorous talent planning and development**

Our objective is to have the right talent at the right time in the right place.

We have a rigorous process for identifying, calibrating and developing our talent. We have a comprehensive career and competence model that allows our employees to build career paths, and clearly understand how to keep developing capabilities for the continued success of the company.

Our approach emphasizes best-in-class learning solutions through our Ericsson Academy and on-the-job development through stretch assignments and internal mobility.

**Leadership**

We believe that strong leadership is a key factor in creating and maintaining a high performance work environment with a highly engaged workforce.

We expect our leaders to maintain an environment that fosters creativity, innovation and the constant flow of ideas. Our employees should have clear goals and receive continuous feedback and coaching. These are the drivers of high performance and employee engagement.

**Diversity**

We have a focused strategy aimed at ensuring that our employee base and our leadership teams are as diverse as the world in which we operate. We believe a diverse and inclusive workforce drives innovation and leads to high performing teams and superior business results.

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**STRATEGY AND CUSTOMERS**

We aim to become a leading information and communication technology (ICT) solutions provider by combining our core assets: technology leadership, services leadership and global scale.

**VISION**

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

**OUR STRATEGY**

The Company's strategy builds on a long-term vision and mission which is translated into a business strategy that should generate value for the Company's key stakeholders; customers, employees and shareholders.

Four pillars form the foundation for our business strategy: Excel in Networks, Expand in Services, Extend in Support Solutions and Establish leading position in enablers of the networked society.

**Excel in Networks**

Networks' strategic focus is on evolving networks from 2G to 3G to 4G with superior quality and performance. We secure a strong footprint in LTE and continue to assist operators in expanding their business by providing support for new business models and revenue streams.

We will expand our portfolio with heterogeneous networks in which Wi-Fi access will be part of our offering.

We will also utilize our large installed base of systems for mobile telephony to lead the transition to voice over LTE (VoLTE), where next-generation video and presence capabilities will be added to the traditional voice services.

We anticipate an array of things communicating, in addition to billions of people being connected. Mobile networks will thus increasingly carry more data and video, and we will evolve networks for the networked society through 4th-generation IP networks that are smart, scalable, simple and offer superior performance.

**Expand in Global Services**

In Global Services, we will leverage our momentum in sales and growth, and keep our focus on innovation, competence and cost control.

The focus area of innovation involves developing new business by capturing opportunities in new areas such as IT and broadcasting, as well as in new business models.

Competence is critical when expanding into an ICT market with a higher degree of complexity, with new competitors such as IT and professional services companies.

Cost control is supported by industrializing delivery, standardized services packaging and automated tools.

Our service delivery model enables us to provide services in the same way and with the same quality across the world. It also ensures that innovation and knowledge sharing are spread globally in an efficient way.



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### **Extend in Support Solutions**

Segment Support Solutions focuses on building business in OSS and BSS, TV and Media management, as well as M-Commerce.

After the acquisitions of Telcordia and ConceptWave in 2012, we now have a full spectrum of OSS solutions from planning and engineering tools, through fulfillment and inventory tools and service assurance products. We now provide customers with the solutions to be best in class in plan-to-provision, lead-to-service and trouble-to-resolution.

We will continue to invest in our market-leading charging, billing and converged charging and billing solutions.

Our m-commerce business, focused on international remittance, builds on the strength in charging systems and our customers' prepaid customer base.

Our TV and Media management offering comprises of compression, for both operators and media companies, and multiscreen TV & video, including IPTV, service enablement and service delivery platforms.

### **Establish leading position in enablers of a networked society**

In the networked society anything that benefits from being connected will be connected. This development will be made possible through enablers such as solutions for machine-to-machine communications, modems from ST-Ericsson and IPRs.

We are shifting the focus from connected devices to enablers of a networked society. This is an area that will be developed over the coming years as we start investigating different opportunities both together with operator customers and with customers from other industries.

## **COMPANY TRANSFORMATION**

We are going through a period of transformation and change both in the industry and within the company. Two important areas of company-wide transformation are:

### **Go-to-market model**

A new go-to-market model with ten regions and six global engagement practices was introduced in 2010, enabling us to expand engagements with customers into new areas, develop skills across our portfolio, and build momentum around global knowledge sharing.

This makes it possible for us to work even closer together with our customers, to understand their needs, while leveraging our global scale.

### **Lean and agile ways of working in R&D**

One major undertaking to improve performance and efficiency in our R&D is to implement a lean and agile methodology. This is a way of working that includes shortened feedback loops, improved communication and rationalized processes.

Some product development projects have just begun the transition to lean and agile ways of working, while others are well advanced.



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**OUR CUSTOMERS**

Our business is defined by long-term relationships mainly with large telecom operators around the world. We serve approximately 400 customers. Globally, telecom operators represent the majority of net sales.

We also engage directly with customers in certain other industries such as utilities and media.

We have customers in more than 180 countries and have been present in many markets for more than 100 years. Our ten largest customers, of which half are multinational, account for 46% of net sales.

Our customers operate in a wide range of local economies and are at various technology stages. They have different business focuses depending on the maturity of their respective markets.

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## **OUR PORTFOLIO**

We have the competence, the skills and the solutions our customers need to tackle the challenges of today and tomorrow. Here we feature our offering to telecom operators.

### **MOBILE BROADBAND**

#### **In summary**

Evolving networks from 2G/GSM to 3G/WCDMA/HSPA and 4G/LTE

Helping operators meet demand for higher speed and capacity

Building heterogeneous networks where capacity demand is high, such as in cities.

Mobile broadband is playing an increasingly important role in our daily lives. It is changing the way we are entertained and educated, and helps us work, keep in touch, and share information and ideas, regardless of where we are. It has the power to lessen the divide between geographic regions and socioeconomic groups, and improve the quality of life in all parts of the world. Mobile data traffic almost doubled in 2012, driven particularly by video, new smartphone and tablet launches, and mobile PC users generating even more data traffic. Mobile data traffic is expected to grow at a high rate, presenting a significant opportunity for operators, both in mature and emerging markets. Operators need to enhance network quality by increasing coverage, speed and capacity, and by providing service differentiation to ensure they can monetize the ever-increasing consumer demands for mobile broadband, and the accompanying lifestyle expectations. We provide the network infrastructure, upgrades and LTE expansions and support solutions to meet these operators' needs.

#### **Network evolution**

We were a key force behind the development of mobile technologies. Now our strategic focus is on evolving networks. With the evolution of the major mobile broadband technologies WCDMA/HSPA and LTE, true broadband performance and capacity is used to connect smartphones, PCs, tablets, sensors and machines to the internet and broadband services. With the high-speed, high-capacity mobile broadband possible through our WCDMA/HSPA and LTE offerings, operators can cost-effectively meet user demand for advanced internet services anywhere, anytime. We expect WCDMA/HSPA to be the predominant mobile broadband technology for many years to come. With the transition toward LTE, we take further steps towards greater capacity and higher throughput. LTE covers only 5-10% of global population today, but by 2017, we expect it will cover roughly half the people in the world. The ramp up of LTE is quicker than for earlier generations.

In addition, by 2017, densely populated urban areas, are expected to generate around 60% of total mobile traffic. To increase network capacity in these areas, we will build heterogeneous networks. Here, we complement powerful radio base stations with smaller radio base stations including Wi-Fi, which provide extra capacity in areas of high traffic loads, such as malls, transport hubs, hotels and offices.

#### **Platform strength**

Our network infrastructure is built on three main platforms:

The RBS 6000 multi-standard platform for radio base stations. The platform supports GSM/EDGE, WCDMA/HSPA, LTE and CDMA in a single unit. The RBS 6000 family ensures a smooth transition to new technology such as LTE. Upgrades and expansions involve mostly software and services, often delivered remotely. RBS 6000 now accounts for almost all of radio base station shipments.

The Ericsson Blade System platform for handling of network control functionality in fixed and mobile core networks.

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The SSR 8000 family of smart services routers for network gateways which provides two powerful differentiators for operators. It is a high-capacity router platform with multi-application capabilities, thus enabling better network performance; it also supports services across fixed and mobile networks.

All platforms offer cost-effective deployment and a future-secured evolution for capacity and functionality.

**MANAGED SERVICES**

**In summary**

Networks and business models becoming increasingly complex

Market pressures leading operators to enhance offerings while increasing efficiency

We build and manage networks, allowing operators to focus on strategy and customer attraction and retention. Greater consumer expectations, and the upsurge in data traffic, demand greater network capacity and capability, which in turn lead to increased complexity, both in networks and their supporting business models. Maturing markets, intensified competition and stronger financial pressure lead to a need among telecom operators for greater service differentiation, enhanced offerings, and faster time to market, all at the same time as trying to reduce costs and increase efficiency.

This is where a managed services model comes into play. We take responsibility for activities telecom operators once handled in-house, from designing, planning and building a network, to managing its day-to-day operation. Operators can look to reduce costs and manage complexity through a partner such as Ericsson, who can take on a broader responsibility, and apply global best practices.

**The world's largest managed services provider**

We handle complex issues such as convergence, quality and capacity management, while freeing up operator resources to focus on strategy, marketing and customer care. We can also help operators scale quickly and cost-effectively, and address new opportunities in cloud solutions and media offerings.

We manage networks with approximately 950 million subscribers in more than 100 countries.

The networks we manage are typically complex multi-vendor, multi-technology environments. More than 50% of the equipment we manage is non-Ericsson. Our four global service centers (GSCs) all house global network operation centers (GNOCs) for efficient remote network management.

**Expanding the scope**

We are expanding the managed services model to adjacent, growing industries such as TV/media and IT systems.

The television industry is clearly migrating towards the internet. Traditional broadcasting is being complemented or replaced by a multitude of communications technologies. Here we see the opportunity to extend the managed services model to be a true ICT service provider, covering the full broadcast chain.



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Operators also look for providers that can run and operate their entire IT systems and data centers. Consequently our managed services offering has expanded from network operations into IT Managed Services. This means Ericsson can run day-to-day operations IT systems and offer complete application life-cycle management, application development, and maintenance of both applications and infrastructure.

**OPERATIONS AND BUSINESS SUPPORT SYSTEMS (OSS AND BSS)**

**In summary**

We provide systems used for managing services, revenues and subscriber relationships

We help operators manage and monetize the increasing amount of data traffic

We help operators manage increasingly complex networks.

In the telecom industry, customers need change fast, driven by swiftly-evolving technology. Business models that once promised commercial success are being challenged. These are the reasons operations and business support systems (OSS and BSS) have become key areas of investment for operators.

OSS and BSS are the systems and services used for managing services, revenues and subscriber relationships. With the growth in mobile broadband, operators need to evolve their OSS and BSS solutions to monetize the increasing amount of data, and to manage increasing network complexity. Our solutions help operators optimize their services based on:

Customer experience, where understanding, acting and responding to changes in the way customers experience and use services helps meet their expectations

Business innovation, being able to adapt to and adopt different approaches

Business efficiency, consolidating systems and simplifying processes to manage the total cost of ownership. Our OSS and BSS solutions have led change and created value through four generations of telecoms evolution. They are based on deep and broad experience in the business, and are now significantly strengthened by our acquisition of Telcordia. Solutions include:

Service differentiation We provide the means for operators to improve customer loyalty and revenues as they are adopting new business models with tiered pricing plans for different speeds, data use or quality guarantees as well as personalized and improved customer experiences

Transformation We support the transformation of operations through consulting, systems integration and software solutions, to help operators adapt to rapidly changing and competitive markets

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**Assurance** We offer solutions for monitoring network performance, and for planning, building and optimizing networks, so operators can improve customer experience and secure revenue

**Billing and revenue management** BSS solutions include those for revenue management and customer care. Our mobile money solution is pre-integrated with charging systems to help operators to lower churn, increase customer loyalty and reduce operating expenses.

**This is OSS and BSS**

Business Support Systems facilitate the relationship of the operator with their customers.

Operations Support Systems facilitate the operations of the operator's network.

**COMMUNICATION SERVICES**

Operator-based services, based on industry standards, to ensure interoperability

IMS, HD voice and Voice over LTE (VoLTE) drive development.

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

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

Operators now exploit opportunities to enhance user experience while reducing costs for voice communication. Our IP Multimedia Subsystem (IMS) enables this. Services controlled by IMS include voice (including HD voice), messaging and video calls.

HD voice significantly improves quality of voice communication. It helps ensure that voice continues to provide revenue streams for operators of both fixed and mobile networks.

Voice over LTE (VoLTE) enables operators to offer voice services over all-IP LTE networks. It also brings with it new services such as HD video and richer multimedia services.



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**FIXED BROADBAND AND CONVERGENCE**

Our IP-based converged networks provide low-cost and high-performance services. Strong growth in data traffic drives a need for higher capacity solutions, based on IP and Ethernet technologies. Operators compete by evolving their networks to provide fast internet speeds, reliable high-definition IPTV and video on demand. To reduce cost and enable service bundling, fixed traffic can be provided over a multiservice network converging telephony, internet and TV. Our 4th generation IP network portfolio supports IP-based services and applications at low cost and high performance.

**TV AND MEDIA MANAGEMENT**

A broad suite of standard-based products for digital TV, HDTV, video on demand, IPTV, mobile TV and content management. TV is going digital and interactive. In the converging media landscape, broadcast and broadband are coming together. The worldwide digital TV market is growing rapidly.

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

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

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

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

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

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**REGIONAL DEVELOPMENT**

Ericsson is a truly global player, with customers in more than 180 countries. We have been present in many countries, such as China, Brazil and India, for more than 100 years.

**LATIN AMERICA**

**Net sales:** SEK 22.0 billion (+0%)

In 2012, all major operators chose their 4G/LTE suppliers resulting in an estimated market share for Ericsson of more than 50% in 4G/LTE.

**NORTH AMERICA**

**Net sales:** SEK 56.7 billion (+16%)

Development in North America has been strong across all segments, driven by operators' demand for rollout of 4G networks as well as 3G capacity upgrades. A wide range of 4G devices are available to North American consumers and this fueled traffic growth and operators' demand for network capacity. All Ericsson CDMA customers have transitioned to 4G/LTE.

**NORTHERN EUROPE AND CENTRAL ASIA**

**Net sales:** SEK 11.3 billion ( - 25%)

Lower operator investments during the year, primarily in Russia, impacted sales negatively.

**WESTERN AND CENTRAL EUROPE**

**Net sales:** SEK 17.5 billion ( - 8%)

Sales for Networks and Support Solutions declined due to cautious operator spending. Global Services sales increased slightly, driven by network modernization.

**MEDITERRANEAN**

**Net sales:** SEK 23.3 billion ( - 2%)

Sales for Networks and Support Solutions were negatively impacted by the macroeconomic environment in many countries, making operators more cautious with their investments. Global Services sales increased driven by network modernization projects.

**MIDDLE EAST**

**Net sales:** SEK 15.6 billion (+1%)

2012 was characterized by political unrest in some countries which made operators more cautious. Operators focused on network performance and efficiency which drove sales for Global Services.

**SUB-SAHARAN AFRICA**

**Net sales:** SEK 11.3 billion (+12%)

Sales increased in all segments mainly driven by rollout of 2G/GSM voice services. Mobile broadband penetration slowly increased with low-cost smartphone availability.

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**INDIA**

**Net sales:** SEK 6.5 billion ( - 34%)

India had a weak year, due to low activity levels with operator investments only in certain areas.

**NORTH EAST ASIA**

**Net sales:** SEK 36.2 billion ( - 5%)

Both Japan and South Korea are building country-wide 4G/ LTE networks. In Japan sales grew during 2012, while sales in Korea were negatively impacted by lower 3G revenues. China had focus on the coming 4G/LTE rollouts and GSM sales declined.

**SOUTH EAST ASIA AND OCEANIA**

**Net sales:** SEK 15.1 billion (+9%)

Sales growth was driven by 3G deployments in Indonesia, Thailand and the Philippines. Global Services developed well in Australia during the year.

**OTHER**

**Net sales:** SEK 12.3 billion (+15%)

Includes revenues generated across all regions, through licensing, sales of cables, broadcast services, power modules and other businesses.

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**OUR PERFORMANCE**

Our overall goal is to create shareholder value. We use a range of financial and non-financial targets to drive business performance.

|                          |  |  |   |
|--------------------------|--|--|---|
| <b>What we aim for</b>   | <b>GROWING SALES FASTER THAN</b>   | <b>BEST-IN-CLASS OPERATING MARGIN</b>  | <b>STRONG CASH CONVERSION</b>   |
|                          | <b>THE MARKET</b>  |  |   |
| <b>Why we measure it</b> | Outperforming our market confirms the validity of our strategic direction. | A clear focus on operating margins demonstrates our commitment to profitable growth. | A strong cash position supports new business activity, enables appropriate acquisition opportunities and provides resilience to external economic volatility. |

**Our performance**

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| <b>What we aim for</b>   | <b>GROWTH IN JV EARNINGS</b>   | <b>CUSTOMER SATISFACTION</b>   | <b>EMPLOYEE ENGAGEMENT</b>  |
|--------------------------|--|--|---|
| <b>Why we measure it</b> | The modem technology has a strategic value to the wireless industry. | Customer satisfaction is a prerequisite for customer loyalty. We strive to ensure that our customers perceive us as a thought leader and their preferred business partner. | Engaged employees are motivated to contribute to the success of Ericsson and are willing to go the extra mile to meet the organization's goals.                     |
| <b>Our performance</b>   |  |  | Our score is 8 percentage points higher than external benchmark average, as measured across over 250 companies. We started to measure the engagement index in 2011. |

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**SUSTAINABILITY AND CORPORATE RESPONSIBILITY**

Our approach to sustainability and corporate responsibility is integrated into our core business operations and in our relationship with stakeholders.

**SUSTAINABILITY**

Sustainability is about the triple bottom line :

Social equity; communication is a basic human need and should be available to everyone

Environmental performance; minimizing environmental impact and creating a low-carbon society

Economic prosperity; contributions to social and economic development.

We have implemented strong social, ethical and environmental standards. This commitment generates positive business impacts, which in turn benefit society.

**Reducing environmental impact**

The energy use of products in operation remains our most significant environmental impact. We also work to reduce our own environmental impact. Focus is on product energy efficiency and materials management as well as business travel, facilities and transport of our products. We have set a five-year target to reduce Ericsson carbon footprint intensity by 40% for products in operation and for our own operations and we have achieved it one year ahead of time.

We work proactively with our customers to encourage network and site energy optimization.

One aspect of our sustainability strategy is the role broadband can play in helping to offset global CO<sub>2</sub> emissions.

70% of these are attributed to cities. We work on sustainable city solutions and are engaged in global climate policy.

**Technology for Good**

Our Technology for Good program is focused on applying Ericsson's expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world. We have used our technology and competence to help achieve the Millennium Development Goals for more than a decade.

Through our volunteer program Ericsson Response, we have played an active role in humanitarian disaster relief efforts.

**CORPORATE RESPONSIBILITY**

Corporate Responsibility is about managing risks to secure that Ericsson remains a trusted partner among our stakeholders.

**Conducting business responsibly**

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We actively support the UN Global Compact, and endorse its principles regarding human and labor rights, anti-corruption and environmental protection.



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We have a Code of Business Ethics and a Code of Conduct which reflect responsible business practices. Promotion of these practices is reinforced by employee awareness training, workshops and monitoring.

Suppliers must comply with our Code of Conduct.

We continued to develop our anti-corruption program and broadened Ericsson's whistleblower procedure.

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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   | 2012               | Change | 2011    | 2010    | 2009    | 2008    |
|---|--------------------|--------|---------|---------|---------|---------|
| <b>Income statement items</b>   |                    |        |         |         |         |         |
| Net sales   | 227,779            | 0%     | 226,921 | 203,348 | 206,477 | 208,930 |
| Operating income  | 10,458             | 42%    | 17,900  | 16,455  | 5,918   | 16,252  |
| Financial net   | 276                |        | 221     | 672     | 325     | 974     |
| Net income  | 5,938              | 53%    | 12,569  | 11,235  | 4,127   | 11,667  |
| <b>Year-end position</b>  |                    |        |         |         |         |         |
| Total assets  | 274,996            | 2%     | 280,349 | 281,815 | 269,809 | 285,684 |
| Working capital as defined <sup>1)</sup>                                  | 100,619            | 8%     | 109,552 | 105,488 | 99,079  | 99,951  |
| Capital employed as defined <sup>1)</sup>                                 | 176,653            | 5%     | 186,307 | 182,640 | 181,680 | 182,439 |
| Gross cash as defined <sup>1)</sup>                                       | 76,708             | 5%     | 80,542  | 87,150  | 76,724  | 75,005  |
| Net cash as defined <sup>1)</sup>   | 38,538             | 2%     | 39,505  | 51,295  | 36,071  | 34,651  |
| Property, plant and equipment   | 11,493             | 7%     | 10,788  | 9,434   | 9,606   | 9,995   |
| Stockholders' equity  | 136,883            | 4%     | 143,105 | 145,106 | 139,870 | 140,823 |
| Non-controlling interest  | 1,600              | 26%    | 2,165   | 1,679   | 1,157   | 1,261   |
| Interest-bearing liabilities and post-employment benefits                 | 38,170             | 7%     | 41,037  | 35,855  | 40,653  | 40,354  |
| <b>Per share indicators</b>   |                    |        |         |         |         |         |
| Earnings per share, basic, SEK  | 1.80               | 53%    | 3.80    | 3.49    | 1.15    | 3.54    |
| Earnings per share, diluted, SEK  | 1.78               | 53%    | 3.77    | 3.46    | 1.14    | 3.52    |
| Cash dividends per share, SEK   | 2.75 <sup>2)</sup> | 10%    | 2.50    | 2.25    | 2.00    | 1.85    |
| Stockholders' equity per share, SEK                                       | 42.51              | 5%     | 44.57   | 45.34   | 43.79   | 44.21   |
| <b>Number of shares outstanding (in millions)</b>                         |                    |        |         |         |         |         |
| <i>end of period, basic</i>   | 3,220              |        | 3,211   | 3,200   | 3,194   | 3,185   |
| <i>average, basic</i>   | 3,216              |        | 3,206   | 3,197   | 3,190   | 3,183   |
| <i>average, diluted</i>   | 3,247              |        | 3,233   | 3,226   | 3,212   | 3,202   |
| <b>Other information</b>  |                    |        |         |         |         |         |
| Additions to property, plant and equipment                                | 5,429              | 9%     | 4,994   | 3,686   | 4,006   | 4,133   |
| Depreciation and write-downs/impairments of property, plant and equipment | 4,012              | 13%    | 3,546   | 3,296   | 3,502   | 3,105   |
| Acquisitions/capitalization of intangible assets                          | 13,247             |        | 2,748   | 7,246   | 11,413  | 1,287   |
| Amortization and write-downs/impairments of intangible assets             | 5,877              | 7%     | 5,490   | 6,657   | 8,621   | 5,568   |
| Research and development expenses   | 32,833             | 1%     | 32,638  | 31,558  | 33,055  | 33,584  |
| <i>as percentage of net sales</i>   | 14.4%              |        | 14.4%   | 15.5%   | 16.0%   | 16.1%   |
| <b>Ratios</b>   |                    |        |         |         |         |         |
| Operating margin excluding joint ventures and associated companies        | 9.7%               |        | 9.6%    | 8.7%    | 6.5%    | 8.0%    |
| Operating margin  | 4.6%               |        | 7.9%    | 8.1%    | 2.9%    | 7.8%    |
| EBITA margin as defined <sup>1)</sup>                                     | 6.6%               |        | 9.9%    | 11.0%   | 6.7%    | 9.4%    |
| Cash conversion   | 116%               |        | 40%     | 112%    | 117%    | 92%     |
| Return on equity as defined <sup>1)</sup>                                 | 4.1%               |        | 8.5%    | 7.8%    | 2.6%    | 8.2%    |
| Return on capital employed as defined <sup>1)</sup>                       | 6.7%               |        | 11.3%   | 9.6%    | 4.3%    | 11.3%   |
| Equity ratio  | 50.4%              |        | 51.8%   | 52.1%   | 52.3%   | 49.7%   |

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|                                       |                |    |         |         |        |         |
|---------------------------------------|----------------|----|---------|---------|--------|---------|
| Capital turnover                      | <b>1.3</b>     |    | 1.2     | 1.1     | 1.1    | 1.2     |
| Inventory turnover days               | <b>73</b>      |    | 78      | 74      | 68     | 68      |
| Trade receivables turnover            | <b>3.6</b>     |    | 3.6     | 3.2     | 2.9    | 3.1     |
| Payment readiness, SEK million        | <b>84,951</b>  | 2% | 86,570  | 96,951  | 88,960 | 84,917  |
| <i>as percentage of net sales</i>     | <b>37.3%</b>   |    | 38.1%   | 47.7%   | 43.1%  | 40.6%   |
| <b>Statistical data, year-end</b>     |                |    |         |         |        |         |
| Number of employees                   | <b>110,255</b> | 5% | 104,525 | 90,261  | 82,493 | 78,740  |
| <i>of which in Sweden</i>             | <b>17,712</b>  | 1% | 17,500  | 17,848  | 18,217 | 20,155  |
| Export sales from Sweden, SEK million | <b>106,997</b> | 8% | 116,507 | 100,070 | 94,829 | 109,254 |

- 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 262-266.
- 2) For 2012, as proposed by the Board of Directors.

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**LETTER FROM THE CHAIRMAN**

**DEAR SHAREHOLDERS**

It is now almost two years since I assumed the role as Chairman of the Board of Ericsson, and looking back they have certainly been interesting years. The rapid pace of change of the industry and the transformative power of the technology are two reasons why I find this role so interesting and inspiring.

**A year of strategy execution**

During 2012, the Company continued to strengthen its core assets; technology and services leadership as well as global scale. A key event during the year was the completion of the divestment of Sony Ericsson. In addition, the Company has strengthened and streamlined its portfolio through a few strategic acquisitions and divestments.

**Board discussions**

During the year, the Board has closely monitored the overall market conditions for Ericsson such as macroeconomic development, customers financial performance and strategy as well as the competitive landscape among ICT vendors. It is important for us to understand how potential moves by competitors, both commercial and technological, might change the landscape and the relative strength of the company.

A main focus area for the Board of Directors during the year has been Ericsson's financial performance and working capital development. Commercial management and the balance between market share gains and profitable growth have been key topics.

The Board has also closely monitored the work during the year to find the best solution for ST-Ericsson assets given the strategic options at hand.

**Strong financial position**

One of the Board's key areas of responsibility is to manage the Company's financial position. The Company has a strong balance sheet and we believe it is appropriate to remain fairly conservative considering the continued macroeconomic uncertainty in parts of the world. We will, as before, consider selective acquisitions but prefer to invest in further strengthening the Company's technology and services leadership and its offering to the market.

The Company's dividend policy takes into account last year's earnings and balance sheet structure, as well as coming years' business plans and expected economic development. Based on this, the Board proposes a dividend increase of 10%.

**Importance of corporate governance**

Good corporate governance is the basis for building a robust corporate culture. However, corporate governance is not only about efficient and reliable controls and procedures. It is also about adherence to strong principles of responsible business practice by all employees. Over time this strengthens the business, which in turn generates shareholder value. Ericsson has a strong portfolio for value creation at large, and strong social, environmental and governance standards supporting risk management.

I am proud to be Chairman of the Board of this Company with so many dedicated and competent people working hard every day, to stay the leader in this rapidly changing market.

**Leif Johansson**

**Chairman of the Board of Directors**



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**BOARD OF DIRECTORS REPORT****TRENDS AND DRIVERS**

Major industry trends in 2012 were operators focus on high-performance mobile broadband networks and their focus on increasing the operational efficiency. Tiered pricing and new business models continued to be high on our customers' agendas. In Europe, the network modernization projects continued the rapid implementation. In North America, Japan and Korea, major LTE rollouts took place.

Across the globe, operators continued to focus on increasing their operational efficiency and reducing their operating expenses. Their focus on operational efficiencies together with transformation activities in the voice, IP and OSS and BSS domains drove demand for consulting and systems integration as well as managed services.

When developing its internal plans, Ericsson looks at a number of parameters that have an impact on data traffic. These include:

Smartphone subscriptions, as a percentage of total subscriptions

Mobile broadband subscriptions, as a percentage of total mobile subscriptions

Average data traffic and peaks in traffic.

**Mobile subscriptions and smartphones**

Today, 15-20% of the worldwide installed base of mobile phone subscriptions use smartphones. About 40% of all mobile phones sold during 2012 were smartphones, compared to around 30% for 2011. With less expensive smartphones being introduced, there is considerable room for further uptake.

**Subscriptions**

|                                |             | <b>2018</b>     |
|--------------------------------|-------------|-----------------|
| <b>billion</b>                 | <b>2012</b> | <b>Forecast</b> |
| Mobile subscriptions           | ~6.3        | ~9              |
| Mobile broadband subscriptions | ~1.5        | ~6.5            |

Ericsson estimate

**Mobile broadband subscriptions and population coverage**

Mobile network coverage is constantly increasing. GSM/EDGE technology has the widest reach and covers more than 85% of the world population.

WCDMA/HSPA covers more than 50% of the world population. Further build out of WCDMA/HSPA coverage will be driven by factors such as demand for internet access and affordability of smartphones. By 2017, Ericsson estimates that 85% of the world's population will have access to WCDMA/HSPA.

All WCDMA networks deployed by Ericsson have been upgraded to HSPA of various speeds.

Despite being in the early days, LTE networks can already provide downlink peak rates of around 100 Mbps. There are around 60 LTE networks in commercial operation. By 2017, Ericsson estimates that 50% of the world's population will have LTE coverage.

Regions have different radio technology mixes dependent on maturity level. Less mature regions are dominated by 2G technologies while more mature regions are dominated by HSPA. LTE is growing strongly, particularly in North America, where LTE is forecasted to be the leading radio technology before 2018. The fast growth in LTE subscriptions is driven by strong competition and consumer demand, following CDMA operators' decisions to migrate to LTE.

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Operators who have 2G or 3G-specific radio base stations will have to invest in new radio base stations in order to introduce 4G/LTE. The Ericsson multi-standard radio base station is an efficient way of doing so, being capable of all technologies; 2G, 3G and 4G/LTE.

**Data traffic**

Access to the internet from mobile devices continues to drive mobile traffic development. In 2012, mobile data traffic continued the trend of doubling each year. Ericsson estimates that mobile data traffic will grow 12 times between 2012 and 2018. The increasing data traffic will drive the need for more capacity in mobile broadband networks.

Data traffic per subscriber is partly dependent on the screen size of the user's device. Resolution is also a factor. On average, a mobile PC generates about seven times more data traffic than a smartphone.

**Average mobile data traffic**

|                                     | 2012           | 2018<br>Forecast |
|-------------------------------------|----------------|------------------|
| Monthly data traffic per PC         | <b>3 GB</b>    | 11 GB            |
| Monthly data traffic per tablet     | <b>0.6 GB</b>  | 2.7 GB           |
| Monthly data traffic per smartphone | <b>0.45 GB</b> | 1.9 GB           |

Ericsson estimate

**BUSINESS IN 2012****Strong year for services**

With strong growth in Global Services and Support Solutions in 2012, Ericsson took further steps in establishing itself as a leading ICT player. Networks sales declined 2012 following a strong 2011.

In the coming years, Ericsson expects software sales to gradually increase as radio expansions and upgrades, IP and OSS and BSS materialize. This development will result in more recurring revenues from software and services business as well as less capital utilization.



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**High share of coverage projects**

Ericsson's gross margin and the amount of required capital employed vary with project type. When building network coverage, projects are often of a turnkey character. Generally there are more hardware and network rollout services in coverage projects, resulting in lower gross margin and a larger capital utilization.

During 2012, Ericsson was in a phase with a high share of coverage projects. Sales for 2012 showed a higher share of services and a lower share of hardware. This reflects the good momentum in services throughout the year, reduced CDMA infrastructure business and impact from network modernization projects in Europe.

**Network modernization in Europe**

The modernization of networks in Europe became an opportunity for the Company in mid-2010 when operators in Europe started to consider replacing old 2G and 3G equipment with multi-standard radio equipment.

Ericsson that had lost out on market share in 3G compared to its strong 2G position, identified this as an opportunity to regain footprint. Competition for new footprint is always tough and a strategic decision was taken to accept short-term profitability pressure to increase technology and services leadership. As a result, market share has increased and the Company has further strengthened its leading market position in Europe. Average project duration for these modernization projects is 18-24 months and the first projects were completed in late 2012. The negative impact from network modernization projects in Europe will continue to gradually decline during 2013 as projects are finalized.

**Acquisitions, partnerships and divestments**

The Company's strategy is to focus on organic growth and be selective with acquisitions. Acquisitions might be considered for three purposes: if there is a crucial opportunity to consolidate the Company's market position, to fill portfolio gaps, or to enter new growth areas. In 2012, the following activities were announced:

Completion of the acquisition of Telcordia

Completion of the divestment of the 50% stake in Sony Ericsson Mobile Communication AB to Sony in February. The divestment was effective on January 1, 2012

Increased ownership in Ericsson-LG, now holding 75%

Acquisition of Canadian telecom-grade Wi-Fi company BelAir Networks

Acquisition of Technicolor's broadcast services division

Divestment of EDA 1500 GPON portfolio to Calix, Inc.

Acquisition of Canadian ConcepStWave in the OSS and BSS domain

Divestment of the multimedia brokering platform (IPX) to Gemalto.

**Fair return on R&D investment**

In the networked society, Ericsson envisions that anything that benefits from being connected will be connected.

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In this scenario, Ericsson foresees new entrants to the connectivity markets, from device and equipment manufacturers as well as from other industries. Any company that provides wireless connectivity today is likely to require a license to Ericsson's patents. The Company believes it is the strongest holder of essential patents in the wireless industry. Ericsson has more than 100 patent license agreements and is a net receiver of royalties. The Company's product portfolio is well licensed, which is beneficial to its customers.

\* Ericsson's key network equipment market includes Radio, i.e. 2G, 3G, 4G RAN including CDMA, public WLAN access and OSS for mobile. IP and Transport includes IP Edge, packet core, microwave, opto metro and OSS for fixed. Core includes circuit-switched core, IMS, user data management and machine-to-machine.

**Cash generation**

A tight focus is kept on the cash generation of the Company and its working capital. Working capital decreased by 8% mainly due to lower inventories at year-end. The balance sheet is strong and the cash position sufficiently large to ensure the financial flexibility to invest in future growth and to capture business opportunities. The earnings and balance sheet structure makes it possible for the Board of Directors to propose to increase the dividend. This proposal reflects earnings and balance sheet structure in 2012, as well as coming years' business plans and expected economic development, according to Ericsson's dividend policy.

**Cost and efficiency**

The Board of Directors has paid extra attention to commercial management and the balance of market share gains with profitable growth. In addition, the Company has also taken a number of initiatives to reduce cost and increase capital efficiency. Among these is the multi-year program to reduce cost by industrializing service delivery, implementing more lean and agile ways of working in software development as well as improving the order-to-cash process. The Company will also continue to optimize capital expenditures and debt management.

**TARGETS AND PERFORMANCE**

Ericsson's overall goal is to create shareholder value. Management uses four financial metrics to evaluate the Company's long-term ambitions:

Sales growth faster than the market

Best-in-class operating margin

Growth in joint ventures' earnings

Strong cash conversion.

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The Board of Directors has translated these metrics into three performance criteria in the Executive Performance Stock Plan, included in the Company's Long-Term Variable (LTV) remuneration program. These performance criteria have been approved by the Annual General Meeting.

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### **Long-term ambitions**

#### **Grow faster than the market**

Ericsson maintained its share of global installed base of radio base stations at close to 40%.

In 2012, Ericsson widened the definition\* of the equipment market to also reflect the R&D investments during the past years. For the equipment market, which includes the key segment of Radio, IP and Transport as well as Core, preliminary market data indicates that the market share was 24%, down from 27% in 2011. The decline is due to a lower market share in the mobile network equipment market, at 35%, down from 38% in 2011, negatively impacted by the technology shift in China where investments are moving from GSM to other technology areas where Ericsson has limited presence.

Ericsson's global market share for LTE is twice as big as the largest competitor, measured in shipments for the full year 2012. This makes Ericsson the world's largest supplier of LTE. The LTE technology is still in an early build-out phase.

As expected, Ericsson's sales of CDMA equipment decreased by 40% in 2012, following operators' transition to LTE. All Ericsson CDMA customers are now Ericsson LTE customers.

In telecom services, internal market data indicates that the Company increased its market share to 13% and is larger than any of its competitors in this fragmented market. After the acquisition of Telcordia, consolidated as from January 2012, Ericsson has a leading position in OSS and BSS.

#### **Best-in-class operating margin**

The Company's operating margin before share in JV earnings and gain from the sale of its share in Sony Ericsson was 6.4% (9.6%). Based on reported results for 2012, the operating margin remains the highest among the Company's traditional publicly listed telecom competitors.

#### **Growth in JV earnings**

The Ericsson share in earnings of joint ventures and associated companies was SEK 11.7 ( 3.8) billion. The Company took a non-cash charge of SEK 8.0 billion, related to its 50% stake of ST-Ericsson. The charge included write-down of investments of SEK 4.7 billion to reflect the current best estimate of Ericsson's share of the fair market value of the JV. A provision of SEK 3.3 billion was also included, related to the available strategic options at hand for the future of the ST-Ericsson assets. Ericsson's share of the JV Sony Ericsson was divested in early 2012 resulting in a gain of SEK 7.7 billion, reported as Other operating income. The Company did not consolidate Sony Ericsson in 2012.

#### **Cash conversion**

The cash conversion rate was 116% (40%), driven by reduced working capital. The Company reached its target of a cash conversion rate above 70%. Cash conversion is defined as cash flow from operating activities divided by the sum of net income and adjustments to reconcile net income to cash.

### **Other performance indicators**

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

#### **Customer satisfaction**

Every year, an independent customer satisfaction survey is performed. In 2012 about 15,000 representatives of Ericsson customers, in different positions around the world, were polled to assess their satisfaction with



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Ericsson, compared to its main competitors. Over the past five years, Ericsson has maintained a high level of excellence; a customer satisfaction index above 70. The goal is to further increase the customer satisfaction.

**Employee engagement**

In order to measure employee engagement, an annual survey is conducted by an independent company. In 2012, 94% (90%) of employees across the world responded to the survey.

The 2012 survey results show a continued strong employee engagement. The Employee Engagement index is 77%, which is unchanged from 2011 and 8% points higher than the external benchmark average.

**Executive Performance Stock Plan**

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

The aim of the plan for senior managers is to attract, retain and motivate executives in a competitive market through performance-based share-related incentives and to encourage the build-up of significant equity stakes. The performance criteria for senior management, i.e. the Executive Performance Stock Plan, are revised yearly and approved by the Annual General Meeting. Performance criteria for the 2013 Executive Performance Stock Plan will be communicated in the notice to the Annual General Meeting.

The targets for the 2011 and 2012 Executive Performance Stock Plans are shown in the illustration below. The performance criteria are:

Up to one-third of the award will vest if the target for compound annual growth rate of consolidated net sales is achieved

Up to one-third of the award will vest if the target for compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is achieved. For the 2011 plan, base year 2010 is excluding restructuring of SEK 6.8 billion.

Up to one-third of the award will vest if cash conversion is at or above 70% during each of the years and vesting one-ninth of the award for each year the target is achieved. The target was reached in 2012 but not reached in 2011.

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Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, reduce the number of performance shares.

**Working capital targets**

Ericsson's working capital targets are described on page 43. The targets remain for 2013.

**FINANCIAL RESULTS OF OPERATIONS****ABBREVIATED INCOME STATEMENT**

| SEK billion  | 2012        | IFRS  |       | Restructuring charges |      |      |
|--|-------------|-------|-------|-----------------------|------|------|
|  |             | 2011  | 2010  | 2012                  | 2011 | 2010 |
| Net sales  | 227.8       | 226.9 | 203.3 |                       |      |      |
| Cost of sales  | 155.7       | 147.2 | 129.1 | 2.2                   | 1.2  | 3.4  |
| <b>Gross income</b>  | <b>72.1</b> | 79.7  | 74.3  |                       | 1.2  | 3.4  |
| Gross margin %   | 31.6%       | 35.1% | 36.5% |                       |      |      |
| <b>Operating expenses</b>  | <b>58.9</b> | 59.3  | 58.6  | 1.2                   | 2.0  | 3.5  |
| Operating expenses as % of sales   | 25.8%       | 26.1% | 28.8% |                       |      |      |
| Other operating income and expenses  | 9.0         | 1.3   | 2.0   |                       |      |      |
| <b>Operating income before share in earnings of JVs and associated companies</b> | <b>22.2</b> | 21.7  | 17.6  | 3.4                   | 3.2  | 6.8  |
| Operating margin % before share in earnings of JVs and associated companies      | 9.7%        | 9.6%  | 8.7%  |                       |      |      |
| Share in earnings of JVs and associated companies                                | 11.7        | 3.8   | 1.2   | 0.3                   | 0.6  | 0.5  |
| <b>Operating income</b>  | <b>10.5</b> | 17.9  | 16.5  | 3.8                   | 3.7  | 7.3  |
| Operating margin %   | 4.6%        | 7.9%  | 8.1%  |                       |      |      |
| <b>Financial income and expenses, net</b>  | <b>0.3</b>  | 0.2   | 0.7   |                       |      |      |
| Taxes  | 4.2         | 5.6   | 4.5   |                       |      |      |
| <b>Net income</b>  | <b>5.9</b>  | 12.6  | 11.2  |                       |      |      |
| EPS diluted (SEK)  | 1.78        | 3.77  | 3.46  |                       |      |      |



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**Sales**

2012 was a year with strong growth in Global Services and Support Solutions while Networks had a more challenging year. Sales for comparable units, adjusted for foreign currency exchange rates and hedging, decreased 2%. The acquired Telcordia operation added sales of SEK 4.2 billion, split 50/50 between the segments Global Services and Support Solutions.

In 2012, the Company continued to execute its strategy to leverage its strengths in the growth areas of mobile broadband, managed services as well as OSS and BSS. Due to the current technology cycle in which mobile broadband is being rolled out, the business mix in 2012 continued to include a higher share of coverage business than capacity business. Ericsson was also to a large extent engaged in network modernization projects in Europe with its lower margins.

Sales of CDMA equipment declined 40% to SEK 8.4 (14.0) billion. The decline in CDMA was expected and planned for, following operators migration to LTE. The growth in Global Services is primarily related to continued good momentum in managed services and consulting and systems integration as well as network rollout sales following a high share of coverage projects. The sales growth in Support Solutions is mainly driven by TV and media management, business support solutions (charging solutions) and the acquisition of Telcordia. The segments Global Services and Support Solutions together represented close to 50% of Group sales.

In 2012, five of our ten regions showed growth. The share of software sales was unchanged in 2012, at 23% (23%) of sales while the portion of hardware decreased to 35% (40%) and services increased to 42% (37%) of Group sales. Longer term, the software part is expected to increase following more expansions and upgrades of networks.

IPR (intellectual property rights) revenues showed a favorable development and amounted to SEK 6.6 (6.2) billion.

**Seasonality**

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

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**Most recent five-year average seasonality**

|                       | <b>First<br/>quarter</b> | <b>Second<br/>quarter</b> | <b>Third<br/>quarter</b> | <b>Fourth<br/>quarter</b> |
|-----------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Sequential change     | 21%                      | 7%                        | 2%                       | 26%                       |
| Share of annual sales | 23%                      | 24%                       | 24%                      | 30%                       |

**Gross margin**

Gross margin declined to 31.6% (35.1%). The decrease is due to increased share of Global Services sales, higher proportion of coverage than capacity projects and network modernization projects in Europe. Close to 50% of the gross margin decline is related to the increased services share.

With current visibility, the underlying business mix, with a higher share of coverage projects than capacity projects, is expected to gradually shift towards more capacity projects during the second half of 2013. The negative impact from the network modernization projects in Europe will continue to gradually decline during 2013.

**Operating expenses**

Total operating expenses declined slightly. Excluding acquisitions and restructuring charges, Group operating expenses amounted to SEK 55.1 billion, down 4% from 2011.

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses (see table below) increased slightly due to higher restructuring charges and acquisitions. Based on current portfolio and efficiencies in ways of working, R&D expenses for 2013 are expected to decrease somewhat.

Selling and administrative expenses represented 11.4% of sales compared to 11.8% in 2011.

**Research and development**

|  | <b>2012</b>   | <b>2011</b> | <b>2010</b> |
|--|---------------|-------------|-------------|
| Expenses (SEK billion)                               | <b>32.8</b>   | 32.6        | 31.6        |
| As percent of Net sales                              | <b>14.4%</b>  | 14.4%       | 15.5%       |
| Employees within R&D as of December 31 <sup>1)</sup> | <b>24,100</b> | 22,400      | 20,800      |
| Patents <sup>1)</sup>                                | <b>33,000</b> | 30,000      | 27,000      |

1) The number of employees and patents are approximate.

**Operating margin before JVs**

Operating margin before share in JV earnings was 9.7% (9.6%). Excluding the gain related to the divestment of the share of Sony Ericsson, operating margin was 6.4%. The negative impact was due to the business mix having more coverage business than capacity business as well as network modernization projects in Europe.

**Share in earnings of JVs**

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ST-Ericsson reported a loss in 2012. Ericsson's share in ST-Ericsson's income before tax, adjusted to IFRS, was SEK 3.7 ( 2.7) billion. The reported loss of SEK 11.7 billion includes a write-down of investments of SEK 4.7 billion and a provision of SEK 3.3 billion.

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**Other Operating income and expenses**

Other operating income and expenses includes a gain of SEK 7.7 billion related to the divestment of Sony Ericsson. It also includes a gain of SEK 0.2 billion from the divestment of the Multimedia brokering (IPX) operation.

**Financial net**

The financial net decreased mainly due to negative currency exchange revaluation effects on financial investments and liabilities.

**Taxes**

The tax rate for the year was 42% (31%) of income after financial items. The high tax rate is due to product and market mix as well as a reduction in corporate tax rate for 2013, decided by the Swedish Parliament. The lower corporate tax rate in Sweden reduced the deferred tax assets with approximately SEK 0.5 billion. Over time, the lower tax rate in Sweden will have a positive impact on taxes.

**Net income**

Net income decreased primarily due to the negative impact from ST-Ericsson and lower contribution from Networks.

**Earnings per share, diluted**

Earnings per share decreased 53% to SEK 1.78 (3.77). Earnings per share, non-IFRS, decreased 42% to SEK 2.74 (4.72). The Board of Directors proposes a dividend of SEK 2.75 (2.50). This represents an increase of 10% over 2011.

**Restructuring charges**

Restructuring charges were SEK 3.4 (3.2) billion, excluding joint ventures. Restructuring charges mainly relate to continued execution of the service delivery strategy as well as other ongoing cost reduction measures. Cash outlays that have been provided for were SEK 1.2 (3.2) billion. At the end of the year, cash outlays of SEK 1.2 (1.3) billion remain to be made. Ericsson's share in ST-Ericsson's restructuring charges was SEK 0.3 (0.1) billion.

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**FINANCIAL POSITION****CONSOLIDATED BALANCE SHEET (ABBREVIATED)**

| <b>December 31, SEK billion</b>                                   | <b>2012</b>               | <b>2011</b>  | <b>2010</b>  |
|---|---------------------------|--------------|--------------|
| <b>Assets</b>   |                           |              |              |
| Non-current assets, total   | <b>81.7</b>               | 81.5         | 83.4         |
| <i>of which intangible assets</i>                                 | <b>49.4</b>               | 44.0         | 46.8         |
| <i>of which property, plant and equipment</i>                     | <b>11.5</b>               | 10.8         | 9.4          |
| <i>of which financial assets</i>                                  | <b>8.5</b>                | 13.7         | 14.5         |
| <i>of which deferred tax assets</i>                               | <b>12.3</b>               | 13.0         | 12.7         |
| Current assets, total   | <b>193.3</b>              | 198.8        | 198.4        |
| <i>of which inventory</i>   | <b>28.8</b>               | 33.1         | 29.9         |
| <i>of which trade receivables</i>                                 | <b>63.7</b>               | 64.5         | 61.1         |
| <i>of which other receivables/financing</i>                       | <b>24.1</b>               | 20.7         | 20.2         |
| <i>of which short-term investments, cash and cash equivalents</i> | <b>76.7</b>               | 80.5         | 87.2         |
| <b>Total assets</b>   | <b>275.0<sup>1)</sup></b> | <b>280.3</b> | <b>281.8</b> |
| <b>Equity and liabilities</b>                                     |                           |              |              |
| Equity  | <b>138.5</b>              | 145.3        | 146.8        |
| Non-current liabilities   | <b>39.1</b>               | 38.1         | 38.3         |
| <i>of which post-employment benefits</i>                          | <b>9.5</b>                | 10.0         | 5.1          |
| <i>of which borrowings</i>  | <b>23.9</b>               | 23.3         | 27.0         |
| <i>of which other non-current liabilities</i>                     | <b>5.7</b>                | 4.8          | 6.2          |
| Current liabilities   | <b>97.4</b>               | 97.0         | 96.8         |
| <i>of which provisions</i>  | <b>8.4</b>                | 6.0          | 9.4          |
| <i>of which current borrowings</i>                                | <b>4.8</b>                | 7.8          | 3.8          |
| <i>of which trade payables</i>                                    | <b>23.1</b>               | 25.3         | 25.0         |
| <i>of which other current liabilities</i>                         | <b>61.1</b>               | 58.0         | 58.6         |
| <b>Total equity and liabilities<sup>1)</sup></b>                  | <b>275.0</b>              | <b>280.3</b> | <b>281.8</b> |

1) Of which interest-bearing liabilities and post-employment benefits SEK 38.2 (41.0) billion.

Ericsson's strategy is to maintain a strong balance sheet, including a sufficiently large cash position to ensure the financial flexibility to invest in future growth and to capture business opportunities. This has been particularly important during the past years' difficult macroeconomic and financial market situation. By maintaining a strong cash position, the Company gains competitive advantages and can maintain an active strategy for selective acquisitions.

The Company's capital targets are to have an equity ratio above 40%, to generate a cash conversion rate above 70%, to have a positive net cash position and to achieve solid investment grade ratings.

An important focus area is the monitoring of working capital. Major efforts have been made during the year in order to reduce days sales outstanding and inventory turnover days as well as to increase payable days. The target for days sales outstanding was met, while the other two targets were not achieved. Efforts to further reduce working capital will continue in 2013 and the working capital targets are the same as previous years.

For 2011, the dividend was SEK 2.50 per share. The Board of Directors will propose to the Annual General Meeting 2013 a dividend of SEK 2.75 per share for 2012. This represents a total dividend of approximately SEK 9.1 (8.2) billion. The proposal reflects year 2012's earnings and balance sheet structure, as well as coming years' business plans and economic development, according to Ericsson's dividend policy.



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**Non-current assets**

Intangible assets increased to SEK 49.4 (44.0) billion due to acquisitions during the year. Customer financing, current and non-current, increased to SEK 5.3 (4.2) billion.



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**Current assets**

Inventory levels decreased at the end of the year. At year end, inventory was SEK 28.8 (33.1) billion. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2013.

Trade receivables: Days sales outstanding reached 86 (91) days at year end due to strong sales and good collections. The Company's credit losses have historically been low and continued to be so in 2012.

Net cash decreased by SEK 1.0 billion. For a more detailed discussion on changes in cash, see pages 47-50.

**Equity**

Equity decreased by SEK 6.8 billion primarily due to the non-cash charge of SEK 8.0 billion related to ST-Ericsson. The equity ratio was maintained at a healthy level of 50.4% (51.8%). Return on equity decreased to 4.1% (8.5%) due to lower profitability. Return on capital employed (ROCE) was 6.7% (11.3%).

**Non-current liabilities**

Post-employment benefits related to defined benefit plans declined to SEK 9.5 (10.0) billion. In 2012 there was a decrease in discount rates, which was offset as plan assets yielded higher than expected.

Non-current borrowings was almost unchanged at SEK 23.9 (23.3) billion. In 2012, Ericsson performed refinancing activities to extend its average debt maturity profile and to further diversify funding sources:

Issue of a USD-denominated 1 billion ten-year bond in order to refinance debt maturing in 2012 to 2014

Repurchase of EUR 441 million related to the 2013 and 2014 EMTN bonds in order to reduce gross debt and optimize net interest

Repayment of two SEK-denominated bonds with a total of SEK 3.5 billion at maturity

Taken up a loan with the Nordic Investment Bank of EUR 0.15 billion (or the equivalent in USD). The loan is divided into two equal tranches with seven-year and nine-year maturities respectively.

Signed loan agreement with the European Investment Bank of EUR 0.5 billion (or the equivalent in USD) with an option for disbursement until April 2014. The loan will mature seven years after disbursement

The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.



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**Current liabilities**

Provisions increased to SEK 8.4 (6.0) billion. SEK 1.2 (1.3) billion were related to restructuring. The cash outlays of provisions were SEK 3.5 (6.0) billion. The higher amount of provisions is due to a provision of SEK 3.3 billion related to ST-Ericsson. Provisions will fluctuate over time, depending on business mix, market mix and technology shifts.

Payable days decreased to 57 (62) days, reflecting the high level of network rollout where suppliers normally have shorter payment days. The target of payable days of more than 60 days was not met.

**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.

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**CASH FLOW****Cash flow (abbreviated) January 1 December 31**

| <b>SEK billion</b>   | <b>2012</b> | <b>2011</b>        | <b>2010</b> |
|--|-------------|--------------------|-------------|
| Net income   | <b>5.9</b>  | 12.6               | 11.2        |
| Income reconciled to cash  | <b>19.0</b> | 25.2               | 23.7        |
| Changes in operating net assets  | <b>3.0</b>  | 15.2               | 2.9         |
| Cash flow from operating activities  | <b>22.0</b> | 10.0               | 26.6        |
| Cash flow from investing activities  | <b>4.9</b>  | 4.5                | 12.5        |
| <i>of which capital expenditures, sales of PP&amp;E, product development</i>                       | <b>6.5</b>  | 6.1                | 5.2         |
| <i>of which acquisitions/divestments, net</i>  | <b>2.1</b>  | 3.1                | 2.8         |
| <i>of which short-term investments for cash management purposes and other investing activities</i> | <b>3.7</b>  | 13.8               | 4.5         |
| Cash flow before financing activities  | <b>17.1</b> | 14.5               | 14.0        |
| Cash flow from financing activities  | <b>9.4</b>  | 6.5                | 5.7         |
| Cash conversion (Cash flow from operating activities divided by income reconciled to cash)         | <b>116%</b> | 40%                | 112%        |
| Gross cash (Cash, cash equivalents and short-term investments)                                     | <b>76.7</b> | 80.5 <sup>1)</sup> | 87.2        |
| Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)               | <b>38.5</b> | 39.5               | 51.3        |

1) Including loan to ST-Ericsson of SEK 2.8 billion.

**Cash conversion**

Cash conversion was 116% (40%), above the target of 70%. Cash conversion in 2012 was positively impacted by lower working capital.

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**Cash flow from operating activities**

The operating cash flow was positively impacted by reduced working capital.

**Cash flow from investing activities**

Cash outlays for regular investing activities increased to SEK 6.5 ( 6.1) billion. Acquisitions and divestments during the year were net SEK 2.1 ( 3.1) billion, with the major item being the USD 1.15 billion acquisition of Telcordia and the divestment of Sony Ericsson.

Cash flow from short-term investments for cash management purposes and other investing activities was net SEK 3.7 (13.8) billion, mainly attributable to changes between short-term investments and cash and cash equivalents.

**Capital expenditures**

Annual capital expenditures are normally around 2% of sales. This corresponds to the needs for keeping and maintaining the current capacity level, including the introduction of new technology and methods. Expenditures are largely related to test equipment in R&D units and network operations centers as well as manufacturing and repair operations.

The Board of Directors reviews the Company's investment plans and proposals. The Company believes it has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2013.

We believe that the Company's property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2012, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

**Capital expenditures 2008 - 2012**

| SEK billion               | 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------------|------|------|------|------|------|
| Capital expenditures      | 5.4  | 5.0  | 3.7  | 4.0  | 4.1  |
| <i>of which in Sweden</i> | 1.3  | 1.7  | 1.4  | 1.3  | 1.6  |
| Share of annual sales     | 2.4% | 2.2% | 1.8% | 1.9% | 2.0% |

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**Cash flow from financing activities**

Cash flow from financing activities was SEK 9.4 ( 6.5) billion, mainly impacted by dividend paid of SEK 8.6 ( 7.5) billion. Other financing activities net amounted to SEK 0.8 (1.0) billion. However, substantial refinancing activities were performed during 2012 to extend the average debt maturity profile and to further diversify funding sources. For more information see section Non-Current Liabilities , on previous page.

**Cash held in countries with exchange controls**

The Company holds cash or cash equivalents in countries where exchange controls or legal restrictions apply. These restrictions normally refer to approval procedures prior to cross-border cash transfers. The amount of cash and cash equivalents in such countries is SEK 10.6 (13.9) billion, of which SEK 9.2 (12.8) billion can be used for repayment of external and internal liabilities as well as other operating needs. Therefore, net cash and cash equivalents that are not readily available for use by the Group is SEK 1.4 (1.1) billion.

**Gross cash and net cash**

The change in gross cash of SEK 3.8 billion is related to ST-Ericsson where loans of SEK 5.0 billion were converted into investments. The net income reconciled to cash was SEK 19.0 (25.2) billion. Net operating assets was SEK 3.0 ( 15.2) billion and investing activities SEK 14.7 ( 9.9) billion. Dividends to shareholders amounted to SEK 8.6 ( 7.5) billion. This resulted in a decrease in net cash of SEK 1.0 billion.

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**BUSINESS RESULTS REGIONS****Sales per region and segment 2012 and percent change from 2011**

| SEK billion                      | Networks     |                   | Global Services |                   | Support Solutions |                   | Total<br>2012 | Percent<br>change |
|----------------------------------|--------------|-------------------|-----------------|-------------------|-------------------|-------------------|---------------|-------------------|
|                                  | 2012         | Percent<br>change | 2012            | Percent<br>change | 2012              | Percent<br>change |               |                   |
| North America                    | 30.5         | 6%                | 23.5            | 27%               | 2.7               | 103%              | <b>56.8</b>   | 16%               |
| Latin America                    | 9.8          | 15%               | 10.6            | 12%               | 1.6               | 65%               | <b>22.0</b>   | 0%                |
| Northern Europe and Central Asia | 6.3          | 35%               | 4.5             | 10%               | 0.5               | 6%                | <b>11.3</b>   | 25%               |
| Western and Central Europe       | 6.2          | 21%               | 10.6            | 3%                | 0.7               | 27%               | <b>17.5</b>   | 8%                |
| Mediterranean                    | 9.5          | 11%               | 13.0            | 10%               | 0.8               | 42%               | <b>23.3</b>   | 2%                |
| Middle East                      | 6.8          | 9%                | 7.3             | 7%                | 1.5               | 24%               | <b>15.6</b>   | 1%                |
| Sub-Saharan Africa               | 6.4          | 10%               | 3.9             | 14%               | 1.0               | 16%               | <b>11.3</b>   | 12%               |
| India                            | 3.5          | 42%               | 2.5             | 22%               | 0.5               | 14%               | <b>6.5</b>    | 34%               |
| North East Asia                  | 22.4         | 19%               | 13.3            | 34%               | 0.5               | 0%                | <b>36.2</b>   | 5%                |
| South East Asia and Oceania      | 8.0          | 6%                | 6.6             | 18%               | 0.5               | 29%               | <b>15.1</b>   | 9%                |
| Other <sup>1)</sup>              | 7.9          | 14%               | 1.2             | 844%              | 3.1               | 90%               | <b>12.3</b>   | 15%               |
| <b>Total</b>                     | <b>117.3</b> | <b>11%</b>        | <b>97.0</b>     | <b>16%</b>        | <b>13.5</b>       | <b>26%</b>        | <b>227.8</b>  | <b>0%</b>         |
| Share of total                   | 51%          |                   | 43%             |                   | 6%                |                   | <b>100%</b>   |                   |

- 1) Region Other includes licensing revenues, sales of cables, broadcast services, power modules and other businesses. In the regional dimension, all of the Telcordia sales are reported in the Support Solutions segment except for North America where it is split 50/50 between Global Services and Support Solutions. The acquired Technicolor Broadcast Service Division is reported in region Other. Multimedia brokering (IPX) was previously reported in each region in segment Support Solutions. For the first three quarters 2012 it was part of region Other. Multimedia brokering (IPX) was divested end of Sept. 2012.

**BUSINESS RESULTS SEGMENTS****Networks****Sales**

Sales were SEK 117.3 (132.4) billion following a strong 2011. The decline is primarily related to lower sales in China, Russia, India and South Korea. North America grew despite the 40% decline in CDMA equipment sales. The IP portfolio developed favorably, especially packet core products.

The decline in sales of CDMA equipment was expected. Sales of CDMA equipment amounted to SEK 8.4 (14.0) billion.

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In CDMA, the priority has been to support customers' migration to Ericsson's LTE solution and excel in life-cycle management. Ericsson is today a key supplier to all four major operators in North America.

**Profitability**

Operating margin decreased due to lower sales as well as negative impact from a business mix with more coverage than capacity projects. In addition, modernization projects in Europe impacted profitability negatively.

**Business in 2012**

In 2012, Ericsson maintained its share of global installed base of radio base stations of close to 40%, which is almost the size of number two and three combined.

For the key market areas the Company addresses: Radio, IP and Transport as well as Core, preliminary market data indicates that the combined market share was 24%, down from 27% in 2011. The decline is due to a lower market share in the mobile network equipment market; from 38% in 2011 to 35% in 2012, negatively impacted by the technology shift in China, where investments are moving from GSM to other technology areas where Ericsson has limited presence.

Operators' focus on improving network performance and on service differentiation has been a main driver for mobile broadband investments throughout the year.



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In 2012, AIR, the world's first commercially deployed antenna-integrated radio and part of the RBS 6000 family, met accelerating demand. AIR provides enhanced radio performance and ease of deployment.

After the initial large-scale LTE rollouts in the US, Korea and Japan, Ericsson is now starting to see other countries following. Late 2012, Latin America started LTE rollouts and after executing awarded contracts Ericsson will have a strong LTE footprint in Latin America, substantially higher than its 3G market share in the region.

Up until the end of 2011, Ericsson had won a total of 38 contracts for LTE on five continents.

At the end of 2012, Ericsson had won more than 120 contracts for LTE on six continents. More than 60 LTE networks were in commercial use.

Ericsson's global market share for LTE was twice as big as the largest competitor, measured in shipments for full year 2012

In 2012, Ericsson put the world's first converged multi-standard radio base station for LTE FDD/TDD into commercial operation.

The demand for IMS is increasing as operators are preparing to launch Voice over LTE (VoLTE). Ericsson has a number of contracts for VoLTE.

The demand for circuit-switched core will continue to decline.

During the year, the Smart Services Router (SSR) gained good traction and 39 contracts were signed.

### **Competitors**

In the Networks segment, Ericsson competes mainly with telecommunication equipment suppliers such as Alcatel-Lucent, Cisco, Huawei, Juniper, Nokia Siemens Networks, Samsung and ZTE. The Company also competes with local and regional manufacturers and providers of telecommunications equipment.

### **Global Services**

Two subareas are reported in Global Services: Professional Services and Network Rollout. Professional Services includes Managed services, Customer Support as well as Consulting and Systems Integration.

### **Sales**

Sales were SEK 97.0 (83.9) billion.

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The growth in Professional Services is mainly related to continued good momentum in Managed Services as well as in Consulting and Systems Integration. Operators continue to focus on increasing operational efficiency and reducing operating expenses through transformation activities in the voice, IP and OSS and BSS domains which drive demand for managed services and consulting and systems integration. More than 60% of Professional Services sales were recurrent.

The increase in Network Rollout is related to major activities in North East Asia, North America and Europe reflecting the high coverage project activity.

**Profitability**

Global Services' operating margin development was stable, despite the continued loss in Network Rollout, due to continued efficiency gains and higher sales in Professional Services. Professional Services has over the past years shown an operating margin of 11-14%. Network Rollout is a low-margin business due to its high level of third-party suppliers for services such as civil works. The losses in 2012 are mainly a consequence of network modernization projects in Europe.

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Restructuring charges from continuous transformation of the service delivery organization is a natural part of the services business.

**Business in 2012**

Market demand for services continued to grow in both subareas. Ericsson also strengthened its capabilities to address new markets and customers in areas such as IT Managed Services and Broadcast Services. The Company's capability to deliver services remotely from the four global services centers expanded with the establishment of two new global network operation centers in Asia and Latin America.

The telecom services market is highly fragmented with a few global, but many local suppliers. In telecoms services, internal market data indicates that the Company reached a market share of 13% and is larger than any of its competitors in this fragmented market.

During 2012, 52 (70) managed services contracts were signed of which 19 (32) were expansions or extensions. In 2012, 24 (34) significant consulting and systems integration contracts were signed. At year end, there were approximately 950 (900) million subscribers in networks managed by Ericsson. Approximately 550 (500) million subscribers were in network operations contracts.

The number of services professionals also increased during the year from 56,000 end of 2011 to 60,000 end of 2012. The strategy to industrialize the service delivery continues and the capability of remote delivery has now reached a level of 23% in 2012 compared with 17% in 2011. This increases capacity and provides economies of scale.

**Competitors**

Competition in services includes the traditional telecommunication equipment suppliers. The Company also competes with companies such as Accenture, HP, IBM, Oracle, Tata Consultancy Services and Tech Mahindra. Among the competition is also a large number of smaller but specialized companies operating on a local or regional basis.

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**Support Solutions**

**Sales**

Sales were SEK 13.5 (10.6) billion. Sales development was good in all four strategic focus areas, i.e. OSS, BSS, TV and Media Management and M-Commerce.

The acquired Telcordia operation added sales of SEK 2.1 billion, representing 50% of Telcordias total sales. The divested Multimedia brokering business (IPX) contributed with sales of SEK 1.2 billion for the first nine months of the year.

**Profitability**

Increased sales and execution on the new strategy, as well as portfolio streamlining and efficiency improvement, generated a higher operating margin. The divestment of IPX generated a capital gain of SEK 0.2 billion.

**Business in 2012**

The segment changed name in 2012 from Multimedia to Support Solutions following a change of strategy. Focus is now on OSS and BSS solutions, TV and Media management and M-Commerce.

Ericsson has a leading position in both OSS and BSS.

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In BSS, Ericsson has 280 charging and billing installations which at year end served two billion subscriptions. Ericsson's market share in prepaid is 31%.

In the media market, Ericsson is number one in broadcast video contribution, distribution and satellite direct-to-home. Customers include BSkyB, Chunghwa Telecom, Telekom A1, DirecTV, EBU and ESPN.

In M-Commerce, Ericsson is offering a mobile wallet platform and hosted services for interoperability between mobile and financial services. In 2012, the Company signed agreements for wallet payments with Western Union and MTN.

### **Competitors**

The markets for BSS, OSS, TV and Media management and M-Commerce are fragmented with many local players. Competitors vary depending on the solution being offered. In the OSS and BSS market, they include many of the traditional telecommunication equipment suppliers as well as IT suppliers, such as Amdocs, Comverse and Oracle. Competition in the TV business includes Harmonic and Harris. Competition in M-Commerce includes Comviva, Sybase, Infosys and Gemalto.

### **The JV ST-Ericsson**

ST-Ericsson is a 50/50 joint venture between STMicroelectronics and Ericsson, established in 2009. The Ericsson share of ST-Ericsson's results is accounted for according to the equity method. ST-Ericsson's main competitor is Qualcomm.

In December 2012, STMicroelectronics announced its intention to exit as a shareholder in ST-Ericsson. On the same day, Ericsson announced that it will continue to work together with STMicroelectronics to find a suitable strategic solution for ST-Ericsson. In December, Ericsson also stated that it will not acquire the full majority of ST-Ericsson and that the Company intends to write down investments and make a provision related to its 50% stake in ST-Ericsson.

This resulted in a non-cash charge of SEK 8.0 billion in 2012. The charge includes write-down of SEK 4.7 billion of investments to reflect the current best estimate of Ericsson's share of the fair market value of the joint venture. The charge also includes a provision of SEK 3.3 billion related to the available strategic options at hand for the future of the ST-Ericsson assets. As of year-end 2012, there are no more investments related to ST-Ericsson on Ericsson's balance sheet.

Ericsson continues to believe that the modem technology, which it originally contributed to the JV, has a strategic value to the wireless industry.

### **Business and financial performance in 2012**

Early 2012, ST-Ericsson set a new strategic direction aiming at lowering its break-even point and introducing new technologies as well as developing competitive system solutions either directly or with partners.

During 2012, ST-Ericsson reached key maturity milestones with its advanced LTE modem. That is tested with customers and is anticipated to be commercialized in 2013. The NovaThor ModAp is the world's fastest integrated LTE modem and application processor platform. The ModAp delivers industry-leading performance while improving battery life.

ST-Ericsson sales in 2012 decreased 18% to USD 1.4 (1.7) billion. The operating loss for the year, adjusted for restructuring charges, was USD 0.8 ( 0.7) billion. Adjustments for IFRS compliance mainly consist of capitalization of R&D expenses for hardware development.

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ST-Ericsson's net financial position was USD 37 ( 798) million at year-end, reflecting the cancellation of the parents' loan facility. Ericsson's share in ST-Ericsson's income before taxes, adjusted to IFRS, was SEK 11.7 ( 2.7) billion including the non-cash charge of SEK 8.0 billion.

**The JV Sony Ericsson**

In February 2012, Ericsson announced the completion of the divestment of its 50% stake in Sony Ericsson Mobile Communications to Sony. The agreed cash consideration for the transaction was EUR 1.05 billion. The deal includes a broad IPR cross-licensing agreement. Sony Ericsson was consolidated until December 31, 2011, according to the equity method.

The divestment resulted in a gain of SEK 7.7 billion and a positive cash flow effect of SEK 9.1 billion.

**CORPORATE GOVERNANCE**

In accordance with the Annual Accounts Act ((SFS 1995:1554), Chapter 6, Sections 6 and 8) and the Swedish Corporate Governance Code (the Code ), a separate Corporate Governance Report, including an Internal Control section, has been prepared. It is attached to this Annual Report.

**Continued compliance with the Swedish Corporate Governance Code**

Ericsson applies the Code and is committed to complying with best-practice corporate governance standards on a global level wherever possible. In 2012, Ericsson did not report any deviations from the Code.

**High ethical standards**

Ericsson's Code of Business Ethics summarizes the Group's basic policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to achieve and maintain its high ethical standards. There have been no amendments or waivers to Ericsson's Code of Business Ethics for any Director, member of management or other employee.

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**Board of Directors 2012/2013**

The Annual General Meeting held on May 3, 2012, re-elected Leif Johansson Chairman of the Board. Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Hans Vestberg, Michelangelo Volpi and Jacob Wallenberg were re-elected and Alexander Izosimov was elected new member of the Board. Pehr Claesson, Kristina Davidsson and Karin Åberg were appointed employee representatives by the unions, with Rickard Fredriksson, Karin Lennartsson and Roger Svensson as deputies.

**Management**

Hans Vestberg has been President and CEO of the Group since January 1, 2010. The President and CEO is supported by the Group management, consisting of the Executive Leadership Team (ELT). During 2012, the ELT consisted of the President and CEO, the heads of Group functions, the heads of business units and two of the heads of Ericsson's regions.

A management system is in place to ensure that the business is well controlled and has the ability to fulfill the objectives of major stakeholders within established risk limits. The system also monitors internal control and compliance with applicable laws, listing requirements and governance codes.

**Remuneration**

Fees to the members of the Board of Directors and the remuneration to Group management, as well as the 2012 Guidelines for remuneration to Group Management, are reported in Notes to the consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees .

As of December 31, 2012, there were no loans outstanding from and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management.

**The Board of Directors' proposal for guidelines for remuneration to Group management**

The Board of Directors proposes the following guidelines for remuneration to Group management, consisting of the Executive Leadership Team, for the period up to the Annual General Meeting (AGM) 2014. Compared to the guidelines resolved by the AGM 2012, these guidelines have been amended to enable consecutive time-limited arrangements according to the third item in the list below. Information on estimated costs for variable remuneration has been removed from the guidelines and is instead appended to the AGM 2013 proposal.

Guidelines for remuneration to Group Management:

For Group Management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short- and long-term variable remuneration, pension and other benefits. The following guidelines apply for the remuneration to the Executive Leadership Team:

Variable remuneration is through cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either Group or unit level, operational targets, employee engagement targets and customer satisfaction targets

All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account. The retirement age is normally 60 to 65 years of age





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By way of exception, additional arrangements can be made when deemed necessary. An additional arrangement can be renewed but each such arrangement shall be limited in time and shall not exceed a period of 36 months and twice the remuneration that the individual concerned would have received had no additional arrangement been made

The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

**MATERIAL CONTRACTS**

Material contractual obligations are outlined in Note C31, Contractual obligations. These were entered into in the ordinary course of business and were primarily related to operating leases for office and production facilities, purchase contracts for outsourced manufacturing, R&D and IT operations, and the purchase of components for the Company's own manufacturing.

Ericsson is party to certain agreements, which include provisions that may take effect or be altered or invalidated by a change in control of the Company as a result of a public takeover offer. However, none of the agreements currently in effect would entail any material consequence to Ericsson due to a change in control of the Company.

**RISK MANAGEMENT**

Risks are defined in both short-term and long-term perspective. They are categorized into industry and market risks, commercial risks, operational risks and compliance risks.

Ericsson's risk management is based on the following principles, which apply universally across all business activities and risk types:

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

Each operational unit is accountable for owning and managing its risks according to policies, directives and process tools. Decisions are made or escalated according to defined delegation of authority. Financial risks are coordinated through Group Function Finance

Risks are dealt with during the strategy process, annual planning and target setting, continuous monitoring through monthly and quarterly steering group meetings and during operational processes (customer projects, customer bid/contract, acquisition, investment and product development projects). They are subject to various controls such as decision tollgates and approvals.

At least twice a year, in connection with the approval of strategy and targets, risks are reviewed by the Board of Directors.

A central security unit coordinates management of certain risks, such as business interruption, information security and physical security. The Crisis Management Council deals with events of a serious nature.

For information on risks that could impact the fulfillment of targets and form the basis for mitigating activities, see the other sections of the Board of Directors' report, Notes C2, Critical accounting estimates and judgments, C14, Trade receivables and customer finance, C19, Interest-bearing liabilities, C20, Financial risk management and financial instruments and the chapter Risk factors.



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**SOURCING AND SUPPLY**

Ericsson's hardware largely consists of electronics. For manufacturing, the Company purchases customized and standardized components and services from several global providers as well as from local and regional suppliers. Certain types of components, such as power modules and cables, are produced in-house.

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority are in low-cost countries. Production of radio base stations is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into complete units. Final assembly and testing are concentrated to a few sites. Ericsson has 16 manufacturing sites in Brazil, China, Estonia, India, Italy, Mexico and Sweden.

A number of suppliers design and manufacture highly specialized and customized components. The Company generally attempts to negotiate global supply agreements with its primary suppliers. Ericsson's suppliers are required to comply with the Code of Conduct.

Where possible, Ericsson relies on alternative supply sources and seeks to avoid single source supply situations. A need to switch to an alternative supplier may require allocation of additional resources. This process could take some time to complete.

Variations in market prices for raw materials generally have a limited effect on total cost of goods sold. For more information, see chapter Risk Factors.

**SUSTAINABILITY AND CORPORATE RESPONSIBILITY**

The Company has implemented strong social, environmental and ethical standards supporting value creation and risk management. This commitment generates positive business impacts, which in turn benefit society.

Ericsson's approach to Sustainability and Corporate Responsibility (CR) is integrated into its core business operations throughout its value chain. The Board of Directors considers these aspects in governance decision-making. Group policies and directives ensure consistency across global operations.

Ericsson publishes an annual Sustainability and Corporate Responsibility Report, which provides additional information.

**Responsible business practices**

Since 2000, Ericsson has actively supported the UN Global Compact, and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. The Ericsson Group Management System (EGMS) includes a Code of Business Ethics and a Code of Conduct (CoC), among other policies which reflect responsible business practices. Promotion of these practices is reinforced by employee awareness training, workshops and monitoring, including a global assessment plan run by an external assurance provider.

In 2012, Ericsson has continued to develop its anti-corruption program and expanded its whistleblower procedure.

**Human rights**

In 2012, the Company updated its Code of Business Ethics to reflect the ongoing commitment to respect human rights, and the UN Guiding Principles on Business and Human Rights. Ericsson has worked actively to

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strengthen its internal governance processes including the Sales Compliance Board, which also considers potential negative human rights impacts in its decisions. The Company joined the Shift Business Learning Program to support human rights risk analysis capabilities.

Ericsson is part of the Burma (Myanmar) Human Rights and Business Framework, led by the Institute for Human Rights and Business and the Danish Human Rights Institute. Together with Deloitte, the Company launched a report, *The Potential Economic Impact of Mobile Communications in Myanmar*, which shows the importance of mobile communications from both GDP and job-creation perspectives.

**Supply chain**

Suppliers must comply with Ericsson's CoC. Approximately 170 employees, covering all regions, are trained as supplier CoC auditors. The Company uses a risk-based approach to ensure that the high risk portfolio areas, and highest risk markets, are targeted first. For prioritized areas, Ericsson performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made. Training for suppliers is available in 13 languages.

To effectively address the issue of conflict minerals, including compliance with the US Dodd-Frank Act and the disclosure rule adopted by the U.S. Securities and Exchange Commission (SEC), Ericsson takes active measures in its sourcing and product management processes. Ericsson also participates in industry initiatives such as The Extractives Workgroup on conflict minerals, driven by the Global e-Sustainability Initiative (GeSI).

**Reducing environmental impact**

Energy use of products in operation remains the Company's most significant environmental impact. Ericsson works proactively with its customers to encourage network and site energy optimization, through innovative products, software, solutions and advisory services. Processes and controls are in place to ensure compliance with relevant product-related environmental, customer and regulatory requirements. The Company works actively to reduce its own environmental impact, with a focus on Design for Environment, which includes product energy efficiency and materials management.

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A five-year target which aims to reduce the Ericsson carbon footprint intensity by 40% was set in 2009 (with a 2008 baseline). The target comprises two focus areas: Ericsson's own activities and the life-cycle impacts of products in operation. In 2012, Ericsson exceeded the annual 10% reduction target and, as a result, the target has been achieved in four years instead of five, with the following results:

A 22% reduction in direct emission intensity from own activities was achieved during 2012, including facilities energy use, product transportation and business travel. This was achieved by

reducing absolute emissions from business travel by 16%

reducing absolute emissions from product transportation by 12%

decreasing facility energy consumption by approximately 3%. while related emissions increased by 13%

A 16% reduction in indirect emission intensity from life-cycle impacts of products in operation was achieved in 2012.

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**Product take-back and recycling**

Ericsson Ecology Management is a program to take responsibility for products at the end of their life and to treat them in an environmentally preferable way. The program also ensures that Ericsson fulfills its extended producer responsibility and is offered to all customers globally free of charge, not only in markets where it is mandatory.

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**Radio waves and health**

Ericsson employs rigid product testing and installation procedures with the goal of ensuring that radio wave exposure levels from Ericsson products and network solutions are below established safety limits. The Company provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Since 1996, Ericsson has cosponsored over 90 studies related to electromagnetic fields and health. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

Ericsson has been cosponsoring the Swedish part of the international COSMOS study, which aims to carry out long-term health monitoring of more than 200,000 people to identify if there are any health issues linked to long-term mobile phone use. To assure scientific independence there is a firewall in place between the industrial sponsors and the researchers.

**Climate change**

Information and Communication Technology (ICT) represents about 2% of global CO<sub>2</sub> emissions, but can potentially offset 16% of the remaining 98% from other industries, according to GeSI's SMARTer2020 report. The report also shows that the abatement potential of ICT is over seven times its own emissions. Ericsson takes measures to ensure that its own carbon footprint intensity is continuously reduced.

Ericsson's sustainability strategy includes focus on the role broadband can play in helping to offset global CO<sub>2</sub> emissions, 70% of which are attributed to cities, according to UN-Habitat. Ericsson works on sustainable city solutions and is engaged in global climate policy. Ericsson's President and CEO Hans Vestberg leads the Climate Change Working Group of the Broadband Commission for Digital Development which launched the report *The Broadband Bridge: Linking ICT with climate action for a low-carbon economy*.

**Technology for Good**

In 2011, Ericsson launched the Technology for Good program, focused on applying the Company's expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world. Mobile connectivity fuels economic growth, which is vital for billions of people living at the base of the economic pyramid. Ericsson has used its technology and competence to help achieve the Millennium Development Goals (MDGs) for more than a decade. Ericsson's President and CEO also joined the Leadership Council of the Sustainable Development Solutions Network, an initiative of the UN Secretary General, to contribute to the post-2015 development agenda and the Sustainable Development Goals. The Company engages in many Technology for Good projects globally, including Connect to Learn and Ericsson Response.

**Reporting according to GRI 3.0**

Full key performance data is available on the Ericsson website and has achieved an A+ rating according to the Global Reporting Initiative (GRI). The performance data has been assured, and the application level has been checked by a third party.

**LEGAL PROCEEDINGS**

On November 27, 2012, Ericsson filed two patent infringement lawsuits in the US District Court for the Eastern District of Texas against Samsung. Ericsson seeks damages and an injunction. Ericsson also asked the

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Court to adjudge that Samsung breached its commitment to license any standard-essential patents it owns on fair, reasonable, and non-discriminatory terms and to declare Samsung's allegedly standard essential patents to be unenforceable.

On November 30, 2012, Ericsson filed a complaint with the US International Trade Commission, ITC, seeking an exclusion order blocking Samsung from importing certain products into the USA. The ITC instituted an investigation of Ericsson's complaint on January 3, 2013.

On December 21, 2012, Samsung filed a complaint with the US International Trade Commission seeking an exclusion order blocking Ericsson from importing certain products into the USA. The ITC instituted an investigation of Samsung's complaint on January 25, 2013.

On October 1, 2012, Wi-LAN Inc. filed a complaint against Ericsson in the US District Court of Southern Florida alleging that Ericsson's LTE products infringe three of Wi-LAN's US patents. The parties are presently engaged in discovery. Ericsson was, on October 4, 2010, sued by Wi-LAN in another patent infringement law suit in the US District Court for the Eastern District of Texas. Wi-LAN alleged that Ericsson products, compliant with the 3GPP standard, infringe three US patents assigned to Wi-LAN. A trial is scheduled for April 2013.

In February 2012, Airvana Networks Solutions Inc. sued Ericsson in the Supreme Court of the State of New York, alleging that Ericsson has violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Airvana is seeking damages of USD 330 million and to enjoin Ericsson from developing, deploying or commercializing Ericsson products allegedly based on Airvana's proprietary technology. In April 2012, the Court heard Airvana's request for preliminary injunction. The motion for preliminary injunction remains under consideration by the Court. The parties are presently engaged in further discovery.

In 2011, TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent, the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) in the US District Court for the Eastern District of Pennsylvania for purported federal antitrust violations. The complaint alleged that Ericsson, Qualcomm and Alcatel-Lucent illegally conspired to block the adoption of TruePosition's proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. In January 2012, the Court dismissed the complaint on a "without prejudice" basis. Following the dismissal, TruePosition filed an amended complaint in February 2012. The case is proceeding to discovery.

In 2007, H3G S.p.A. (H3G) filed arbitral proceedings in Italy against Ericsson. H3G claims compensation from Ericsson for alleged breach of contract. H3G claims approximately EUR 475 million plus default interest. In addition to denying the claim in substance, Ericsson made a number of formal objections to the claim and filed a motion for the case to be dismissed. Ericsson's formal objections were however dismissed by the Arbitral Tribunal in a partial award rendered in February 2012. The Tribunal has appointed experts to render an opinion on various substantive technical and financial issues. The final report was rendered in February 2013. The final arbitral award is expected to be rendered at the end of 2013.

In addition to the proceedings discussed above, the Company is, and in the future may be, involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business.

**PARENT COMPANY**

The Parent Company business consists mainly of corporate management, holding company functions and internal banking activities. It also handles customer credit management, performed on a commission basis by Ericsson Credit AB.



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The Parent Company has 6 (6) branch offices. In total, the Group has 71 (70) branch and representative offices.

**Financial information**

Income after financial items was SEK 4.9 (4.4) billion. The Parent Company had no sales in 2012 or 2011 to subsidiaries, while 34% (31%) of total purchases of goods and services were from such companies.

Major changes in the Parent Company's financial position for the year included:

Write-down of original investment in ST-Ericsson of SEK 8.6 billion. This write-down does not have any impact on Group level. Another write-down was made including the short-term credit facility to ST-Ericsson of SEK 5.0 billion, and a provision of SEK 3.3 billion relating to the strategic options at hand for ST-Ericsson assets. The total write-downs and provision related to ST-Ericsson amount to SEK 17.0 billion.

Increased current and non-current receivables from subsidiaries of SEK 7.2 billion.

Increased other current receivables of SEK 1.7 billion

Increased cash, cash equivalents and short-term investments of SEK 1.3 billion

Increased current and non-current liabilities to subsidiaries of SEK 8.7 billion

Decreased other current liabilities of SEK 1.1 billion.

At year-end, cash, cash equivalents and short-term investments amounted to SEK 57.4 (56.1) billion.

**Share information**

As per December 31, 2012, the total number of shares in issue was 3,305,051,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,043,295,752 were Class B shares, each carrying one tenth of one vote. Both classes of shares have the same rights of participation in the net assets and earnings.

The Annual General Meeting (AGM) 2012 resolved to issue 31.7 million Class C shares for the Long-Term Variable Remuneration Program (LTV). In accordance with an authorization from the AGM, in the second quarter 2012, the Board of Directors resolved to repurchase the new issued shares, which were subsequently converted into Class B shares. The quotient value of the repurchased shares was SEK 5.00, totaling SEK 158.5 million, representing less than one percent of capital stock, and the acquisition cost was approximately SEK 158.7 million.

The two largest shareholders at year-end were Investor and Industrivärden holding 21.37% and 14.96% respectively of the voting rights in the Parent Company.

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 9,748,408 treasury shares were sold or distributed to employees in 2012. The quotient value of these shares was SEK 5.00, totaling SEK 48.7 million, representing less than 1% of capital stock, and compensation received for shares sold and distributed shares amounted to SEK 91.2 million.

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The holding of treasury stock at December 31, 2012 was 84,798,095 Class B shares. The quotient value of these shares is SEK 5.00, totaling SEK 424.0 million, representing 2.6% of capital stock, and the related acquisition cost amounts to SEK 655.3 million.

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**Proposed disposition of earnings**

The Board of Directors proposes that a dividend of SEK 2.75 (2.50) per share be paid to shareholders duly registered on the record date April 12, 2013, and that the Parent Company shall retain the remaining part of non-restricted equity.

The Class B treasury shares held by the Parent Company are not entitled to receive dividend. Assuming that no treasury shares remain on the record date, the Board of Directors proposes that earnings be distributed as follows:

|   |                    |
|---|--------------------|
| Amount to be paid to the shareholders       | SEK 9,088,892,271  |
| Amount to be retained by the Parent Company | SEK 16,535,096,753 |

|  |                           |
|--|---------------------------|
| <b>Total non-restricted equity of the Parent Company</b> | <b>SEK 25,623,989,024</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 50% (52%) and a net cash amount of SEK 38.5 (39.5) billion

The Board of Directors has also considered the Parent Company's result and financial position and the Group's position in general. In this respect, the Board of Directors has taken into account known commitments that may have an impact on the financial positions of the Parent Company and its subsidiaries.

The proposed dividend does not limit the Group's ability to make investments or raise funds, and it is the Board of Directors' assessment that the proposed dividend is well-balanced considering the nature, scope and risks of the business activities as well as the capital requirements for the Parent Company and the Group in addition to coming years' business plans and economic development.

**POST-CLOSING EVENTS**

On January 10, 2013, Ericsson entered into an agreement with Unwired Planet whereby Ericsson will transfer 2,185 issued patents and patent applications to Unwired Planet. Ericsson will also contribute 100 additional patent assets annually to Unwired Planet commencing in 2014 through 2018. Unwired Planet will compensate Ericsson with certain ongoing rights in future revenues generated from the enlarged patent portfolio. Unwired Planet will also grant Ericsson a license to its patent portfolio.

On January 21, 2013, Ericsson announced its intention to acquire Devoteam Telecom & Media operations in France. Devoteam has employees in Europe, Middle East and Africa. The acquisition is in line with Ericsson's services strategy to broaden its IT capabilities.

In January, 2013, ST-Ericsson was granted a loan facility by their owners of USD 260 million. Ericsson's share of this credit facility is USD 130 million.

On January 10, 2013 Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25 Adaptix filed a complaint with the US International Trade Commission (ITC) against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications requesting that the commission open a patent

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

infringement investigation of certain Ericsson products and further on January 29 Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two Japanese patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On March 18, 2013, Ericsson and STMicroelectronics announced an agreement on the way forward for the joint venture (JV) ST-Ericsson.

The main steps agreed upon to split up the JV are the following: Ericsson will take on the design, development and sales of the LTE multimode thin modem products, including 2G, 3G and 4G multimode; ST will take on the existing ST-Ericsson products, other than LTE multimode thin modems, and related business as well as certain assembly and test facilities; starting the close down of the remaining parts of ST-Ericsson.

The formal transfer of the relevant parts of ST-Ericsson to the parent companies is expected to be completed during the third quarter of 2013, subject to regulatory approvals.

After the split up it is proposed that Ericsson will assume approximately 1,800 employees and contractors.

**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 2012

**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, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, 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 8, 2013

By: /s/ PricewaterhouseCoopers  
Name: PricewaterhouseCoopers AB

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED INCOME STATEMENT**

| January  | December, SEK million | Notes   | 2012          | 2011    | 2010    |
|--|-----------------------|---------|---------------|---------|---------|
| Net sales  |                       | C3, C4  | 227,779       | 226,921 | 203,348 |
| Cost of sales  |                       |         | 155,699       | 147,200 | 129,094 |
| <b>Gross income</b>  |                       |         | <b>72,080</b> | 79,721  | 74,254  |
| Gross margin (%)   |                       |         | 31.6%         | 35.1%   | 36.5%   |
| Research and development expenses  |                       |         | 32,833        | 32,638  | 31,558  |
| Selling and administrative expenses  |                       |         | 26,023        | 26,683  | 27,072  |
| <b>Operating expenses</b>  |                       |         | <b>58,856</b> | 59,321  | 58,630  |
| Other operating income and expenses  |                       | C6      | 8,965         | 1,278   | 2,003   |
| <b>Operating income before shares in earnings of joint ventures and associated companies</b>       |                       |         | <b>22,189</b> | 21,678  | 17,627  |
| Operating margin before shares in earnings of joint ventures and associated companies (%)          |                       |         | 9.7%          | 9.6%    | 8.7%    |
| Share in earnings of joint ventures and associated companies                                       |                       | C3, C12 | 11,731        | 3,778   | 1,172   |
| <b>Operating income</b>  |                       |         | <b>10,458</b> | 17,900  | 16,455  |
| Financial income   |                       | C7      | 1,708         | 2,882   | 1,047   |
| Financial expenses   |                       | C7      | 1,984         | 2,661   | 1,719   |
| <b>Income after financial items</b>  |                       |         | <b>10,182</b> | 18,121  | 15,783  |
| Taxes  |                       | C8      | 4,244         | 5,552   | 4,548   |
| <b>Net income</b>  |                       |         | <b>5,938</b>  | 12,569  | 11,235  |
| Net income attributable to:  |                       |         |               |         |         |
| Stockholders of the Parent Company   |                       |         | 5,775         | 12,194  | 11,146  |
| Non-controlling interest   |                       |         | 163           | 375     | 89      |
| <b>Other information</b>   |                       |         |               |         |         |
| Average number of shares, basic (million)  |                       | C9      | 3,216         | 3,206   | 3,197   |
| Earnings per share attributable to stockholders of the Parent Company, basic (SEK) <sup>1)</sup>   |                       | C9      | 1.80          | 3.80    | 3.49    |
| Earnings per share attributable to stockholders of the Parent Company, diluted (SEK) <sup>1)</sup> |                       | C9      | 1.78          | 3.77    | 3.46    |

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

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| January  | December, SEK million | Notes | 2012         | 2011   | 2010   |
|--|-----------------------|-------|--------------|--------|--------|
| <b>Net income</b>  |                       |       | <b>5,938</b> | 12,569 | 11,235 |
| <b>Other comprehensive income</b>  |                       |       |              |        |        |
| Actuarial gains and losses, and the effect of the asset ceiling, related to pensions |                       | C16   | <b>451</b>   | 6,963  | 3,892  |
| Revaluation of other investments in shares and participations                        |                       |       |              |        |        |
| Fair value remeasurement   |                       | C16   | <b>6</b>     |        | 7      |
| Cash Flow hedges   |                       |       |              |        |        |
| Gains/losses arising during the period   |                       | C16   | <b>1,668</b> | 996    | 966    |
| Reclassification adjustments for gains/losses included in profit or loss             |                       | C16   | <b>568</b>   | 2,028  | 238    |
| Adjustments for amounts transferred to initial carrying amount of hedged items       |                       | C16   | <b>92</b>    |        | 136    |
| Changes in cumulative translation adjustments  |                       | C16   | <b>3,947</b> | 964    | 3,259  |
| Share of other comprehensive income of joint ventures and associated companies       |                       | C16   | <b>486</b>   | 262    | 434    |
| Tax on items relating to components of Other comprehensive income                    |                       | C16   | <b>422</b>   | 2,158  | 1,120  |
| <b>Total other comprehensive income</b>  |                       |       | <b>4,108</b> | 7,063  | 322    |
| <b>Total comprehensive income</b>  |                       |       | <b>1,830</b> | 5,506  | 10,913 |
| Total Comprehensive Income attributable to:  |                       |       |              |        |        |
| Stockholders of the Parent Company   |                       |       | <b>1,716</b> | 5,081  | 10,814 |
| Non-controlling interest   |                       |       | <b>114</b>   | 425    | 99     |

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**CONSOLIDATED BALANCE SHEET**

| December 31, SEK million   | Notes         | 2012           | 2011           |
|--|---------------|----------------|----------------|
| <b>Assets</b>  |               |                |                |
| <b>Non-current assets</b>  |               |                |                |
| Intangible assets  | C10           |                |                |
| Capitalized development expenses                                 |               | 3,840          | 3,523          |
| Goodwill   |               | 30,404         | 27,438         |
| Intellectual property rights, brands and other intangible assets |               | 15,202         | 13,083         |
| Property, plant and equipment                                    | C11, C26, C27 | 11,493         | 10,788         |
| <b>Financial assets</b>  |               |                |                |
| Equity in joint ventures and associated companies                | C12           | 2,842          | 5,965          |
| Other investments in shares and participations                   | C12           | 386            | 2,199          |
| Customer finance, non-current                                    | C12           | 1,290          | 1,400          |
| Other financial assets, non-current                              | C12           | 3,964          | 4,117          |
| Deferred tax assets  | C8            | 12,321         | 13,020         |
|  |               | 81,742         | 81,533         |
| <b>Current assets</b>  |               |                |                |
| Inventories  | C13           | 28,802         | 33,070         |
| Trade receivables  | C14           | 63,660         | 64,522         |
| Customer finance, current  | C14           | 4,019          | 2,845          |
| Other current receivables  | C15           | 20,065         | 17,837         |
| Short-term investments   | C20           | 32,026         | 41,866         |
| Cash and cash equivalents  | C25           | 44,682         | 38,676         |
|  |               | 193,254        | 198,816        |
| <b>Total assets</b>  |               | <b>274,996</b> | <b>280,349</b> |
| <b>Equity and liabilities</b>                                    |               |                |                |
| <b>Equity</b>  |               |                |                |
| Stockholders' equity   | C16           | 136,883        | 143,105        |
| Non-controlling interest in equity of subsidiaries               | C16           | 1,600          | 2,165          |
|  |               | 138,483        | 145,270        |
| <b>Non-current liabilities</b>                                   |               |                |                |
| Post-employment benefits   | C17           | 9,503          | 10,016         |
| Provisions, non-current  | C18           | 211            | 280            |
| Deferred tax liabilities   | C8            | 3,120          | 2,250          |
| Borrowings, non-current  | C19, C20      | 23,898         | 23,256         |
| Other non-current liabilities                                    |               | 2,377          | 2,248          |
|  |               | 39,109         | 38,050         |
| <b>Current liabilities</b>                                       |               |                |                |
| Provisions, current  | C18           | 8,427          | 5,985          |
| Borrowings, current  | C19, C20      | 4,769          | 7,765          |
| Trade payables   | C22           | 23,100         | 25,309         |
| Other current liabilities  | C21           | 61,108         | 57,970         |



|  |                |         |
|--|----------------|---------|
| <b>Total equity and liabilities<sup>1)</sup></b> | <b>97,404</b>  | 97,029  |
|  | <b>274,996</b> | 280,349 |

1) Of which interest-bearing liabilities and post-employment benefits SEK 38,170 (41,037) million.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| January   | December, SEK million | Notes    | 2012          | 2011          | 2010          |
|---|-----------------------|----------|---------------|---------------|---------------|
| <b>Operating activities</b>                           |                       |          |               |               |               |
| Net income  |                       |          | 5,938         | 12,569        | 11,235        |
| Adjustments to reconcile net income to cash           |                       | C25      | 13,077        | 12,613        | 12,490        |
|   |                       |          | 19,015        | 25,182        | 23,725        |
| <b>Changes in operating net assets</b>                |                       |          |               |               |               |
| Inventories   |                       |          | 2,752         | 3,243         | 7,917         |
| Customer finance, current and non-current             |                       |          | 1,259         | 74            | 2,125         |
| Trade receivables                                     |                       |          | 1,103         | 1,700         | 4,406         |
| Trade payables  |                       |          | 1,311         | 1,648         | 5,964         |
| Provisions and post-employment benefits               |                       |          | 1,920         | 5,695         | 2,739         |
| Other operating assets and liabilities, net           |                       |          | 5,857         | 2,988         | 5,269         |
|   |                       |          | 3,016         | 15,200        | 2,858         |
| <b>Cash flow from operating activities</b>            |                       |          | <b>22,031</b> | <b>9,982</b>  | <b>26,583</b> |
| <b>Investing activities</b>                           |                       |          |               |               |               |
| Investments in property, plant and equipment          |                       | C11      | 5,429         | 4,994         | 3,686         |
| Sales of property, plant and equipment                |                       |          | 568           | 386           | 124           |
| Acquisitions of subsidiaries and other operations     |                       | C25, C26 | 11,529        | 3,181         | 3,286         |
| Divestments of subsidiaries and other operations      |                       | C25, C26 | 9,452         | 53            | 454           |
| Product development                                   |                       | C10      | 1,641         | 1,515         | 1,644         |
| Other investing activities                            |                       |          | 1,540         | 900           | 1,487         |
| Short-term investments                                |                       |          | 2,151         | 14,692        | 3,016         |
| <b>Cash flow from investing activities</b>            |                       |          | <b>4,888</b>  | <b>4,541</b>  | <b>12,541</b> |
| <b>Cash flow before financing activities</b>          |                       |          | <b>17,143</b> | <b>14,523</b> | <b>14,042</b> |
| <b>Financing activities</b>                           |                       |          |               |               |               |
| Proceeds from issuance of borrowings                  |                       |          | 8,969         | 2,076         | 2,580         |
| Repayment of borrowings                               |                       |          | 9,670         | 1,259         | 1,449         |
| Proceeds from stock issue                             |                       |          | 159           |               |               |
| Sale/repurchase of own shares                         |                       |          | 93            | 92            | 51            |
| Dividends paid  |                       |          | 8,632         | 7,455         | 6,677         |
| Other financing activities                            |                       |          | 118           | 52            | 175           |
| <b>Cash flow from financing activities</b>            |                       |          | <b>9,385</b>  | <b>6,494</b>  | <b>5,670</b>  |
| Effect of exchange rate changes on cash               |                       |          | 1,752         | 217           | 306           |
| <b>Net change in cash</b>                             |                       |          | <b>6,006</b>  | <b>7,812</b>  | <b>8,066</b>  |
| <b>Cash and cash equivalents, beginning of period</b> |                       |          | <b>38,676</b> | <b>30,864</b> | <b>22,798</b> |
| <b>Cash and cash equivalents, end of period</b>       |                       | C25      | <b>44,682</b> | <b>38,676</b> | <b>30,864</b> |

- 1) Includes payment of external loan of SEK -6.2 billion attributable to the acquisition of Telcordia.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|  | Notes | Capital<br>stock | Additional<br>paid in<br>capital | Retained<br>earnings | Stockholders<br>equity | Non-controlling<br>interest (NCI) | Total<br>equity |
|--|-------|------------------|----------------------------------|----------------------|------------------------|-----------------------------------|-----------------|
| January 1, 2012                            |       | 16,367           | 24,731                           | 102,007              | 143,105                | 2,165                             | 145,270         |
| Total comprehensive income                 | C16   |                  |                                  | 1,716                | 1,716                  | 114                               | 1,830           |
| <b>Transactions with owners</b>            |       |                  |                                  |                      |                        |                                   |                 |
| Stock issue                                |       | 159              |                                  |                      | 159                    |                                   | 159             |
| Sale/Repurchase of own shares              |       |                  |                                  | 93                   | 93                     |                                   | 93              |
| Stock Purchase Plans                       |       |                  |                                  | 405                  | 405                    |                                   | 405             |
| Dividends paid                             |       |                  |                                  | 8,033                | 8,033                  | 599                               | 8,632           |
| Transactions with non-controlling interest |       |                  |                                  | 376                  | 376                    | 80                                | 456             |
| <b>December 31, 2012</b>                   |       | <b>16,526</b>    | <b>24,731</b>                    | <b>95,626</b>        | <b>136,883</b>         | <b>1,600</b>                      | <b>138,483</b>  |
| January 1, 2011                            |       | 16,367           | 24,731                           | 104,008              | 145,106                | 1,679                             | 146,785         |
| Total comprehensive income                 | C16   |                  |                                  | 5,081                | 5,081                  | 425                               | 5,506           |
| <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>  |
| January 1, 2010                            |       | 16,367           | 24,731                           | 98,772               | 139,870                | 1,157                             | 141,027         |
| Total comprehensive income                 | C16   |                  |                                  | 10,814               | 10,814                 | 99                                | 10,913          |
| <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>  |

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**C1 SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The consolidated financial statements comprise Telefonaktiebolaget LM Ericsson, the Parent Company, and its subsidiaries ( the Company ) and the Company s interests in joint ventures and associated companies. The Parent Company is domiciled in Sweden at Torshamnsgatan 23, SE-164 83 Stockholm.

The consolidated financial statements for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB, without any early application, 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. There is no difference between IFRS effective as per December 31, 2012, and RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS, for all periods presented.

The financial statements were approved by the Board of Directors on March 5, 2013. The balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2012:

Amendment to IAS 12, income taxes: deferred tax: recovery of underlying assets

Amendments to IFRS 7, Financial instruments Disclosures: Transfers of Financial Assets.

None of the new or amended standards and interpretations have had any significant impact on the financial result or position as well as disclosure of the Company.

For information on New standards and interpretations not yet adopted , refer to the end of this Note.

**Basis of presentation**

The financial statements are presented in millions of Swedish Krona (SEK). They are prepared on a historical cost basis, except for certain financial assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and plan assets related to defined benefit pension plans.

**Basis of consolidation**

The consolidated financial statements are prepared in accordance with the purchase method. Accordingly, consolidated stockholders equity includes equity in subsidiaries, joint ventures and associated companies earned only after their acquisition.

Subsidiaries are all companies in which Ericsson has an ownership interest, directly or indirectly, including effective potential voting rights, has the power to govern the financial and operating policies generally associated with ownership of more than one half of the voting rights or in which Ericsson by agreement has control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealized income and expense arising from intra-group transactions are fully eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no

evidence of impairment.

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**Business combinations**

At the acquisition of a business, the cost of the acquisition, being the purchase price, is measured as the fair value of the assets given, and liabilities incurred or assumed at the date of exchange, including any cost related to contingent consideration. Transaction costs attributable to the acquisition are expensed as incurred. The acquisition cost is allocated to acquired assets, liabilities and contingent liabilities based upon appraisals made, including assets and liabilities that were not recognized on the acquired entity's balance sheet, for example intangible assets such as customer relations, brands, patents and financial liabilities. Goodwill arises when the purchase price exceeds the fair value of recognizable acquired net assets. In acquisitions with non-controlling interest full or partial goodwill can be recognized. Final amounts are established within one year after the transaction date at the latest.

In case there is a put option for non-controlling interest in a subsidiary a corresponding financial liability is recognized.

**Non-controlling interest**

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

At acquisition, there is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

**Joint ventures and associated companies**

Both joint ventures and associated companies are accounted for in accordance with the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. If the Company's interest in an associated company or joint venture is nil the Company shall not, as prescribed by IFRS, recognize its part of any future losses. Provisions related to obligations for such an interest shall, however, be recognized in relation to such an interest.

JVs are ownership interests where a joint influence is obtained through agreement.

Investments in associated companies, i.e. when the Company has significant influence and the power to participate in the financial and operating policy decisions of the associated company, but is not control or joint control over those policies. Normally this is the case when voting stock interest, including effective potential voting rights, is at least 20% but not more than 50%.

Ericsson's share of income before taxes is reported in item *Share in earnings of joint ventures and associated companies*, included in Operating Income. This is due to that these interests are held for operating

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rather than investing or financial purposes. Ericsson's share of income taxes related to joint ventures and associated companies is reported under the line item Taxes in the income statement.

Unrealized gains on transactions between the Company and its associated companies and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Shares in earnings of joint ventures and associated companies included in consolidated equity which are undistributed are reported in Retained earnings in the balance sheet.

Impairment testing as well as recognition or reversal of impairment of investments in each joint venture is performed in the same manner as for intangible assets other than goodwill. The entire carrying amount of each investment, including goodwill, is tested as a single asset. See also description under Intangible assets other than goodwill below.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In Note C2, Critical Accounting Estimates and Judgments, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Foreign currency remeasurement and translation**

Items included in the financial statements of each entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swedish Krona (SEK), which is the Parent Company's functional and presentation currency.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless deferred in Other comprehensive income (OCI) under the hedge accounting practices as described below.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in OCI.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

**Group companies**

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet





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Income and expenses for each income statement are translated at average exchange rates

All resulting net exchange differences are recognized as a separate component of OCI. On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are accounted for in OCI. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in OCI are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

There is no significant impact due to a currency of a hyperinflationary economy.

**Statement of cash flows**

The statement of cash flow is prepared in accordance with the indirect method. Cash flows in foreign subsidiaries are translated at the average exchange rate during the period. Payments for subsidiaries acquired or divested are reported as cash flow from investing activities, net of cash and cash equivalents acquired or disposed of, respectively.

Cash and cash equivalents consist of cash, bank, and short-term investments that are highly liquid monetary financial instruments with a remaining maturity of three months or less at the date of acquisition.

**Revenue recognition**

**Background**

The Company offers a comprehensive portfolio of telecommunication and data communication systems, professional services, and multimedia solutions. Products, both hardware and software as well as services are in general standardized. The impact of this is that any acceptance terms are normally only formal requirements. In Note C3, Segment information, the Company offer is disclosed more in detail as per operating segment.

The Company's products and services are generally sold under delivery-type or multi-year recurring services contracts. The delivery type contracts often have content from more than one segment.

**Accounting treatment**

Sales are based on fair values of consideration received and recorded net of value added taxes, goods returned and estimated trade discounts. Revenue is recognized when risks and rewards have been transferred to the customer, with reference to all significant contractual terms when:

The product or service has been delivered

The revenue amount is fixed or determinable

Customer has received and activation has been made of separately sold software

Collection is reasonably assured.

Estimation of contractual performance criteria impact the timing and amounts of revenue recognized and may therefore defer revenue recognition until the performance criteria are met. The profitability of contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

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Allocation and/or timing criteria specific per type of contract are:

Delivery-type contracts. These contracts relate to delivery, installation, integration of products and providing of related services, normally under multiple elements contracts. Under multiple elements contracts the accounting is based on that the revenue recognition criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Support Solutions have contracts that relate to this type of contracts.

Contracts for services. Relate to multi-year service contracts such as support and managed service contracts and other types of recurring services. Revenue is recognized when the services have been provided, generally pro rata over the contract period. Global Services has contracts that relate to this type of contracts.

Contracts generating license fees from third parties for the use of the Company's intellectual property rights. License fees are normally measured as percentage on sales or currency amount per unit and recognized over the license period as the amount of the consideration becomes reasonably certain. Networks and Support Solutions have contracts that relate to this type of contracts.

For sales between consolidated companies, associated companies, joint ventures and segments, the Company applies arm's length pricing.

In Note C2, Critical accounting estimates and judgments, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Earnings per share**

Basic earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the weighted average number of shares outstanding (total number of shares less treasury stock) during the year.

Diluted earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company, when appropriate adjusted by the sum of the weighted average number of ordinary shares outstanding and dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

Stock options and rights to matching shares are considered dilutive when the actual fulfillment of any performance conditions as of the reporting date would give a right to ordinary shares. Furthermore, stock options are considered dilutive only when the exercise price is lower than the period's average share price.

**Financial assets**

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognized if any rights and obligations are created or retained in the transfer.

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.



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Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates. Valuations of Foreign exchange options and Interest Rate Guarantees (IRG) are made by using a Black-Scholes formula. Inputs to the valuations are market prices for implied volatility, foreign exchange and interest rates.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Gains or losses arising from changes in the fair values of the financial assets at fair value through profit or loss -category (excluding derivatives) are presented in the income statement within Financial income in the period in which they arise. Derivatives are presented in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent with the transaction.

**Loans and receivables**

Receivables, including those that relate to customer financing, are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer as well as amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectability of the receivables is assessed for purposes of initial revenue recognition.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Dividends on available-for-sale equity instruments are recognized in the income statement as part of financial income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in OCI. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in OCI. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized in OCI are included in the income statement.

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**Impairment**

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an evidence that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from OCI and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

**Financial Liabilities**

Financial liabilities are recognized when the Company becomes bound to the contractual obligations of the instrument.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

**Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Derivatives at fair value through profit or loss**

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent of the transaction.

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**Derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value at trade date and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- a) Fair value hedge: a hedge of the fair value of recognized liabilities
  
- b) Cash flow hedge: a hedge of a particular risk associated with a highly probable forecast transaction; or
  
- c) Net investment hedge: a hedge of a net investment in a foreign operation.

At the inception of the hedge, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note C20, Financial risk management and financial instruments. Movements in the hedging reserve in OCI are shown in Note C16, Equity and other comprehensive income.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

**Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains and losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognized in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the remaining period to maturity.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense.

Amounts deferred in OCI are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place), either in Net Sales or Cost of Sales. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in OCI are transferred from OCI and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of Sales in case of inventory or in Depreciation in case of fixed assets. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss which at that time remains in OCI is recognized in the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within financial income or expense.





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### **Net investment hedges**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI. A gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense. Gains and losses deferred in OCI are included in the income statement when the foreign operation is partially disposed of or sold.

### **Financial guarantees**

Financial guarantee contracts are initially recognized at fair value (i.e. usually the fee received). Subsequently, these contracts are measured at the higher of:

The amount determined as the best estimate of the net expenditure required to settle the obligation according to the guarantee contract

The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method. The best estimate of the net expenditure comprises future fees and cash flows from subrogation rights.

### **Inventories**

Inventories are measured at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis.

Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

A significant part of Inventories is Contract work in Progress (CWIP). Recognition and de recognition of CWIP relates to the Company's revenue recognition principles meaning that costs incurred under a customer contract are recognized as CWIP. When revenue is recognized CWIP is derecognized and is instead recognized as Cost of Sales.

In Note C2, **Critical accounting estimates and judgments**, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

### **Intangible assets**

#### **Intangible assets other than goodwill**

Intangible assets other than goodwill comprise capitalized development expenses and acquired intangible assets, such as patents, customer relations, trademarks and software. At initial recognition, capitalized development expenses are stated at cost while acquired intangible assets related to business combinations are stated at fair value. Subsequent to initial recognition, both capitalized development expenses and acquired intangible assets are stated at initially recognized amounts less accumulated amortization and any impairment. Amortization and any impairment losses are included in Research and development expenses, mainly for capitalized development expenses and patents, in Selling and administrative expenses, mainly for customer relations and brands, and in Cost of sales.

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economical feasibility has been established until the product is available for sale or use. These capitalized expenses are mainly generated internally and include direct labor



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and directly attributable overhead. Amortization of capitalized development expenses begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development expenses directly related to orders from customers are accounted for as a part of Cost of sales. Other research and development expenses are charged to income as incurred.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight-line method over their estimated useful lives, not exceeding ten years. However, if the economic benefit related to an item of intangible assets is front-end loaded the amortization method reflects this. Thus, the amortization for such an item is amortized on a digressive curve basis and the asset value decreases with higher amounts in the beginning of the useful life compared to the end.

The Company has not recognized any intangible assets with indefinite useful life other than goodwill.

Impairment tests are performed whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Application of after tax amounts in calculation, both in relation to cash flows and discount rate is applied due to that available models for calculating discount rate include a tax component. The after tax discounting, applied by the Company is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

Corporate assets have been allocated to cash-generating units in relation to each unit's proportion of total net sales. The amount related to corporate assets is not significant. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts and if the recoverable amount is higher than the carrying value. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortization, which would have been reported if no impairment loss had been recognized.

In Note C2, Critical accounting estimates and judgments, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Goodwill**

As from the acquisition date, goodwill acquired in a business combination is allocated to each cash-generating unit (CGU) of the Company expected to benefit from the synergies of the combination. Ericsson's four operating segments have been identified as CGUs. Goodwill is assigned to three of them, Networks, Global Services and Support Solutions.

An annual impairment test for the CGUs to which goodwill has been allocated is performed in the fourth quarter, or when there is an indication of impairment. Impairment testing as well as recognition of impairment of goodwill is performed in the same manner as for intangible assets other than goodwill, see description under Intangible assets other than goodwill above. An impairment loss in respect of goodwill is not reversed.

Additional disclosure is required in relation to goodwill impairment testing, see Note C2, Critical accounting estimates and judgments, below and in Note C10, Intangible assets.

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### **Property, plant and equipment**

Property, plant and equipment consist of real estate, machinery and other technical assets, other equipment, tools and installation and construction in process and advance payment, they are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is charged to income, generally on a straight-line basis, over the estimated useful life of each component of an item of property, plant and equipment, including buildings. Estimated useful lives are, in general, 25-50 years for real estate and 3-10 years for machinery and equipment. Depreciation and any impairment charges are included in Cost of sales, Research and development or Selling and administrative expenses.

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing a component and derecognizes the residual value of the replaced component.

Impairment testing as well as recognition or reversal of impairment of property, plant and equipment is performed in the same manner as for intangible assets other than goodwill, see description under "Intangible assets other than goodwill" above.

Gains and losses on disposals are determined by comparing the proceeds less cost to sell with the carrying amount and are recognized within Other operating income and expenses in the income statement.

### **Leasing**

#### **Leasing when the Company is the lessee**

Leases on terms in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset, although the depreciation period must not exceed the lease term.

Other leases are operating leases, and the leased assets under such contracts are not recognized on the balance sheet. Costs under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

#### **Leasing when the Company is the lessor**

Leasing contracts with the Company as lessor are classified as finance leases when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases. Under a finance lease, a receivable is recognized at an amount equal to the net investment in the lease and revenue is recognized in accordance with the revenue recognition principles.

Under operating leases the equipment is recorded as property, plant and equipment and revenue as well as depreciation is recognized on a straight-line basis over the lease term.

### **Income taxes**

Income taxes in the consolidated financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity or OCI. For those items, the related income tax is also reported directly in equity or OCI. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

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Deferred tax is recognized for temporary differences between the book values of assets and liabilities and their tax values and for tax loss carry forwards. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carry forwards can be utilized. In the recognition of income taxes, the Company offsets current tax receivables against current tax liabilities and deferred tax assets against deferred tax liabilities in the balance sheet, when the Company has a legal right to offset these items and the intention to do so. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and for differences related to investments in subsidiaries when it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognized in the income statement, unless it relates to a temporary difference earlier recognized directly in equity or OCI, in which case the adjustment is also recognized in equity or OCI.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization. The largest amounts of tax loss carry forwards relate to Sweden, with indefinite period of utilization.

In Note C2, *Critical accounting estimates and judgments*, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Provisions and contingent liabilities**

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to warranty commitments, restructuring, customer projects and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer finance guarantees.

Product warranty commitments consider probabilities of all material quality issues based on historical performance for established products and expected performance for new products, estimates of repair cost per unit, and volumes sold still under warranty up to the reporting date.

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

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Other provisions include provisions for unresolved tax issues, litigations, supplier claims, customer finance and other provisions. The Company provides for estimated future settlements related to patent infringements based on the probable outcome of each infringement. The actual outcome or actual cost of settling an individual infringement may vary from the Company's estimate.

The Company estimates the outcome of any potential patent infringement made known to the Company through assertion and through the Company's own monitoring of patent-related cases in the relevant legal systems. To the extent that the Company makes the judgment that an identified potential infringement will more likely than not result in an outflow of resources, the Company records a provision based on the Company's best estimate of the expenditure required to settle with the counterpart.

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other unresolved claims, including proceedings under laws and government regulations and other matters. These matters are often resolved over a long period of time. The Company regularly assesses the likelihood of any adverse judgments in or outcomes of these matters, as well as potential ranges of possible losses. Provisions are recognized when it is probable that an obligation has arisen and the amount can be reasonably estimated based on a detailed analysis of each individual issue.

Certain present obligations are not recognized as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities. For further detailed information, see Note C24, *Contingent liabilities*.

In Note C2, *Critical accounting estimates and judgments*, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Post-employment benefits**

Pensions and other post-employment benefits are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company's only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognized as expenses during the period when the employee provides service.

Under a defined benefit plan, it is the Company's obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The discount rate for each country is determined by reference to market yields on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The calculations are based upon actuarial assumptions, assessed on a quarterly basis, and are as a minimum prepared annually. Actuarial assumptions are the Company's best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it is possible that the actual results will differ from the estimated results or that the actuarial assumptions will change from one period to another. These differences are reported as actuarial gains and losses. They are for example caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes, changes in the discount rate and differences between actual and expected return on plan assets. Actuarial gains and losses are recognized in OCI in the period in which they occur. The Company's net liability for each defined benefit plan consists of the present value of

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pension commitments less the fair value of plan assets and is recognized net on the balance sheet. When the result is a net benefit to the Company, the recognized asset is limited to the total of any cumulative past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The net of return on plan assets and interest on pension liabilities is reported as financial income or expense, while the current service cost and any other items in the annual pension cost are reported as operating income or expense.

Payroll taxes related to actuarial gains and losses are included in determining actuarial gains and losses.

In Note C2, *Critical accounting estimates and judgments*, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Share-based compensation to employees and the Board of Directors**

Share-based compensation is related to remuneration to all employees, including key management personnel and the Board of Directors.

Under IFRS, a company shall recognize compensation costs for share-based compensation programs based on a measure of the value to the company of services received under the plans.

This value is based on the fair value of, for example free shares at grant date, measured as stock price as per each investment date. The value at grant date is charged to the income statement as any other remuneration over the service period. For example, value at grant date is 90. Given the normal service period of three years within Ericsson, 30 are charged per year during the service period.

The amount charged to the income statement is reversed in equity each time of the income statement charge.

The reason for this accounting principle of IFRS is that compensation cost is a cost with no direct cash flow impact. The purpose of share-based accounting according to IFRS (IFRS 2) is to present an impact of share-based programs, being part of the total remuneration, in the income statement.

**Compensation to employees**

*Stock purchase plans*

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the Ericsson share at the employee's investment date. The fair value is based upon the share price at investment date, adjusted for the fact that no dividends will be received on matching shares prior to matching and other features that are non-vesting conditions. The employee pays a price equal to the share price at investment date for the investment shares. The investment date is considered as the grant date. In the balance sheet, the corresponding amounts are accounted for as equity. Vesting conditions are non-market based and affect the number of shares that Ericsson will match. Other features of a share-based payment are non-vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services. In the period when an employee takes a refund of previously made contributions (and stops making further contributions) all remaining compensation expense is recognized. Non-vesting conditions would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. When calculating the compensation costs for shares under performance-based matching programs, the Company at each reporting date assesses the probability that the performance targets are met. Compensation expenses are based on estimates of the number of shares that will match at the end of the vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee



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benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, estimated amounts for such social security charges are expensed and accrued.

**Compensation to the Board of Directors**

During 2008, the Parent Company introduced a share-based compensation program as a part of the remuneration to the Board of Directors. The program gives non-employed Directors elected by the General Meeting of Shareholders a right to receive part of their remuneration as a future payment of an amount which corresponds to the market value of a share of class B in the Parent Company at the time of payment, as further disclosed in Note C28, Information regarding members of the Board of Directors, the Group management and employees . The cost for cash settlements is measured and recognized based on the estimated costs for the program on a pro rata basis during the service period, being one year. The estimated costs are remeasured during and at the end of the service period.

**Segment reporting**

An operating segment is a component of a company whose operating results are regularly reviewed by the Company's chief operating decision maker, (CODM), to make decisions about resources to be allocated to the segment and assess its performance. Within the Company, the Group Management Team is defined as the CODM function.

The segment presentation, as per each segment is based on the Company's accounting policies as disclosed in this note. The arm's length principle is applied in transactions between the segments.

The Company's segment disclosure about geographical areas is based on in which country transfer of risks and rewards occur.

**New standards and interpretations not yet adopted**

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012 and have not been applied in preparing these consolidated financial statements.

Below is a list of standards/interpretations that have been issued, except for amendments related to IFRS 1, First time adoption of International Financial Reporting Standards and are effective for the periods starting as from January 1, 2013 (except IAS 32 and IFRS 9).

These amendments effective as from January 1, 2013, are not expected to have a significant impact on the Company's financial result or position.

**Amendment to IAS 1, Financial statement presentation , regarding other comprehensive income**

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

**Amendment to IAS 19, Employee benefits**

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Company implemented the immediate and full recognition of actuarial gains/losses in other comprehensive income in 2006, meaning that the corridor method has not been applied by the Company as from that date and therefore the transition to the revised IAS19 applicable starting January 1, 2013 will not have a significant effect on the present obligation. The main issue to address will be the



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implementation of the net interest cost/gain, which integrates the interest cost and expected return on assets to be based on a common discount rate. An analysis of fiscal year 2012 in relation to this amendment indicates an impact on pension costs for 2012 with an increase of approximately SEK 0.4 ( 0.1) billion. The Company will also need to address the taxes to be incorporated into the defined benefit obligation. This amendment relates to the Swedish special payroll taxes to be reclassified from Other current liabilities to Post-employment benefits with an estimated amount of SEK 1.8 (1.8) billion as per December 31, 2012. The amendment also includes additional disclosure requirements on financial and demographic assumptions, sensitivity analysis, duration and multi-employer plans.

**Amendment to IFRS 7, Financial instruments: Disclosures , on asset and liability offsetting**

This amendment requires disclosure of gross amounts related to financial instruments for which off set has been made.

**IFRS 10, Consolidated financial statements**

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. An entity controls an investee if the entity has power over the investee, has the ability to use the power and is exposed to variable returns. It also sets out the accounting requirements for the preparation of consolidated financial statements.

**IFRS 11, Joint arrangements**

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The Company does not apply the proportionate consolidation method.

**IFRS 12, Disclosures of interests in other entities**

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

**IFRS 13, Fair value measurement**

IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

**IAS 27 (revised 2011), Separate financial statements**

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

**IAS 28 (revised 2011), Associates and joint ventures**

IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Below are standards that have been issued and are effective for the periods starting as from later than 1 January, 2013:

**Amendment to IAS 32, Financial instruments: Presentation , on asset and liability offsetting**

These amendments are related to the application guidance in IAS 32, Financial instruments: Presentation , and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective as from 1 January, 2014.

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**IFRS 9, Financial instruments**

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. This amendment is expected to be effective as from 1 January, 2015. The EU has not yet endorsed IFRS 9, Financial instruments .

These amendments effective as from later than January 1, 2013, are not expected to have a significant impact on the Company's financial result or position.

Effective date for IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 is January 1, 2013. EU has in its endorsement decision allowed listed companies in the EU to adopt these standards as from January 1, 2014. The Company will adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 as from January 1, 2013.

**C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

The information in this note is grouped as per:

Key sources of estimation uncertainty

Judgments management has made in the process of applying the Company's accounting policies.

**Revenue recognition**

*Key sources of estimation uncertainty*

Examples of estimates of total contract revenue and cost that are necessary are the assessing of customer possibility to reach conditional purchase volumes triggering contractual discounts to be given to the customer, the impact on the Company revenue in relation to performance criteria and whether any loss provisions shall be made.

*Judgments made in relation to accounting policies applied*

Parts of the Company's sales are generated from large and complex customer contracts. Managerial judgment is applied regarding, among other aspects, conformance with acceptance criteria and if transfer of risks and rewards to the buyer has taken place to determine if revenue and costs should be recognized in the current period, degree of completion and the customer credit standing to assess whether payment is likely or not to justify revenue recognition.

**Trade and customer finance receivables**

*Key sources of estimation uncertainty*

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The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2012, were SEK 1.1 (1.0) billion or 1.5% (1.4%) of gross trade and customer finance receivables.

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Credit risks for outstanding customer finance credits are regularly assessed as well, and allowances are recorded for estimated losses.

**Inventory valuation**

*Key sources of estimation uncertainty*

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2012, amounted to SEK 3.5 (3.3) billion or 11% (9%) of gross inventory.

**Investments in joint ventures and associated companies**

*Key sources of estimation uncertainty*

Impairment testing of total carrying value of each item of Equity in joint ventures and associated companies is performed after initial recognition, whenever there is an indication of impairment. Information regarding information used for impairment tests is provided by respective joint venture and associated company. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. An impairment in a JV or associated company may not always affect the Company in the same way depending on accounting standard used, initial recognition of assets and liabilities or other differences.

At December 31, 2012, the amount of joint ventures and associated companies amounted to SEK 2.8 (6.0) billion.

**Deferred taxes**

*Key sources of estimation uncertainty*

Deferred tax assets and liabilities, are recognized for temporary differences and for tax loss carry-forwards. Deferred tax is recognized net of valuation allowances. The valuation of temporary differences and tax loss carry-forwards, is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized.

The largest amounts of tax loss carry-forwards are reported in Sweden, with an indefinite period of utilization (i.e. with no expiry date). For further detailed information, please refer to Note C8, Taxes .

At December 31, 2012, the value of deferred tax assets amounted to SEK 12.3 (13.0) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

**Accounting for income-, value added- and other taxes**

*Key sources of estimation uncertainty*

Accounting for these items is based upon evaluation of income-, value added- and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgments regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

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**Acquired intellectual property rights and other intangible assets, including goodwill***Key sources of estimation uncertainty*

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition, impairment testing is performed whenever there is an indication of impairment, except for goodwill for which impairment testing is performed at least once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. One source of uncertainty related to future cash flows is long-term movements in exchange rates.

For further discussion on goodwill, see Note C1, Significant accounting policies and Note C10, Intangible assets. Estimates related to acquired intangible assets are based on similar assumptions and risks as for goodwill.

At December 31, 2012, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 45.6 (40.5) billion, including goodwill of SEK 30.4 (27.4) billion. The Company recognized goodwill in ST-Ericsson of SEK 0.0 (1.3) billion, as disclosed in Note C12, Financial assets, non-current.

*Judgments made in relation to accounting policies applied*

At initial recognition and subsequent remeasurement, management judgments are made, both for key assumptions and regarding impairment indicators. In the purchase price allocation made for each acquisition, the purchase price shall be assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill. This allocation requires management judgment as well as the definition of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

**Provisions****Warranty provisions***Key sources of estimation uncertainty*

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2012, amounted to SEK 1.6 (1.9) billion.

**Provisions other than warranty provisions***Key sources of estimation uncertainty*

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/ or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2012, provisions other than warranty commitments amounted to SEK 7.0 (4.4) billion. For further detailed information, see Note C18, Provisions.



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*Judgments made in relation to accounting policies applied*

Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and management's judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.

**Contingent liabilities**

*Key sources of estimation uncertainty*

As disclosed under Provisions other than warranty provisions there are uncertainties in the estimated amounts. The same type of uncertainty exists for contingent liabilities.

*Judgments made in relation to accounting policies*

As disclosed under Note C1, Significant accounting policies a potential obligation that is not probable to result in an economic outflow is classified as a contingent liability, with no impact on the Company's financial statements. Should, however, an obligation in a later period be deemed to be probable, then a provision shall be recognized, impacting the financial statements.

**Pension and other post-employment benefits**

*Key sources of estimation uncertainty*

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company's pension plans. Expected returns on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2012, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 52.0 (36.4) billion and fair value of plan assets to SEK 44.6 (28.0) billion. For more information on estimates and assumptions, see Note C17, Post-employment benefits .

**Financial instruments, hedge accounting and foreign exchange risks**

*Key sources of estimation uncertainty*

Foreign exchange risk in highly probable sales and purchases in future periods are hedged using foreign exchange derivative instruments designated as cash-flow hedges. Forecasts are based on estimations of future transactions. A forecast is therefore per definition uncertain to some degree.

*Judgments made in relation to accounting policies applied*

Establishing highly probable sales and purchases volumes involve gathering and evaluating sales and purchases estimates for future periods as well as analyzing actual outcome versus estimates on a regular basis in order to fulfill effectiveness testing requirements for hedge accounting. Changes in estimates of sales and purchases might result in that hedge accounting is discontinued.

For further information regarding risks in financial instruments, see Note C20, Financial risk management and financial instruments .

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**C3 SEGMENT INFORMATION**

**Operating segments**

When determining Ericsson's operating segments, consideration has been given to which markets and what type of customers the products and services aim to attract as well as the distribution channels they are sold through. Commonality regarding technology, research and development has also been taken into account. To best reflect the business focus and to facilitate comparability with peers, four operating segments are reported:

Networks

Global Services

Support Solutions

ST-Ericsson

Ericsson's share in Sony Ericsson was divested in February 2012, with effective date on January 1.

**Networks** delivers products and solutions for mobile access, IP and transport networks and core networks. The offering includes:

Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs. The RBS 6000 supports all major standardized mobile technologies

IP and transport solutions based on the SSR 8000 family of products as well as transmission/backhaul including microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks

Switching and IMS solutions, based on Ericsson Blade Server platform, for core networks

Operations Support Systems (OSS), supporting operators' management of existing networks and introduction of new technologies and services.

**Global Services** delivers managed services, product-related services and consulting and systems integration services. The offering includes:

Managed Services; Solutions for designing, building, operating and managing the day-to-day operations of the customer's network or solution, maintenance, network sharing solutions as well as shared solutions such as hosting of platforms and applications. Ericsson also offers broadcast services and managed services of IT environments.

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Product-related services: Services to expand, upgrade, restructure or migrate networks, network-rollout services, customer support and network optimization services.

Consulting and Systems Integration: Technology and operational consulting, integration of multi-vendor equipment, design and integration of new solutions and transforming programs. Industry-specific solutions for vertical industries are also included.

**Support Solutions** (name changed from Multimedia during 2012) provides enablers and applications for operators. The offering includes:

Operations Support Systems: plan, build and optimize, service fulfillment and service assurance.

Business Support Systems: revenue management (prepaid, post-paid, convergent charging and billing), mediation and customer care solutions.

TV solutions: a suite of open, standards-based solutions and products for the creation, management and delivery of evolved TV experiences on any device over any network. Includes a multi-screen TV platform with consumer experience creation, video content management, on-demand video delivery, advanced video compression and video-optimized delivery network infrastructure.

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M-Commerce solutions for money transfer; payment transactions and services between mobile subscribers and operators or other service providers.

**ST-Ericsson**, the joint venture, offers modems and ModAps (integrated modem and application processor platforms) for device manufacturers.

ST-Ericsson's results are reported according to the equity method under Share in earnings of joint ventures and associated companies in the income statement.

On December 10, 2012, STMicroelectronics announced its intention to exit as a shareholder in ST-Ericsson. On December 20, 2012, the Company announced that it would take a non-cash charge in the fourth quarter of 2012 related to its 50% stake in ST-Ericsson. The charge includes write-down of investments to reflect the current best estimate of the Company's share of the fair market value of the joint venture and a provision related to the strategic options at hand for ST-Ericsson assets. In total, the Company has made write-downs of SEK 4.7 billion of ST-Ericsson investments and taken a provision of SEK 3.3 billion. In addition, the Company's share in ST-Ericsson's operating loss amounted to SEK 3.7 ( 0.8) billion. For more information, see Note C12, Financial assets, non-current and Note C18 Provisions .

As of December 31, 2012 there are no remaining investments related to ST-Ericsson on the Company's balance sheet. Costs and cash related to implementation of strategic options at hand will be booked against provisions.

**Sony Ericsson**, was up until 2012, a joint venture delivering mobile phones and accessories. In February 2012, Ericsson completed the divestment of its 50% stake in Sony Ericsson to Sony. Sony Ericsson has not been consolidated by the Company during 2012. The sale resulted in a gain of SEK 7.7 billion.

**Unallocated**

Some revenues, costs, assets and liabilities are not identified as part of any operating segment and are therefore not allocated. Examples of such items are costs for corporate staff, IT costs and general marketing costs.

**Regions**

The Regions are the Company's primary sales channel. The Company operates worldwide and reports its operations divided into eleven regions. Region China and North East Asia has changed name to North East Asia.

North America

Latin America

Northern Europe & Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

North East Asia

South East Asia & Oceania

Other.

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Region Other includes licensing revenues, sales of cables, broadcast services, power modules and other businesses.

The acquired Technicolor Broadcast Service Division is reported in region Other. Multimedia brokering (IPX) was previously reported in each region in segment Support Solutions. For the first three quarters 2012 it was part of region Other. Multimedia brokering (IPX) was divested at the end of the third quarter 2012.

**Major customers**

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company's total revenues for the years 2012, 2011 or 2010.

We derive most of the sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of approximately 400, mainly network operators, the 10 largest customers account for 46% (44%) of net sales. The largest customer accounted for approximately 7% (7%) of sales in 2012. For more information, see Risk Factors, Market, Technology and Business Risks.

**Marketing channels**

Marketing in a business-to-business environment is expanding, from being primarily through personal meetings, to on-line forums, expert blogs and social media. Ericsson performs marketing through:

Customer engagement with a consultative approach

Selective focus on events and experience centers for customer experience and interaction

Continuous dialogue with customers and target audiences through social and other digital media (including virtual events)

Activation of the open social and digital media landscape to strengthen message reach and impact

Execution of solutions-driven programs, aligned globally and regionally.

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**Operating segments**

| 2012   | Networks       | Global Services | Support Solutions | Sony Ericsson             | ST-Ericsson                | Total Segments | Unallocated | Eliminations <sup>1)</sup> | Group          |
|--|----------------|-----------------|-------------------|---------------------------|----------------------------|----------------|-------------|----------------------------|----------------|
| Segment sales  | 117,185        | 97,009          | 13,445            |                           | 8,457                      | 236,096        |             | 8,457                      | 227,639        |
| Inter-segment sales  | 100            | 34              | 6                 |                           | 634                        | 774            |             | 634                        | 140            |
| <b>Net sales</b>   | <b>117,285</b> | <b>97,043</b>   | <b>13,451</b>     |                           | <b>9,091</b>               | <b>236,870</b> |             | <b>9,091</b>               | <b>227,779</b> |
| <b>Operating income</b>                                      | <b>7,057</b>   | <b>6,226</b>    | <b>1,150</b>      | <b>8,026<sup>2)</sup></b> | <b>15,447<sup>3)</sup></b> | <b>7,012</b>   | <b>267</b>  | <b>3,713</b>               | <b>10,458</b>  |
| Operating margin (%)   | 6%             | 6%              | 9%                |                           | 170%                       | 3%             |             |                            | 5%             |
| Financial income   |                |                 |                   |                           |                            |                |             |                            | 1,708          |
| Financial expenses   |                |                 |                   |                           |                            |                |             |                            | 1,984          |
| <b>Income after financial items</b>                          |                |                 |                   |                           |                            |                |             |                            | <b>10,182</b>  |
| Taxes  |                |                 |                   |                           |                            |                |             |                            | 4,244          |
| <b>Net income</b>  |                |                 |                   |                           |                            |                |             |                            | <b>5,938</b>   |
| <b>Other segment items</b>                                   |                |                 |                   |                           |                            |                |             |                            |                |
| Share in earnings of joint ventures and associated companies | 59             | 45              | 20                |                           | 11,734                     | 11,768         | 37          |                            | 11,731         |
| Amortization   | 3,832          | 853             | 809               |                           | 322                        | 5,816          |             | 322                        | 5,494          |
| Depreciation   | 3,035          | 727             | 290               |                           | 741                        | 4,793          |             | 741                        | 4,052          |
| Impairment losses  | 385            | 9               | 1                 |                           | 4)                         | 395            |             |                            | 395            |
| Reversals of impairment losses                               | 39             | 9               | 4                 |                           |                            | 52             |             |                            | 52             |
| Write-down of investment                                     |                |                 |                   |                           | 4,684                      | 4,684          |             |                            | 4,684          |
| Restructuring expenses                                       | 1,253          | 1,930           | 246               |                           | 624                        | 4,053          | 18          | 624                        | 3,447          |
| Gains/losses from divestments                                | 59             | 1               | 216               | 8,026 <sup>2)</sup>       |                            | 8,184          | 152         |                            | 8,336          |

Revenue from the acquired Telcordia business operation is reported 50/50 between segments Global Services and Support Solutions.

- 1) All segment sales are presented, but as ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.
- 2) Includes a gain from the divestment of Sony Ericsson of SEK 7.7 billion.
- 3) Includes a write-down of SEK 4.7 billion of ST-Ericsson investment, a provision of SEK 3.3 billion and the Company's share in ST-Ericsson's operating loss of SEK 3.7 billion.
- 4) Impairment losses included in Write-down of investment.

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**Operating segments**

| 2011   | Networks       | Global Services | Support Solutions | 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 | Support Solutions | 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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**Regions**

|  | Net sales      |                |                | Non-current assets <sup>3)</sup> |               |               |
|--|----------------|----------------|----------------|----------------------------------|---------------|---------------|
|  | 2012           | 2011           | 2010           | 2012                             | 2011          | 2010          |
| North America                                  | 56,749         | 48,785         | 49,473         | 15,058                           | 6,296         | 7,251         |
| <i>Of which the United States</i>              | 56,698         | 46,519         | 46,104         | 6,101                            | 6,020         | 6,977         |
| Latin America                                  | 22,006         | 21,982         | 17,882         | 2,084                            | 2,268         | 1,998         |
| Northern Europe & Central Asia <sup>1)2)</sup> | 11,345         | 15,225         | 12,171         | 38,335                           | 41,008        | 42,112        |
| Western & Central Europe <sup>2)</sup>         | 17,478         | 19,030         | 19,868         | 2,922                            | 5,097         | 8,629         |
| Mediterranean                                  | 23,299         | 23,807         | 22,628         | 1,099                            | 1,395         | 1,523         |
| Middle East                                    | 15,556         | 15,461         | 15,099         | 32                               | 42            | 84            |
| Sub-Saharan Africa                             | 11,349         | 10,163         | 9,194          | 119                              | 79            | 51            |
| India  | 6,460          | 9,762          | 8,626          | 460                              | 355           | 262           |
| North East Asia                                | 36,196         | 38,209         | 25,965         | 3,371                            | 3,939         | 3,795         |
| <i>Of which China</i>                          | 12,637         | 17,546         | 14,633         | 1,399                            | 1,496         | 1,013         |
| South East Asia & Oceania                      | 15,068         | 13,870         | 14,902         | 301                              | 318           | 351           |
| Other <sup>1)2)</sup>                          | 12,273         | 10,627         | 7,540          |                                  |               |               |
| <b>Total</b>                                   | <b>227,779</b> | <b>226,921</b> | <b>203,348</b> | <b>63,781</b>                    | <b>60,797</b> | <b>66,056</b> |
| <i>1) Of which Sweden</i>                      | <i>5,033</i>   | <i>3,882</i>   | <i>4,237</i>   | <i>37,718</i>                    | <i>40,415</i> | <i>41,683</i> |
| <i>2) Of which EU</i>                          | <i>44,230</i>  | <i>43,960</i>  | <i>43,707</i>  | <i>41,546</i>                    | <i>44,786</i> | <i>46,563</i> |

3) Total non-current assets excluding financial instruments, deferred tax assets, and post-employment benefit assets.

For employee information, see Note C28, Information regarding members of the Board of Directors, the Group management and employees .

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

|  | 2012           | 2011           | 2010           |
|--|----------------|----------------|----------------|
| Sales of products and network rollout services | 154,068        | 161,882        | 140,222        |
| Of which:                                      |                |                |                |
| <i>Delivery-type contracts</i>                 | <i>154,068</i> | <i>161,882</i> | <i>140,156</i> |
| <i>Construction-type contracts</i>             |                |                | 66             |
| Professional Services sales                    | 67,092         | 58,834         | 58,529         |
| License revenues                               | 6,619          | 6,205          | 4,597          |
| <b>Net sales</b>                               | <b>227,779</b> | <b>226,921</b> | <b>203,348</b> |
| Export sales from Sweden                       | 106,997        | 116,507        | 100,070        |

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**C5 EXPENSES BY NATURE****Expenses by nature**

|   | <b>2012</b>    | <b>2011</b> | <b>2010</b> |
|---|----------------|-------------|-------------|
| Goods and services  | <b>137,769</b> | 142,221     | 130,725     |
| Employee remuneration                                     | <b>64,100</b>  | 58,905      | 57,183      |
| Amortization and depreciation                             | <b>9,546</b>   | 8,964       | 8,962       |
| Impairments and obsolescence allowances, net of reversals | <b>1,999</b>   | 1,363       | 966         |
| Financial expenses  | <b>1,984</b>   | 2,661       | 1,719       |
| Taxes   | <b>4,244</b>   | 5,552       | 4,548       |
| <b>Expenses incurred</b>                                  | <b>219,642</b> | 219,666     | 204,103     |
| Inventory changes <sup>1)</sup>                           | <b>2,782</b>   | 3,417       | 8,465       |
| Additions to Capitalized development                      | <b>1,641</b>   | 1,515       | 1,647       |
| <b>Expenses charged to the Income Statement</b>           | <b>220,783</b> | 214,734     | 193,991     |

1) The inventory changes are based on changes of gross inventory values prior to obsolescence allowances. Total restructuring charges in 2012 were SEK 3.4 (3.2) b.

Restructuring charges are included in the expenses presented above.

**Restructuring charges by function**

|                                     | <b>2012</b>  | <b>2011</b> | <b>2010</b> |
|-------------------------------------|--------------|-------------|-------------|
| Cost of sales                       | <b>2,225</b> | 1,231       | 3,354       |
| R&D expenses                        | <b>852</b>   | 561         | 1,682       |
| Selling and administrative expenses | <b>370</b>   | 1,392       | 1,778       |
| <b>Total restructuring charges</b>  | <b>3,447</b> | 3,184       | 6,814       |

**C6 OTHER OPERATING INCOME AND EXPENSES****Other operating income and expenses**

|   | <b>2012</b>               | <b>2011</b> | <b>2010</b> |
|---|---------------------------|-------------|-------------|
| Gains on sales of intangible assets and PP&E  | <b>12</b>                 | 65          | 301         |
| Losses on sales of intangible assets and PP&E | <b>261</b>                | 64          | 422         |
| Gains on sales of investments and operations  | <b>8,462<sup>1)</sup></b> | 210         | 577         |
| Losses on sales of investments and operations | <b>126</b>                | 52          | 219         |

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|  |              |       |       |
|--|--------------|-------|-------|
| Capital gains/losses, net                        | <b>8,087</b> | 159   | 237   |
| Other operating revenues                         | <b>878</b>   | 1,119 | 1,766 |
| <b>Total other operating income and expenses</b> | <b>8,965</b> | 1,278 | 2,003 |

- 1) Includes a gain from the divestment of Sony Ericsson of SEK 7.7 billion.

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

|  | 2012                |                       | 2011                |                       | 2010                |                       |
|--|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
|  | Financial<br>income | Financial<br>expenses | Financial<br>income | Financial<br>expenses | Financial<br>income | Financial<br>expenses |
| Contractual interest on financial assets                                 | <b>1,685</b>        |                       | 1,940               |                       | 811                 |                       |
| <i>Of which on financial assets at fair value through profit or loss</i> | <b>1,308</b>        |                       | 1,381               |                       | 304                 |                       |
| Contractual interest on financial liabilities                            |                     | <b>1,734</b>          |                     | 1,706                 |                     | 1,315                 |
| Net gain/loss on:  |                     |                       |                     |                       |                     |                       |
| Instruments at fair value through profit or loss <sup>1)</sup>           | <b>142</b>          | <b>54</b>             | 1,062               | 591                   | 295                 | 206                   |
| <i>Of which included in fair value hedge relationships</i>               |                     | <b>129</b>            |                     | 175                   |                     | 151                   |
| Loans and receivables  | <b>127</b>          |                       | 132                 |                       | 68                  |                       |
| Liabilities at amortized cost  |                     | <b>133</b>            |                     | 105                   |                     | 4                     |
| Other financial income and expenses                                      | <b>8</b>            | <b>171</b>            | 12                  | 259                   | 9                   | 194                   |
| <b>Total</b>   | <b>1,708</b>        | <b>1,984</b>          | 2,882               | 2,661                 | 1,047               | 1,719                 |

1) Excluding net gain from operating assets and liabilities, SEK 1,299 million (net gain of SEK 51 million in 2011, SEK 1,528 million in 2010), reported as Cost of sales.

**C8 TAXES**

The Company's tax expense for 2012 was SEK 4,244 ( 5,552) million or 41.7% (30.6%) of income after financial items. The tax rate may vary between years depending on business and geographical mix. The effective tax rate excluding joint ventures and associated companies as well as the gain due to the divestment of Sony Ericsson was 30.5% (26.4%). The corporate tax in Sweden was reduced from 26.3% to 22.0% from January 1, 2013. This resulted in a reduction of deferred tax assets and an increase of tax expense of SEK 0.5 billion.

**Income taxes recognized in the income statement**

|   | 2012         | 2011  | 2010  |
|---|--------------|-------|-------|
| Current income taxes for the year                         | <b>5,795</b> | 4,642 | 4,635 |
| Current income taxes related to prior years               | <b>241</b>   | 283   | 35    |
| Deferred tax income/expense (+/ )                         | <b>1,697</b> | 1,433 | 307   |
| <i>Sub total</i>  | <b>4,339</b> | 5,792 | 4,363 |
| Share of taxes in joint ventures and associated companies | <b>95</b>    | 240   | 185   |
| <b>Tax expense</b>  | <b>4,244</b> | 5,552 | 4,548 |

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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**

|   | 2012         | 2011         | 2010         |
|---|--------------|--------------|--------------|
| Expected tax expense at Swedish tax rate 26.3%          | 2,678        | 4,767        | 4,150        |
| Effect of foreign tax rates                             | 581          | 1,126        | 405          |
| <i>Of which joint ventures and associated companies</i> | 778          | 754          | 467          |
| Current income taxes related to prior years             | 241          | 283          | 35           |
| Remeasurement of tax loss carry-forwards                | 134          | 224          | 257          |
| Remeasurement of deductible temporary differences       | 468          | 81           | 172          |
| Tax effect of non-deductible expenses                   | 3,430        | 768          | 830          |
| Tax effect of non-taxable income                        | 2,573        | 521          | 880          |
| Tax effect of changes in tax rates                      | 489          |              | 77           |
| <b>Tax expense</b>                                      | <b>4,244</b> | <b>5,552</b> | <b>4,548</b> |
| <i>Effective tax rate</i>                               | <i>41.7%</i> | <i>30.6%</i> | <i>28.8%</i> |

**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<br>tax assets | 2012<br>Deferred<br>tax liabilities | Net balance  | Deferred<br>tax assets | 2011<br>Deferred<br>tax liabilities | Net balance   |
|---|------------------------|-------------------------------------|--------------|------------------------|-------------------------------------|---------------|
| Intangible assets and property, plant and equipment | 941                    | 4,579                               |              | 968                    | 2,941                               |               |
| Current assets                                      | 2,388                  | 293                                 |              | 3,193                  | 100                                 |               |
| Post-employment benefits                            | 2,600                  | 614                                 |              | 2,233                  | 618                                 |               |
| Provisions  | 1,512                  | 48                                  |              | 1,441                  | 23                                  |               |
| Other   | 3,487                  | 432                                 |              | 3,423                  | 64                                  |               |
| Loss carry-forwards                                 | 4,239                  |                                     |              | 3,258                  |                                     |               |
| Deferred tax assets/liabilities                     | 15,167                 | 5,966                               | 9,201        | 14,516                 | 3,746                               | 10,770        |
| Netting of assets/liabilities                       | 2,846                  | 2,846                               |              | 1,496                  | 1,496                               |               |
| <b>Deferred tax balances, net</b>                   | <b>12,321</b>          | <b>3,120</b>                        | <b>9,201</b> | <b>13,020</b>          | <b>2,250</b>                        | <b>10,770</b> |

**Changes in deferred taxes, net**

|                          | 2012   | 2011   |
|--------------------------|--------|--------|
| Opening balance, net     | 10,770 | 10,166 |
| Recognized in net income | 1,697  | 1,433  |

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|  |              |               |
|--|--------------|---------------|
| Recognized in Other comprehensive income | 422          | 2,158         |
| Acquisitions/disposals of subsidiaries   | 2,309        | 53            |
| Currency translation differences         | 535          | 174           |
| <b>Closing balance, net</b>              | <b>9,201</b> | <b>10,770</b> |

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Tax effects reported directly in Other comprehensive income amount to SEK 422 (2,158) million, of which actuarial gains and losses related to pensions SEK 57 (1,809) million, cash flow hedges SEK 363 (350) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK 2 ( 1) million.

Deferred tax assets are only recognized in countries where the Company expects to be able to generate corresponding taxable income in the future to benefit from tax reductions.

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly Sweden and Germany. Of the total SEK 4,239 million recognized deferred tax assets related to tax loss carry-forwards, SEK 2,840 million relates to Sweden with indefinite periods of utilization. Due to the Company's strong current financial position and taxable income during 2012, Ericsson has been able to utilize part of its tax loss carry-forwards during the year. The assessment is that Ericsson will be able to generate sufficient income in the coming years to also utilize the remaining part of the recognized amounts.

Deferred tax assets for ST-Ericsson are not included, as they are recognized in accordance with the equity method.

**Tax loss carry-forwards**

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilized, as described below.

As of December 31, 2012, the recognized tax loss carry-forwards amounted to SEK 17,081 (12,657) million. The tax value of these tax loss carry-forwards is reported as an asset.

The final years in which the recognized loss carry-forwards can be utilized are shown in the following table.

**Tax loss carry-forwards year of expiration**

| <b>Year of expiration</b> | <b>Tax loss carry-forwards</b> | <b>Tax value</b> |
|---------------------------|--------------------------------|------------------|
| 2013                      | 19                             | 5                |
| 2014                      | 8                              | 2                |
| 2015                      | 43                             | 13               |
| 2016                      | 54                             | 16               |
| 2017                      | 327                            | 78               |
| 2018 or later             | 16,630                         | 4,125            |
| <b>Total</b>              | <b>17,081</b>                  | <b>4,239</b>     |

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

In addition to the table above there are loss carry-forwards of SEK 4,737 million at a tax value of SEK 1,432 million that have not been recognized due to judgments of the possibility to be used against future taxable profits in the respective jurisdictions. The majority of these loss carry-forwards have an expiration date in excess of five years.



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**C9 EARNINGS PER SHARE****Earnings per share 2010 2012**

|   | 2012        | 2011   | 2010   |
|---|-------------|--------|--------|
| <b>Basic</b>  |             |        |        |
| Net income attributable to stockholders of the Parent Company (SEK million) | 5,775       | 12,194 | 11,146 |
| Average number of shares outstanding, basic (millions)                      | 3,216       | 3,206  | 3,197  |
| <b>Earnings per share, basic (SEK)</b>                                      | <b>1.80</b> | 3.80   | 3.49   |
| <b>Diluted</b>  |             |        |        |
| Net income attributable to stockholders of the Parent Company (SEK million) | 5,775       | 12,194 | 11,146 |
| Average number of shares outstanding, basic (millions)                      | 3,216       | 3,206  | 3,197  |
| Dilutive effect for stock purchase plans                                    | 31          | 27     | 29     |
| Average number of shares outstanding, diluted (millions)                    | 3,247       | 3,233  | 3,226  |
| <b>Earnings per share, diluted (SEK)</b>                                    | <b>1.78</b> | 3.77   | 3.46   |

**C10 INTANGIBLE ASSETS****Intangible assets 2012**

|  | Capitalized development expenses<br>For internal use |                   |                   |               | Goodwill<br>Total | Intellectual property rights (IPR),<br>trademarks and other<br>intangible assets |                                   |               |
|--|--|-------------------|-------------------|---------------|-------------------|--|-----------------------------------|---------------|
|  | To be<br>marketed                                    | Acquired<br>costs | Internal<br>costs | Total         |                   | Trademarks,<br>customer<br>relationships<br>and<br>similar<br>rights             | Patents<br>and<br>acquired<br>R&D | Total         |
| <b>Cost</b>  |  |                   |                   |               |                   |  |                                   |               |
| Opening balance                                      | 8,125  | 2,213             | 1,478             | 11,816        | 27,455            | 14,188   | 25,689                            | 39,877        |
| Acquisitions/capitalization                          | 1,641  |                   |                   | 1,641         |                   | 538  | 103                               | 641           |
| Balances regarding acquired businesses <sup>1)</sup> |  |                   |                   |               | 4,293             | 4,517  | 2,155                             | 6,672         |
| Sales/disposals                                      |  |                   |                   |               | 20                | 158  | 137                               | 295           |
| Reclassification                                     |  |                   |                   |               | 94                |  | 94                                | 94            |
| Translation difference                               |  |                   |                   |               | 1,400             | 490  | 300                               | 790           |
| <b>Closing balance</b>                               | <b>9,766</b>   | <b>2,213</b>      | <b>1,478</b>      | <b>13,457</b> | <b>30,422</b>     | <b>18,595</b>  | <b>27,416</b>                     | <b>46,011</b> |
| <b>Accumulated amortization</b>                      |  |                   |                   |               |                   |  |                                   |               |
| Opening balance                                      | 3,187  | 1,975             | 1,318             | 6,480         | 1                 | 5,502  | 16,078                            | 21,580        |
| Amortization   | 840  | 131               | 87                | 1,058         |                   | 2,023  | 2,413                             | 4,436         |
| Sales/disposals                                      |  |                   |                   |               | 1                 | 46   | 124                               | 170           |
| Translation difference                               |  |                   |                   |               |                   | 202  | 166                               | 368           |
| <b>Closing balance</b>                               | <b>4,027</b>   | <b>2,106</b>      | <b>1,405</b>      | <b>7,538</b>  |                   | <b>7,277</b>   | <b>18,201</b>                     | <b>25,478</b> |

| <b>Accumulated impairment losses</b> |              |           |           |              |               |               |              |               |
|--------------------------------------|--------------|-----------|-----------|--------------|---------------|---------------|--------------|---------------|
| Opening balance                      | 1,721        | 55        | 37        | <b>1,813</b> | <b>18</b>     |               | 5,214        | <b>5,214</b>  |
| Impairment losses                    | 266          |           |           | <b>266</b>   |               |               | 117          | <b>117</b>    |
| <b>Closing balance</b>               | <b>1,987</b> | <b>55</b> | <b>37</b> | <b>2,079</b> | <b>18</b>     |               | <b>5,331</b> | <b>5,331</b>  |
| <b>Net carrying value</b>            | <b>3,752</b> | <b>52</b> | <b>36</b> | <b>3,840</b> | <b>30,404</b> | <b>11,318</b> | <b>3,884</b> | <b>15,202</b> |

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

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**Intangible assets 2011**

|  | Capitalized development expenses<br>For internal use |                   |                   |               | Goodwill<br>Total | Intellectual property rights (IPR),<br>trademarks and other intangible<br>assets |                                   |               |
|--|--|-------------------|-------------------|---------------|-------------------|--|-----------------------------------|---------------|
|  | To be<br>marketed                                    | Acquired<br>costs | Internal<br>costs | Total         |                   | Trademarks,<br>customer<br>relationships<br>and<br>similar<br>rights             | Patents<br>and<br>acquired<br>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 |  |                   |                   |               | 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> |

The goodwill is allocated to the operating segments Networks SEK 16.2 (16.7) billion, Global Services SEK 4.2 (4.1) billion and Support Solutions SEK 10.0 (6.6) billion.

The recoverable amounts for cash-generating units are established as the present value of expected future cash flows. Estimation of future cash flows includes assumptions mainly for the following key financial parameters:

Sales growth

Development of operating income (based on operating margin or cost of goods sold and operating expenses relative to sales)

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Development of working capital and capital expenditure requirements.

The assumptions regarding industry specific market drivers and market growth are approved by group management and each operating segment's management. These assumptions are based on industry sources as input to the projections made within the Company for the development 2012-2017 for key industry parameters:

The number of global mobile subscriptions is estimated to grow from around 6.3 billion by the end of 2012 to around 9 billion by the end of 2017. Of these, around 5-6 billion will be mobile broadband subscriptions. Around three-quarters of a billion of these mobile broadband subscriptions will use mobile PC/tablets/mobile routers, but the vast majority will still use mobile phones to access the internet.

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Fixed broadband subscriptions are estimated to grow from around 600 million by the end of 2012 to around 750 million in 2017. Fixed broadband includes Fiber, Cable and xDSL.

Mobile data traffic volume is estimated to increase around 9 times 2012–2017, while the fixed Internet traffic is estimated to increase around 4 times 2012–2017, however from a much larger base.

The growth in network equipment is mainly driven by a shift in investments from voice to data. The end user requirements for 4G coverage drives deployment of heterogeneous networks and small cells.

The demand for support solutions is driven by the opportunities for new types of service offerings enabled by IP technology and high-speed broadband. There is strong IPTV subscriber growth, rapid growth in digital viewing and on-demand services. The development and build out of Mobile Broadband networks and increasing number of mobile broadband subscriptions drives growth in service introduction and traffic. This puts high demand on plan to provision, implementation and systems integration services as well as real time payment systems. The Business Support Systems growth is driven by introduction of new services, new business models and price plans.

The demand for professional services is also driven by an increasing business and technology complexity. Therefore, operators review their business models and look for vendor partners that can take on a broader responsibility, including outsourcing of network operations.

The assumptions are also based upon information gathered in the Company's long-term strategy process, including assessments of new technology, the Company's competitive position and new types of business and customers, driven by the continued integration of telecom, data and media industries.

The impairment testing is based on specific estimates for the first five years and with a reduction of nominal annual growth rate to an average GDP growth of 3% (3%) per year thereafter. The impairment tests for goodwill did not result in any impairment.

A number of sensitivity tests have been made, for example applying lower levels of revenue and operating income. Also when applying these estimates no goodwill impairment is indicated.

An after-tax discount rate of 8% (8%) has been applied for all cash generating units for the discounting of projected after-tax cash flows. The assumptions for 2011 are disclosed in Note C10, Intangible assets in the Annual Report of 2011.

The Company's discounting is based on after-tax future cash flows and after-tax discount rates. This discounting is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

In Note C1, Significant accounting policies, and Note C2, Critical accounting estimates and judgments, further disclosures are given regarding goodwill impairment testing.

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**C11 PROPERTY, PLANT AND EQUIPMENT****Property, plant and equipment 2012**

|   | <b>Real estate</b> | <b>Machinery and other technical assets</b> | <b>Other equipment, tools and installations</b> | <b>Construction in progress and advance payments</b> | <b>Total</b>  |
|---|--------------------|---|---|--|---------------|
| <b>Cost</b>                                     |                    |   |   |  |               |
| Opening balance                                 | 4,641              | 5,235                                       | 20,663  | 1,302  | <b>31,841</b> |
| Additions                                       | 640                | 370   | 2,521   | 1,898  | <b>5,429</b>  |
| Balances regarding divested/acquired businesses | 2                  | 46  | 432   |  | <b>480</b>    |
| Sales/disposals                                 | 476                | 373   | 1,296   | 242  | <b>2,387</b>  |
| Reclassifications                               | 381                | 380   | 1,458   | 1,459  |               |
| Translation difference                          | 203                | 152   | 745   | 48   | <b>1,148</b>  |
| <b>Closing balance</b>                          | <b>4,985</b>       | <b>4,746</b>                                | <b>23,033</b>                                   | <b>1,451</b>   | <b>34,215</b> |
| <b>Accumulated depreciation</b>                 |                    |   |   |  |               |
| Opening balance                                 | 2,165              | 3,485                                       | 15,094  |  | <b>20,744</b> |
| Depreciation                                    | 354                | 428   | 3,270   |  | <b>4,052</b>  |
| Balances regarding divested businesses          |                    |   | 3   |  | <b>3</b>      |
| Sales/disposals                                 | 68                 | 347   | 1,228   |  | <b>1,643</b>  |
| Reclassifications                               | 7                  | 13  | 6   |  |               |
| Translation difference                          | 89                 | 90  | 504   |  | <b>683</b>    |
| <b>Closing balance</b>                          | <b>2,355</b>       | <b>3,489</b>                                | <b>16,623</b>                                   |  | <b>22,467</b> |
| <b>Accumulated impairment losses</b>            |                    |   |   |  |               |
| Opening balance                                 | 43                 | 148   | 118   |  | <b>309</b>    |
| Impairment losses                               | 4                  | 8   |   |  | <b>12</b>     |
| Reversals of impairment losses                  |                    | 22  | 30  |  | <b>52</b>     |
| Sales/disposals                                 |                    | 6   |   |  | <b>6</b>      |
| Translation difference                          | 2                  | 4   | 2   |  | <b>8</b>      |
| <b>Closing balance</b>                          | <b>45</b>          | <b>124</b>                                  | <b>86</b>                                       |  | <b>255</b>    |
| <b>Net carrying value</b>                       | <b>2,585</b>       | <b>1,133</b>                                | <b>6,324</b>                                    | <b>1,451</b>   | <b>11,493</b> |

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2012, amounted to SEK 184 (226) million.

The reversal of impairment losses have been reported under Cost of sales.

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**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> |

**C12 FINANCIAL ASSETS, NON-CURRENT****Equity in joint ventures and associated companies**

|  | Joint ventures |       | Associated companies |       | Total | Total |
|--|----------------|-------|----------------------|-------|-------|-------|
|  | 2012           | 2011  | 2012                 | 2011  | 2012  | 2011  |
| Opening balance  | 4,663          | 8,648 | 1,302                | 1,155 | 5,965 | 9,803 |
| Share in earnings  | 8,399          | 3,929 | 3                    | 151   | 8,396 | 3,778 |
| Contributions to joint ventures and associated companies | 5,029          |       |                      | 109   | 5,029 | 109   |
| Taxes  | 106            | 241   | 11                   | 1     | 95    | 240   |

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|                         |              |                     |                           |                     |              |       |
|-------------------------|--------------|---------------------|---------------------------|---------------------|--------------|-------|
| Translation difference  | <b>111</b>   | 126                 | <b>42</b>                 | 66                  | <b>69</b>    | 60    |
| Change in hedge reserve | <b>65</b>    | 4                   |                           |                     | <b>65</b>    | 4     |
| Pensions                |              | 175                 |                           |                     |              | 175   |
| Dividends               |              |                     | <b>133</b>                | 177                 | <b>133</b>   | 177   |
| Divestments             | <b>1,353</b> |                     |                           |                     | <b>1,353</b> |       |
| Reclassification        |              |                     | <b>1,639<sup>2)</sup></b> | 1                   | <b>1,639</b> | 1     |
| <b>Closing balance</b>  |              | 4,663 <sup>1)</sup> | <b>2,842<sup>3)</sup></b> | 1,302 <sup>3)</sup> | <b>2,842</b> | 5,965 |



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- 1) Including goodwill for ST-Ericsson of SEK 1.3 billion.
- 2) Reclassification from Other investments in shares and participations.
- 3) Goodwill, net, amounts to SEK 12.2 (13.5) million.

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

|                              | 2012       | 2011 | 2010 |
|------------------------------|------------|------|------|
| Non-current assets           | 84         | 113  | 92   |
| Current assets               | 588        | 574  | 749  |
| Non-current liabilities      |            | 1    | 2    |
| Current liabilities          | 262        | 197  | 209  |
| <b>Net assets</b>            | <b>410</b> | 489  | 630  |
| Net sales                    | 1,085      | 693  | 784  |
| Income after financial items | 80         | 13   | 17   |
| Income taxes                 | 8          | 3    | 1    |
| <b>Net income</b>            | <b>72</b>  | 16   | 16   |
| Assets pledged as collateral | 4          | 4    | 4    |
| Contingent liabilities       | 17         | 80   | 43   |

- 1) The Company's share is 49.07%.

**Ericsson's Share of assets, liabilities and income in associated company Rockstar Consortium**

|                              | 2012         |
|------------------------------|--------------|
| Total assets                 | 1,561        |
| Total liabilities            | 6            |
| <b>Net assets</b>            | <b>1,555</b> |
| Net sales                    |              |
| Income after financial items | 80           |
| Income taxes                 |              |
| <b>Net income</b>            | <b>80</b>    |
| Assets pledged as collateral |              |
| Contingent liabilities       |              |

- 1) The Company's share is 21.26%.
- All companies apply IFRS in the reporting to the Company as issued by IASB.

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On December 10, 2012, STMicroelectronics announced its intention to exit the joint venture ST-Ericsson. On December 20, 2012 the Company announced its decision not to acquire the full majority. This, together with other factors such as no change in governance rights, no change in funding responsibilities etc, means that the Company continues to not be in control of ST-Ericsson.

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Due to the status of ST-Ericsson, the Company has made a non-cash charge related to its 50% stake in ST-Ericsson. For further information, see Note C3, Segment information and Note C18, Provisions. The charge includes a write-down of investments of SEK 4.7 billion. The Company's share in ST-Ericsson's operating loss amounted to SEK 3.7 ( 0.8) billion.

**Ericsson's share of assets, liabilities and income in joint venture ST-Ericsson**

|                              | 2012         | 2011         | 2010         |
|------------------------------|--------------|--------------|--------------|
| Non-current assets           | 1,097        | 6,855        | 6,673        |
| Current assets               | 1,006        | 1,514        | 2,249        |
| Non-current liabilities      | 370          | 397          | 214          |
| Current liabilities          | 1,339        | 4,695        | 2,519        |
| <b>Net assets</b>            | <b>394</b>   | <b>3,277</b> | <b>6,189</b> |
| Net sales                    | 4,545        | 5,346        | 8,260        |
| Income after financial items | 2,503        | 2,730        | 1,762        |
| Income taxes                 | 400          | 156          | 50           |
| <b>Net income</b>            | <b>2,903</b> | <b>2,574</b> | <b>1,712</b> |
| Assets pledged as collateral |              | 3            | 3            |
| Contingent liabilities       |              |              |              |

The table above consists of amounts considered by the Company when applying the equity method in relation to ST-Ericsson.

**Ericsson's Share of assets, liabilities and income in joint venture Sony Ericsson Mobile Communications AB**

|                              | 2012 | 2011         | 2010         |
|------------------------------|------|--------------|--------------|
| Non-current assets           |      | 5,040        | 3,622        |
| Current assets               |      | 8,745        | 9,904        |
| Non-current liabilities      |      | 285          | 592          |
| Current liabilities          |      | 12,172       | 10,533       |
| <b>Net assets</b>            |      | <b>1,328</b> | <b>2,401</b> |
| Net sales                    |      | 23,496       | 30,089       |
| Income after financial items |      | 1,095        | 705          |
| Income taxes                 |      | 85           | 231          |
| <b>Net income</b>            |      | <b>1,010</b> | <b>474</b>   |
| Assets pledged as collateral |      | 1            |              |
| Contingent liabilities       |      | 37           | 16           |

The Company has divested its 50% stake in Sony Ericsson Mobile Communications to Sony. The divestment was effective on January 1, 2012.



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**Other financial assets, non-current**

|   | Other investments<br>in shares and<br>participations |              | Customer<br>finance,<br>non-current |              | Derivatives,<br>non-current |            | Other<br>financial assets,<br>non-current |              |
|---|--|--------------|-------------------------------------|--------------|-----------------------------|------------|---|--------------|
|   | 2012   | 2011         | 2012                                | 2011         | 2012                        | 2011       | 2012                                      | 2011         |
| <b>Cost</b>   |  |              |                                     |              |                             |            |   |              |
| Opening balance                                       | 3,576  | 1,607        | 1,661                               | 1,474        | 816                         |            | 4,633                                     | 4,382        |
| Additions   | 45   | 1,930        | 5,249                               | 1,875        |                             |            | 313                                       | 422          |
| Disposals/repayments/deductions                       | 63   | 68           | 5,331                               | 1,699        |                             |            | 136                                       | 97           |
| Change in value in funded pension plans <sup>1)</sup> |  |              |                                     |              |                             |            | 776                                       | 42           |
| Reclassifications                                     | 1,639  |              |                                     |              |                             |            | 1,018                                     |              |
| Revaluation   |  |              |                                     |              | 9                           | 816        |   |              |
| Translation difference                                | 161  | 107          | 41                                  | 11           |                             |            | 154                                       | 116          |
| <b>Closing balance</b>                                | <b>1,758</b>   | <b>3,576</b> | <b>1,538</b>                        | <b>1,661</b> | <b>825</b>                  | <b>816</b> | <b>4,414</b>                              | <b>4,633</b> |
| <b>Accumulated impairment losses/allowances</b>       |  |              |                                     |              |                             |            |   |              |
| Opening balance                                       | 1,377  | 1,388        | 261                                 | 193          |                             |            | 1,332                                     | 1,303        |
| Impairment losses/allowance                           | 51   | 54           | 26                                  | 91           |                             |            | 14  | 47           |
| Disposals/repayments/deductions                       |  | 63           | 35                                  | 19           |                             |            |   |              |
| Reclassifications                                     |  |              |                                     |              |                             |            | 26 <sup>3)</sup>                          |              |
| Translation difference                                | 56   | 2            | 4                                   | 4            |                             |            | 45  | 18           |
| <b>Closing balance</b>                                | <b>1,372</b>   | <b>1,377</b> | <b>248</b>                          | <b>261</b>   |                             |            | <b>1,275</b>                              | <b>1,332</b> |
| <b>Net carrying value</b>                             | <b>386</b>   | <b>2,199</b> | <b>1,290</b>                        | <b>1,400</b> | <b>825</b>                  | <b>816</b> | <b>3,139</b>                              | <b>3,301</b> |

1) This amount includes asset ceiling. For further information, see Note C17, Post-employment benefits .

2) Reclassification to Equity in associated companies.

3) Reclassification to Short-term investments.

**C13 INVENTORIES****Inventories**

|   | 2012          | 2011          |
|---|---------------|---------------|
| Raw materials, components, consumables and manufacturing work in progress | 7,351         | 8,772         |
| Finished products and goods for resale                                    | 10,981        | 13,525        |
| Contract work in progress   | 10,470        | 10,773        |
| <b>Inventories, net</b>   | <b>28,802</b> | <b>33,070</b> |

Contract work in progress includes amounts related to delivery-type contracts and service contracts with ongoing work in progress.

Reported amounts are net of obsolescence allowances of SEK 3,473 (3,343) million.



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**Movements in obsolescence allowances**

|   | 2012         | 2011         | 2010         |
|---|--------------|--------------|--------------|
| Opening balance                                 | 3,343        | 3,090        | 2,961        |
| Additions, net                                  | 1,403        | 918          | 250          |
| Utilization                                     | 1,140        | 683          | 165          |
| Translation difference                          | 133          | 18           | 46           |
| Balances regarding acquired/divested businesses |              |              | 90           |
| <b>Closing balance</b>                          | <b>3,473</b> | <b>3,343</b> | <b>3,090</b> |

The amount of inventories recognized as expense and included in Cost of sales was SEK 56,842 (60,544) million.

**C14 TRADE RECEIVABLES AND CUSTOMER FINANCE****Trade receivables and customer finance**

|  | 2012          | 2011          |
|--|---------------|---------------|
| Trade receivables excluding associated companies and joint ventures  | 64,015        | 64,740        |
| Allowances for impairment  | 655           | 567           |
| Trade receivables, net   | 63,360        | 64,173        |
| Trade receivables related to associated companies and joint ventures | 300           | 349           |
| <b>Trade receivables, total</b>                                      | <b>63,660</b> | <b>64,522</b> |
| Customer finance credits   | 5,731         | 4,671         |
| Allowances for impairment  | 422           | 426           |
| <b>Customer finance credits, net</b>                                 | <b>5,309</b>  | <b>4,245</b>  |
| <i>Of which current</i>  | <i>4,019</i>  | <i>2,845</i>  |
| Credit commitments for customer finance                              | 5,933         | 8,569         |

Days sales outstanding (DSO) were 86 (91) in December 2012.

**Movements in allowances for impairment**

|                            | Trade receivables |      |      | Customer finance |      |      |
|----------------------------|-------------------|------|------|------------------|------|------|
|                            | 2012              | 2011 | 2010 | 2012             | 2011 | 2010 |
| Opening balance            | 567               | 766  | 924  | 426              | 321  | 772  |
| Additions                  | 229               | 198  | 282  | 101              | 162  | 25   |
| Utilized                   | 116               | 266  | 285  | 9                | 31   | 87   |
| Reversal of excess amounts | 30                | 43   | 169  | 112              | 27   | 359  |

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|                        |            |     |     |            |     |     |
|------------------------|------------|-----|-----|------------|-----|-----|
| Reclassification       | <b>21</b>  | 69  | 33  |            |     |     |
| Translation difference | <b>16</b>  | 19  | 19  | <b>16</b>  | 1   | 30  |
| <b>Closing balance</b> | <b>655</b> | 567 | 766 | <b>422</b> | 426 | 321 |



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**Aging analysis as per December 31**

|  | Total  | Of which<br>neither<br>impaired<br>nor past due | Of which<br>impaired,<br>not past due | Of which past<br>due in<br>the following time<br>intervals: |                    | Of which past due and<br>impaired in the following<br>time intervals: |                    |
|--|--------|---|---------------------------------------|---|--------------------|---|--------------------|
|  |        |   |                                       | less than<br>90<br>days                                     | 90 days<br>or more | less than<br>90<br>days   | 90 days or<br>more |
| <b>2012</b>  |        |   |                                       |   |                    |   |                    |
| Trade receivables excluding associated<br>companies and joint ventures | 64,015 | 57,526  | 25                                    | 2,459   | 1,431              | 779   | 1,795              |
| Allowances for impairment  | 655    |   | 15                                    |   |                    | 70  | 570                |
| Customer finance credits   | 5,731  | 4,549   | 845                                   | 21  | 15                 | 70  | 231                |
| Allowances for impairment  | 422    |   | 146                                   |   |                    | 45  | 231                |
| <b>2011</b>  |        |   |                                       |   |                    |   |                    |
| Trade receivables excluding associated<br>companies and joint ventures | 64,740 | 56,480  | 184                                   | 4,126   | 1,072              | 850   | 2,028              |
| Allowances for impairment  | 567    |   | 16                                    |   |                    | 50  | 501                |
| Customer finance credits   | 4,671  | 3,369   | 763                                   | 238   | 45                 | 41  | 215                |
| Allowances for impairment  | 426    |   | 176                                   |   |                    | 35  | 215                |

**Credit risk**

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk, see Note C20, Financial risk management and financial instruments .

**Credit risk in trade receivables**

Credit risk in trade receivables is governed by a policy applicable for all legal entities in the Company. The purpose of the policy is to:

Avoid credit losses through establishing internal standard credit approval routines in all the Company's legal entities

Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers

Ensure efficient credit management within the Company and thereby improve Days sales outstanding and Cash flow

Ensure payment terms are commercially justifiable

Define escalation path and approval process for payment terms and customer credit limits.

The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to the Company are mitigated.

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Trade receivables amounted to SEK 64,015 (64,740) million as of December 31, 2012. Provisions for expected losses are regularly assessed and amounted to SEK 655 (567) million as of December 31, 2012. The Company's nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of the Company's sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represented 27% (30%) of the total trade receivables in 2012.

**Customer finance credit risk**

All major commitments to finance customers are made only after the approval by the Finance Committee of the Board of Directors according to the established credit approval process.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating of each transaction (for political and commercial risk). The credit risk analysis is made by using an assessment tool, where the political risk rating is identical to the rating used by all Export credit agencies within the OECD. The commercial risk is assessed by analyzing a large number of parameters, which may affect the level of the future commercial credit risk exposure. The output from the assessment tool for the credit rating also include an internal pricing of the risk. This is expressed as a risk margin per annum over funding cost. The reference pricing for political and commercial risk, on which the tool is based, is reviewed using information from Export credit agencies and prevailing pricing in the bank loan market for structured financed deals. The objective is that the internally set risk margin shall reflect the assessed risk and that the pricing is as close as possible to the current market pricing. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

Risk provisions related to customer finance risk exposures are only made upon events which occur after the financing arrangement has become effective and which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. a borrower's deteriorated creditworthiness.

As of December 31, 2012, the Company's total outstanding exposure related to customer finance was SEK 5,731 (4,671) million. As of December 31, 2012, the Company also had unutilized customer finance commitments of SEK 5,933 (8,569) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2012, there were a total of 78 (80) customer finance arrangements originated by or guaranteed by the Company. The five largest facilities represented 57% (41%) of the total credit exposure in 2012.

**Total outstanding customer finance exposure per region as of December 31**

| <b>Percent</b>                 | <b>2012</b> | <b>2011</b> |
|--------------------------------|-------------|-------------|
| North America                  | 26          | 1           |
| Latin America                  | 4           | 4           |
| Northern Europe & Central Asia | 8           | 8           |
| Western & Central Europe       | 1           | 1           |
| Mediterranean                  | 9           | 11          |
| Middle East                    | 17          | 24          |
| Sub-Saharan Africa             | 19          | 29          |
| India                          | 9           | 14          |
| North East Asia                | 7           | 7           |
| South East Asia and Oceania    |             | 1           |
| Other                          |             |             |
| <b>Total</b>                   | <b>100</b>  | <b>100</b>  |

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The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net negative impact of SEK 33 million in 2012 compared to a negative impact of SEK 114 million in 2011. Credit losses amounted to SEK 16 (62) million in 2012.

Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests. If available, third-party risk coverage is as a rule arranged. Third-party risk coverage means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk transfer under a sub participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover. A credit risk cover from a third party may also be issued by an insurance company. During 2012, the Company did not take possession of any collateral it holds as security or called on any other credit enhancement.

Information about guarantees related to customer finance is included in Note C24, Contingent liabilities, and information about leasing is included in Note C27, Leasing.

The table below summarizes the Company's outstanding customer finance as of December 31, 2012 and 2011.

**Outstanding customer finance**

|                                | 2012  | 2011  |
|--------------------------------|-------|-------|
| Total customer finance         | 5,731 | 4,671 |
| Accrued interest               | 96    | 68    |
| Less third-party risk coverage | 187   | 480   |
| Ericsson's risk exposure       | 5,640 | 4,259 |

**Transfers of financial assets**

In previous years, the Company disclosed information in this note about assets transferred where the Company continues to recognize a part of such assets. As required by IFRS, as from fiscal year 2012 this information is disclosed in a separate note, see Note C32, Transfers of financial assets.

**C15 OTHER CURRENT RECEIVABLES****Other current receivables**

|   | 2012          | 2011          |
|---|---------------|---------------|
| Prepaid expenses                                | 2,623         | 2,056         |
| Accrued revenues                                | 2,305         | 2,486         |
| Advance payments to suppliers                   | 1,060         | 1,697         |
| Derivatives with a positive value <sup>1)</sup> | 3,068         | 2,003         |
| Taxes   | 7,727         | 5,633         |
| Other   | 3,282         | 3,962         |
| <b>Total</b>                                    | <b>20,065</b> | <b>17,837</b> |

- 1) See also Note C20, Financial risk management and financial instruments .

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**C16 EQUITY AND OTHER COMPREHENSIVE INCOME****Capital stock 2012**

Capital stock at December 31, 2012, consisted of the following:

**Capital stock**

|                       | Number of shares     | Capital stock<br>(SEK million) |
|-----------------------|----------------------|--------------------------------|
| <b>Parent Company</b> |                      |                                |
| Class A shares        | 261,755,983          | 1,309                          |
| Class B shares        | 3,043,295,752        | 15,217                         |
| <b>Total</b>          | <b>3,305,051,735</b> | <b>16,526</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, 2012, the total number of treasury shares was 84,798,095 (62,846,503 in 2011 and 73,088,516 in 2010) Class B shares. Ericsson repurchased 31.7 million shares in 2012 in relation to the Long-Term Variable Remuneration Program.

**Reconciliation of number of shares**

|                               | Number of shares | Capital stock<br>(SEK million) |
|-------------------------------|------------------|--------------------------------|
| Number of shares Jan 1, 2012  | 3,273,351,735    | 16,367                         |
| Number of shares Dec 31, 2012 | 3,305,051,735    | 16,526                         |

For further information about number of shares, see chapter Share Information.

**Dividend proposal**

The Board of Directors will propose to the Annual General Meeting 2013 a dividend of SEK 2.75 per share (SEK 2.50 in 2012 and SEK 2.25 in 2011).

**Additional paid in capital**

Relates to payments made by owners and includes share premiums paid.

**Retained earnings**

Retained earnings, including net income for the year, comprise the earned profits of the Parent Company and its share of net income in subsidiaries, joint ventures and associated companies. Retained earnings also include:

**Remeasurements related to post-employment benefits**

Actuarial gains and losses resulting from experience-based events and changes in actuarial assumptions, fluctuations of the effect of the asset ceiling, and adjustments related to the Swedish special payroll taxes.

**Revaluation of other investments in shares and participations**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

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**Cash flow hedges**

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

**Cumulative translation adjustments**

The cumulative translation adjustments comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and changes regarding revaluation of excess value in local currency as well as from the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

**Equity and Other comprehensive income 2012**

|  | Capital<br>stock | Additional<br>paid in<br>capital | Retained<br>earnings | Stock-<br>holders<br>equity | Non-<br>controlling<br>interest<br>(NCI) | Total<br>equity |
|--|------------------|----------------------------------|----------------------|-----------------------------|--|-----------------|
| <b>2012</b>  |                  |                                  |                      |                             |  |                 |
| <b>January 1, 2012</b>   | 16,367           | 24,731                           | 102,007              | <b>143,105</b>              | 2,165                                    | <b>145,270</b>  |
| <b>Net income</b>  |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 17,411               | <b>17,411</b>               | 163                                      | <b>17,574</b>   |
| Joint ventures and associated companies  |                  |                                  | 11,636               | <b>11,636</b>               |  | <b>11,636</b>   |
| <b>Other comprehensive income</b>  |                  |                                  |                      |                             |  |                 |
| Remeasurements related to post-employment benefits                             |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 451                  | <b>451</b>                  |  | <b>451</b>      |
| Joint ventures and associated companies  |                  |                                  | 50                   | <b>50</b>                   |  | <b>50</b>       |
| Revaluation of other investments in shares and participations                  |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 6                    | <b>6</b>                    |  | <b>6</b>        |
| Cash flow hedges   |                  |                                  |                      |                             |  |                 |
| Gains/losses arising during the year   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 1,668                | <b>1,668</b>                |  | <b>1,668</b>    |
| Joint ventures and associated companies  |                  |                                  | 25                   | <b>25</b>                   |  | <b>25</b>       |
| Reclassification adjustments for gains/losses included in profit or loss       |                  |                                  | 568                  | <b>568</b>                  |  | <b>568</b>      |
| Adjustments for amounts transferred to initial carrying amount of hedged items |                  |                                  | 92                   | <b>92</b>                   |  | <b>92</b>       |
| Changes in cumulative translation adjustments                                  |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 3,898                | <b>3,898</b>                | 49                                       | <b>3,947</b>    |
| Joint ventures and associated companies  |                  |                                  | 511                  | <b>511</b>                  |  | <b>511</b>      |
| Tax on items relating to components of OCI <sup>3)</sup>                       |                  |                                  | 422                  | <b>422</b>                  |  | <b>422</b>      |
| <b>Total other comprehensive income</b>  |                  |                                  | 4,059                | <b>4,059</b>                | 49                                       | <b>4,108</b>    |
| <b>Total comprehensive income</b>  |                  |                                  | <b>1,716</b>         | <b>1,716</b>                | <b>114</b>                               | <b>1,830</b>    |
| <b>Transactions with owners</b>  |                  |                                  |                      |                             |  |                 |
| Stock issue  | 159              |                                  |                      | <b>159</b>                  |  | <b>159</b>      |
| Sale/Repurchase of own shares  |                  |                                  | 93                   | <b>93</b>                   |  | <b>93</b>       |
| Stock Purchase Plans   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 405                  | <b>405</b>                  |  | <b>405</b>      |



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|  |               |                  |               |                  |              |                |
|--|---------------|------------------|---------------|------------------|--------------|----------------|
| Joint ventures and associated companies    |               |                  |               |                  |              |                |
| Dividends paid                             | 8,033         | <del>8,033</del> | 599           | <del>8,632</del> |              |                |
| Transactions with non-controlling interest | 376           | <del>376</del>   | 80            | <del>456</del>   |              |                |
| <b>December 31, 2012</b>                   | <b>16,526</b> | <b>24,731</b>    | <b>95,626</b> | <b>136,883</b>   | <b>1,600</b> | <b>138,483</b> |

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- 1) SEK 172 million is recognized in Net Sales, SEK 232 million is recognized in Cost of Sales, SEK 67 million is recognized in R&D expenses and SEK 231 million is recognized in Other operating income and expenses.
- 2) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 1,400 million (SEK 46 million in 2011, SEK 1,480 million in 2010), gain/loss from hedging activities of foreign entities, SEK 0 million (SEK 9 million in 2011, SEK 385 in 2010), and realized gain/losses net from sold/liquidated companies SEK 461 million (SEK 192 million in 2011, SEK 140 million in 2010).
- 3) For further disclosures, see Note C8, Taxes .
- 4) Dividends paid per share amounted to SEK 2.50 (SEK 2.25 in 2011 and SEK 2.00 in 2010).

**Equity and Other comprehensive income 2011**

|  | Capital<br>stock | Additional<br>paid in<br>capital | Retained<br>earnings | Stock-<br>holders<br>equity | Non-<br>controlling<br>interest<br>(NCI) | Total<br>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                | <b>6,963</b>                |  | <b>6,963</b>    |
| Joint ventures and associated companies                                  |                  |                                  | 212                  | <b>212</b>                  |  | <b>212</b>      |
| Cash flow hedges   |                  |                                  |                      |                             |  |                 |
| Gains/losses arising during the year                                     |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 996                  | <b>996</b>                  |  | <b>996</b>      |
| 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                | <b>1,014</b>                | 50                                       | <b>964</b>      |
| 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                | <b>2,158</b>                |  | <b>2,158</b>    |
| <b>Total other comprehensive income</b>                                  |                  |                                  | <b>7,113</b>         | <b>7,113</b>                | <b>50</b>                                | <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 Plans   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 413                  | <b>413</b>                  |  | <b>413</b>      |
| 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>  |



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**Equity and Other comprehensive income 2010**

|  | Capital<br>stock | Additional<br>paid in<br>capital | Retained<br>earnings | Stock-<br>holders<br>equity | Non-<br>controlling<br>interest<br>(NCI) | Total<br>equity |
|--|------------------|----------------------------------|----------------------|-----------------------------|--|-----------------|
| <b>2010</b>  |                  |                                  |                      |                             |  |                 |
| <b>January 1, 2010</b>   | 16,367           | 24,731                           | 98,772               | <b>139,870</b>              | 1,157                                    | <b>141,027</b>  |
| <b>Net income</b>  |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 12,503               | <b>12,503</b>               | 89                                       | <b>12,592</b>   |
| Joint ventures and associated companies  |                  |                                  | 1,357                | <b>1,357</b>                |  | <b>1,357</b>    |
| <b>Other comprehensive income</b>  |                  |                                  |                      |                             |  |                 |
| Remeasurements related to post-employment benefits                             |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 3,892                | <b>3,892</b>                |  | <b>3,892</b>    |
| Joint ventures and associated companies  |                  |                                  | 27                   | <b>27</b>                   |  | <b>27</b>       |
| Revaluation of other investments in shares and participations                  |                  |                                  |                      |                             |  |                 |
| Fair value remeasurement   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 7                    | <b>7</b>                    |  | <b>7</b>        |
| Joint ventures and associated companies  |                  |                                  |                      |                             |  |                 |
| Cash flow hedges   |                  |                                  |                      |                             |  |                 |
| Gains/losses arising during the year   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 966                  | <b>966</b>                  |  | <b>966</b>      |
| Joint ventures and associated companies  |                  |                                  | 31                   | <b>31</b>                   |  | <b>31</b>       |
| Reclassification adjustments for gains/losses included in profit or loss       |                  |                                  | 238                  | <b>238</b>                  |  | <b>238</b>      |
| Adjustments for amounts transferred to initial carrying amount of hedged items |                  |                                  | 136                  | <b>136</b>                  |  | <b>136</b>      |
| Changes in cumulative translation adjustments                                  |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 3,269                | <b>3,269</b>                | 10                                       | <b>3,259</b>    |
| Joint ventures and associated companies  |                  |                                  | 438                  | <b>438</b>                  |  | <b>438</b>      |
| Tax on items relating to components of OCI                                     |                  |                                  | 1,120                | <b>1,120</b>                |  | <b>1,120</b>    |
| <b>Total other comprehensive income</b>  |                  |                                  | <b>332</b>           | <b>332</b>                  | <b>10</b>                                | <b>322</b>      |
| <b>Total comprehensive income</b>  |                  |                                  | <b>10,814</b>        | <b>10,814</b>               | <b>99</b>                                | <b>10,913</b>   |
| <b>Transactions with owners</b>  |                  |                                  |                      |                             |  |                 |
| Sale of own shares   |                  |                                  | 52                   | <b>52</b>                   |  | <b>52</b>       |
| Stock Purchase Plans   |                  |                                  |                      |                             |  |                 |
| Group  |                  |                                  | 762                  | <b>762</b>                  |  | <b>762</b>      |
| Joint ventures and associated companies  |                  |                                  |                      |                             |  |                 |
| Dividends paid   |                  |                                  | 6,391                | <b>6,391</b>                | 286                                      | <b>6,677</b>    |
| Transactions with non-controlling interest                                     |                  |                                  |                      |                             | 708                                      | <b>708</b>      |
| <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>  |

**C17 POST-EMPLOYMENT BENEFITS**

Ericsson sponsors a number of post-employment benefit plans throughout the Company, which are in line with market practice in each country. The year 2012 was characterized by the overall decrease in discount rates and a positive development of plan assets. Consequently, the Company experienced a decrease in the net pension liability. The acquisition of Telcordia resulted in an overfunded provision for

post-employment benefits.

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**Amount recognized in the Consolidated balance sheet****Amount recognized in the Consolidated balance sheet**

|  | Sweden       | EU           | US         | Other      | Total         |
|--|--------------|--------------|------------|------------|---------------|
| <b>2012</b>  |              |              |            |            |               |
| Defined benefit obligation (DBO) <sup>1)</sup>               | 21,432       | 10,935       | 16,472     | 3,119      | <b>51,958</b> |
| Fair value of plan assets <sup>2)</sup>                      | 15,375       | 10,275       | 16,263     | 2,729      | <b>44,642</b> |
| Deficit/Surplus (+/ )  | 6,057        | 660          | 209        | 390        | <b>7,316</b>  |
| Unrecognized past service costs                              |              | 3            |            | 25         | <b>28</b>     |
| Closing balance  | 6,057        | 657          | 209        | 365        | <b>7,288</b>  |
| Plans with net surplus excluding asset ceiling <sup>3)</sup> |              | 1,028        | 738        | 449        | <b>2,215</b>  |
| <b>Provision for post-employment benefits<sup>4)</sup></b>   | <b>6,057</b> | <b>1,685</b> | <b>947</b> | <b>814</b> | <b>9,503</b>  |
| <b>2011</b>  |              |              |            |            |               |
| Defined benefit obligation (DBO) <sup>1)</sup>               | 20,643       | 9,994        | 3,133      | 2,605      | <b>36,375</b> |
| Fair value of plan assets <sup>2)</sup>                      | 13,490       | 9,415        | 2,337      | 2,777      | <b>28,019</b> |
| Deficit/Surplus (+/ )  | 7,153        | 579          | 796        | 172        | <b>8,356</b>  |
| Unrecognized past service costs                              |              |              |            | 47         | <b>47</b>     |
| Closing balance  | 7,153        | 579          | 796        | 219        | <b>8,309</b>  |
| Plans with net surplus excluding asset ceiling <sup>3)</sup> |              | 953          |            | 754        | <b>1,707</b>  |
| <b>Provision for post-employment benefits<sup>4)</sup></b>   | <b>7,153</b> | <b>1,532</b> | <b>796</b> | <b>535</b> | <b>10,016</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 217 (483) million.

4) Plans with net liabilities are reported in the balance sheet as Post-employment benefits, non-current.

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**Total pension expenses recognized in the income statement**

The expenses for post-employment benefits within Ericsson are distributed between defined contribution plans and defined benefit plans, with a trend toward defined contribution plans.

**Pension costs for defined contribution plans and defined benefit plans**

|  | Sweden       | EU         | US         | Other      | Total        |
|--|--------------|------------|------------|------------|--------------|
| <b>2012</b>  |              |            |            |            |              |
| Pension cost for defined contribution plans                        | 977          | 520        | 404        | 181        | <b>2,082</b> |
| Pension cost for defined benefit plans <sup>1)</sup>               | 936          | 56         | 454        | 142        | <b>680</b>   |
| <b>Total</b>   | <b>1,913</b> | <b>576</b> | <b>50</b>  | <b>323</b> | <b>2,762</b> |
| Total pension cost expressed as a percentage of wages and salaries |              |            |            |            | <b>5.7%</b>  |
| <b>2011</b>  |              |            |            |            |              |
| Pension cost for defined contribution plans                        | 2,039        | 458        | 360        | 185        | <b>3,042</b> |
| Pension cost for defined benefit plans <sup>1)</sup>               | 621          | 38         | 42         | 146        | <b>847</b>   |
| <b>Total</b>   | <b>2,660</b> | <b>496</b> | <b>402</b> | <b>331</b> | <b>3,889</b> |
| Total pension cost expressed as a percentage of wages and salaries |              |            |            |            | <b>8.9%</b>  |
| <b>2010</b>  |              |            |            |            |              |
| Pension cost for defined contribution plans                        | 1,037        | 528        | 244        | 192        | <b>2,001</b> |
| Pension cost for defined benefit plans <sup>1)</sup>               | 762          | 312        | 30         | 14         | <b>1,090</b> |
| <b>Total</b>   | <b>1,799</b> | <b>840</b> | <b>274</b> | <b>178</b> | <b>3,091</b> |
| Total pension cost expressed as a percentage of wages and salaries |              |            |            |            | <b>7.1%</b>  |

1) See cost details in table below.

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**Cost details for defined benefit plans recognized in the income statement**

|                                     | Sweden     | EU         | US         | Other      | Total        |
|-------------------------------------|------------|------------|------------|------------|--------------|
| <b>2012</b>                         |            |            |            |            |              |
| Current service cost                | 777        | 169        | 140        | 194        | <b>1,280</b> |
| Interest cost                       | 717        | 475        | 752        | 176        | <b>2,120</b> |
| Expected return on plan assets      | 579        | 483        | 1,060      | 235        | <b>2,357</b> |
| Past service cost                   |            | 13         | 1          | 8          | <b>20</b>    |
| Curtailments, settlements and other | 21         | 118        | 285        | 1          | <b>383</b>   |
| <b>Total</b>                        | <b>936</b> | <b>56</b>  | <b>454</b> | <b>142</b> | <b>680</b>   |
| <b>2011</b>                         |            |            |            |            |              |
| Current service cost                | 547        | 227        | 26         | 157        | <b>957</b>   |
| Interest cost                       | 714        | 461        | 151        | 169        | <b>1,495</b> |
| Expected return on plan assets      | 558        | 474        | 135        | 243        | <b>1,410</b> |
| Past service cost                   | 6          | 10         |            | 9          | <b>25</b>    |
| Curtailments, settlements and other | 88         | 186        |            | 54         | <b>220</b>   |
| <b>Total</b>                        | <b>621</b> | <b>38</b>  | <b>42</b>  | <b>146</b> | <b>847</b>   |
| <b>2010</b>                         |            |            |            |            |              |
| Current service cost                | 631        | 290        | 32         | 140        | <b>1,093</b> |
| Interest cost                       | 643        | 496        | 159        | 172        | <b>1,470</b> |
| Expected return on plan assets      | 511        | 463        | 130        | 253        | <b>1,357</b> |
| Past service cost                   |            | 33         |            | 9          | <b>42</b>    |
| Curtailments, settlements and other | 1          | 44         | 31         | 82         | <b>158</b>   |
| <b>Total</b>                        | <b>762</b> | <b>312</b> | <b>30</b>  | <b>14</b>  | <b>1,090</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        | EU            | US            | Other        | Total         |
|-------------------------------------|---------------|---------------|---------------|--------------|---------------|
| <b>2012</b>                         |               |               |               |              |               |
| Opening balance                     | 20,643        | 9,994         | 3,133         | 2,605        | <b>36,375</b> |
| Current service cost                | 777           | 169           | 140           | 194          | <b>1,280</b>  |
| Interest cost                       | 717           | 475           | 752           | 176          | <b>2,120</b>  |
| Employee contributions              |               | 15            |               | 7            | <b>22</b>     |
| Pension payments                    | 282           | 195           | 871           | 130          | <b>1,478</b>  |
| Actuarial gain/loss ( /+)           | 436           | 634           | 1,875         | 394          | <b>2,467</b>  |
| Settlements                         | 22            | 129           | 55            | 2            | <b>50</b>     |
| Curtailments                        |               | 31            |               |              | <b>31</b>     |
| Business combinations <sup>1)</sup> |               | 13            | 12,565        |              | <b>12,578</b> |
| Other                               | 35            | 3             | 263           | 159          | <b>72</b>     |
| Translation difference              |               | 265           | 804           | 284          | <b>1,353</b>  |
| <b>Closing balance</b>              | <b>21,432</b> | <b>10,935</b> | <b>16,472</b> | <b>3,119</b> | <b>51,958</b> |

*Of which medical benefit schemes*

423 423

|                           |               |              |              |              |               |
|---------------------------|---------------|--------------|--------------|--------------|---------------|
| <b>2011</b>               |               |              |              |              |               |
| Opening balance           | 14,980        | 8,600        | 2,693        | 2,437        | <b>28,710</b> |
| Current service cost      | 547           | 227          | 26           | 157          | <b>957</b>    |
| Interest cost             | 714           | 461          | 151          | 169          | <b>1,495</b>  |
| Employee contributions    |               | 15           |              | 1            | <b>16</b>     |
| Pension payments          | 220           | 228          | 149          | 144          | <b>741</b>    |
| Actuarial gain/loss ( /+) | 4,705         | 1,030        | 329          | 120          | <b>6,184</b>  |
| Settlements               |               |              |              |              |               |
| Curtailments              | 88            | 183          |              |              | <b>271</b>    |
| Business combinations     |               | 2            |              |              | <b>2</b>      |
| Other                     | 5             | 1            | 22           | 15           | <b>43</b>     |
| Translation difference    |               | 69           | 61           | 150          | <b>20</b>     |
| <b>Closing balance</b>    | <b>20,643</b> | <b>9,994</b> | <b>3,133</b> | <b>2,605</b> | <b>36,375</b> |

*Of which medical benefit schemes*

658 658

1) Business combinations in 2012 are related to the acquisition of Telcordia.

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**Funded Status**

The funded ratio, defined as total plan assets in relation to the total DBO, was 85.9% in 2012, compared to 77.0% in 2011.

The following table summarizes the value of the DBO per geographical area based on whether there are plan assets wholly or partially funding each pension plan.

**Value of the defined benefit obligation**

|   | Sweden        | EU           | US            | Other        | Total         |
|---|---------------|--------------|---------------|--------------|---------------|
| <b>2012</b>                               |               |              |               |              |               |
| DBO, closing balance                      | 21,432        | 10,935       | 16,472        | 3,119        | <b>51,958</b> |
| <i>Of which partially or fully funded</i> | <i>20,916</i> | <i>9,623</i> | <i>15,895</i> | <i>2,441</i> | <i>48,875</i> |
| <i>Of which unfunded</i>                  | <i>516</i>    | <i>1,312</i> | <i>577</i>    | <i>678</i>   | <i>3,083</i>  |
| <b>2011</b>                               |               |              |               |              |               |
| DBO, closing balance                      | 20,643        | 9,994        | 3,133         | 2,605        | <b>36,375</b> |
| <i>Of which partially or fully funded</i> | <i>20,118</i> | <i>8,847</i> | <i>2,447</i>  | <i>2,118</i> | <i>33,530</i> |
| <i>Of which unfunded</i>                  | <i>525</i>    | <i>1,147</i> | <i>686</i>    | <i>487</i>   | <i>2,845</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        | EU            | US            | Other        | Total         |
|-------------------------------------|---------------|---------------|---------------|--------------|---------------|
| <b>2012</b>                         |               |               |               |              |               |
| Opening balance                     | 13,490        | 9,415         | 2,337         | 2,777        | <b>28,019</b> |
| Expected return on plan assets      | 579           | 483           | 1,060         | 235          | <b>2,357</b>  |
| Actuarial gain/loss (+/ )           | 377           | 219           | 994           | 44           | <b>1,634</b>  |
| Employer contributions              | 1,183         | 332           | 115           | 121          | <b>1,751</b>  |
| Employee contributions              |               | 15            |               | 7            | <b>22</b>     |
| Pension payments                    | 247           | 153           | 817           | 94           | <b>1,311</b>  |
| Settlements                         | 17            | 220           | 47            |              | <b>156</b>    |
| Business combinations <sup>1)</sup> |               |               | 13,417        |              | <b>13,417</b> |
| Other                               | 10            | 23            | 7             | 22           | <b>42</b>     |
| Translation difference              |               | 233           | 789           | 339          | <b>1,361</b>  |
| <b>Closing balance</b>              | <b>15,375</b> | <b>10,275</b> | <b>16,263</b> | <b>2,729</b> | <b>44,642</b> |
| <b>2011</b>                         |               |               |               |              |               |
| Opening balance                     | 12,389        | 8,205         | 2,048         | 2,793        | <b>25,435</b> |
| Expected return on plan assets      | 558           | 474           | 135           | 243          | <b>1,410</b>  |
| Actuarial gain/loss (+/ )           | 358           | 437           | 155           | 84           | <b>150</b>    |
| Employer contributions              | 1,086         | 397           | 54            | 125          | <b>1,662</b>  |
| Employee contributions              |               | 15            |               | 1            | <b>16</b>     |
| Pension payments                    | 185           | 187           | 98            | 102          | <b>572</b>    |

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|                        |  |               |              |              |              |               |
|------------------------|--|---------------|--------------|--------------|--------------|---------------|
| Other                  |  | 15            |              | 4            | <b>19</b>    |               |
| Translation difference |  | 89            | 43           | 195          | <b>63</b>    |               |
| <b>Closing balance</b> |  | <b>13,490</b> | <b>9,415</b> | <b>2,337</b> | <b>2,777</b> | <b>28,019</b> |

1) Business combinations in 2012 are related to the acquisition of Telcordia.

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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 | EU  | US    | Other | Total        |
|------|--------|-----|-------|-------|--------------|
| 2012 | 956    | 702 | 2,054 | 279   | <b>3,991</b> |
| 2011 | 200    | 911 | 289   | 160   | <b>1,560</b> |

**Asset Allocation**

|                             | Sweden        | EU            | US            | Other        | Total         |
|-----------------------------|---------------|---------------|---------------|--------------|---------------|
| <b>2012</b>                 |               |               |               |              |               |
| Equities                    | 4,867         | 3,168         | 5,103         | 319          | <b>13,457</b> |
| Interest-bearing securities | 9,665         | 5,900         | 10,042        | 1,727        | <b>27,334</b> |
| Other                       | 843           | 1,207         | 1,118         | 683          | <b>3,851</b>  |
| <b>Total</b>                | <b>15,375</b> | <b>10,275</b> | <b>16,263</b> | <b>2,729</b> | <b>44,642</b> |

*Of which Ericsson securities*

|                             |               |              |              |              |               |
|-----------------------------|---------------|--------------|--------------|--------------|---------------|
| <b>2011</b>                 |               |              |              |              |               |
| Equities                    | 4,503         | 3,014        | 1,062        | 356          | <b>8,935</b>  |
| Interest-bearing securities | 8,239         | 5,265        | 1,210        | 1,846        | <b>16,560</b> |
| Other                       | 748           | 1,136        | 65           | 575          | <b>2,524</b>  |
| <b>Total</b>                | <b>13,490</b> | <b>9,415</b> | <b>2,337</b> | <b>2,777</b> | <b>28,019</b> |

*Of which Ericsson securities*

Equity instruments amount to 30% (32%) of the total assets, interest bearing instruments amount to 61% (59%) of the total assets, and other instruments amount to 9% (9%) of the total assets.

The contributions to the defined benefit plans for the upcoming year will be based on the development of the financial markets as well as on the growth of the pension liability, and how these developments affect the target funding ratio of the Company.

**Actuarial gains and losses reported directly in Other comprehensive income**

Since January 1, 2006, the Company applies immediate recognition of actuarial gains and losses directly in the statement of Other comprehensive income. Actuarial gains and losses may arise from either a change in actuarial assumptions or in deviations between estimated and actual outcome.

**Multi-year summary**

|      |      |      |      |      |
|------|------|------|------|------|
| 2012 | 2011 | 2010 | 2009 | 2008 |
|------|------|------|------|------|

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|   |               |        |        |        |        |
|---|---------------|--------|--------|--------|--------|
| Plan assets   | <b>44,642</b> | 28,019 | 25,435 | 23,206 | 19,037 |
| DBO   | <b>51,958</b> | 36,375 | 28,710 | 30,717 | 28,010 |
| Deficit/Surplus ( /+)                               | <b>7,316</b>  | 8,356  | 3,275  | 7,511  | 8,973  |
| <b>Actuarial gains and losses ( /+)</b>             |               |        |        |        |        |
| Experience-based adjustments of pension obligations | <b>362</b>    | 463    | 177    | 310    | 57     |
| Experience-based adjustments of plan assets         | <b>1,634</b>  | 150    | 653    | 1,191  | 2,952  |

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**Actuarial gains and losses reported directly in Other comprehensive income**

|   | 2012  | 2011  |
|---|-------|-------|
| Cumulative gain/loss ( /+) at beginning of year | 7,911 | 1,849 |
| Recognized gain/loss ( /+) during the year      | 833   | 6,034 |
| Translation difference                          | 48    | 28    |
| Cumulative gain/loss ( /+) at end of year       | 8,696 | 7,911 |

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

|  | 2012 | 2011  |
|--|------|-------|
| Actuarial gains and losses (+/ )                                       | 833  | 6,034 |
| The effect of asset ceiling  | 266  | 208   |
| Swedish special payroll taxes  | 116  | 1,137 |
| Total  | 451  | 6,963 |
| Actuarial gains and losses for joint ventures and associated companies | 50   | 212   |

**Actuarial assumptions****Financial and demographic actuarial assumptions**

|  | Sweden | EU <sup>1)</sup> | US <sup>1)</sup> | Other <sup>1)</sup> |
|--|--------|------------------|------------------|---------------------|
| <b>2012</b>                                    |        |                  |                  |                     |
| Discount rate                                  | 3.50%  | 4.55%            | 4.00%            | 7.24%               |
| Expected return on plan assets for the year    | 4.33%  | 5.11%            | 7.00%            | 9.06%               |
| Future salary increases                        | 3.25%  | 3.63%            | 4.50%            | 5.57%               |
| Inflation                                      | 2.00%  | 2.20%            | 2.50%            | 1.35%               |
| Health care cost inflation, current year       | n/a    | n/a              | 9.00%            | n/a                 |
| Life expectancy after age 65 in years, males   | 22     | 22               | 19               | 19                  |
| Life expectancy after age 65 in years, females | 24     | 24               | 21               | 22                  |
| <b>2011</b>                                    |        |                  |                  |                     |
| Discount rate                                  | 3.50%  | 4.90%            | 5.23%            | 8.18%               |
| Expected return on plan assets for the year    | 4.55%  | 5.73%            | 7.00%            | 9.27%               |
| Future salary increases                        | 3.25%  | 3.71%            | 4.50%            | 6.07%               |
| Inflation                                      | 2.00%  | 2.74%            | 2.50%            | 3.43%               |
| Health care cost inflation, current year       | n/a    | n/a              | 9.00%            | n/a                 |
| Life expectancy after age 65 in years, males   | 22     | 22               | 19               | 19                  |
| Life expectancy after age 65 in years, females | 24     | 24               | 21               | 22                  |

1) Weighted average for disclosure purposes only. Land specific assumptions were used for each actuarial calculation.

Actuarial assumptions are assessed on a quarterly basis.

The discount rate for each country is determined by reference to market yields on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds are used.

The overall expected long-term return on plan assets is a weighted average of each asset category's expected rate of return. The expected return on interest-bearing investments is set in line with each country's market yield. Expected return on equities is derived from each country's risk free rate with the addition of a risk premium.

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Salary increases are partially affected by fluctuations in inflation rate.

The net periodic pension cost and the present value of the DBO for current and former employees are calculated using the Projected Unit Credit (PUC) actuarial cost method, where the objective is to spread the cost of each employee's benefits over the period that the employee works for the Company.

**Sensitivity analysis for medical benefit schemes**

A one percent change in the assumed trend rate of medical cost would have the following effect (in SEK million):

*Sensitivity analysis for medical benefit schemes*

|  | 1%<br>increase | 1%<br>decrease |
|--|----------------|----------------|
| Net periodic post-employment medical cost                        | 3              | 3              |
| Accumulated post-employment benefit obligation for medical costs | 32             | 28             |

**Information on issues affecting the net pension liability for the year****Sweden**

The defined benefit obligation has been calculated using a discount rate based on yields of covered bonds, which is higher than a discount rate based on yields of government bonds. The Swedish covered bonds are considered high-quality bonds, mainly AAA-rated, as they are secured with assets, and the market for covered bonds is considered deep and liquid, thereby meeting IAS19 requirements.

As before, Ericsson has secured the disability and survivors' pension part of the ITP Plan through an insurance solution with the insurance company Alecta. Although this part of the plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, and therefore, it has been accounted for as a defined contribution plan.

Alecta has a collective funding ratio which is a buffer for its insurance commitments to protect against fluctuations in investment return and insurance risks. Alecta's target ratio is 140% and reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions, which are different from those in IAS 19. Alecta's collective funding ratio was 129% (113%) as of December 31, 2012.

Contingent liabilities include the Company's mutual responsibility as a credit insured company of PRI Pensionsgaranti in Sweden. This mutual responsibility can only be imposed in case PRI Pensionsgaranti has consumed all of their assets, and it amounts to a maximum of 2% of the company's pension liability in Sweden.



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**C18 PROVISIONS****Provisions**

|   | Warranty     | Restructuring | Project related | Other        | Total        |
|---|--------------|---------------|-----------------|--------------|--------------|
| <b>2012</b>                                     |              |               |                 |              |              |
| <b>Opening balance</b>                          | 1,888        | 1,327         | 718             | 2,332        | <b>6,265</b> |
| Additions                                       | 1,088        | 1,234         | 278             | 4,411        | <b>7,011</b> |
| Reversal of excess amounts                      | 157          | 150           | 234             | 532          | <b>1,073</b> |
| <i>Negative effect on Income Statement</i>      |              |               |                 |              | <b>5,938</b> |
| Cash out/utilization                            | 1,188        | 1,170         | 376             | 741          | <b>3,475</b> |
| Balances regarding divested/acquired businesses | 48           |               | 10              | 82           | <b>140</b>   |
| Reclassification                                | 1            | 11            | 4               | 38           | <b>22</b>    |
| Translation differences                         | 85           | 34            | 22              | 67           | <b>208</b>   |
| <b>Closing balance</b>                          | <b>1,595</b> | <b>1,218</b>  | <b>378</b>      | <b>5,447</b> | <b>8,638</b> |
| <b>2011</b>                                     |              |               |                 |              |              |
| Opening balance                                 | 2,469        | 3,230         | 1,105           | 2,940        | <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> |

Provisions will fluctuate over time depending on business mix, market mix and technology shifts. Risk assessment in the ongoing business is performed monthly to identify the need for new additions and reversals. Management uses its best judgment to estimate provisions based on this assessment. In certain circumstances, provisions are no longer required due to more favorable outcomes than anticipated, which affect the provisions balance as a reversal. In other cases the outcome can be negative, and if so, a charge is recorded in the income statement.

For 2012, new or additional provisions amounting to SEK 7.0 billion were made, and SEK 1.1 billion were reversed. The actual cash outlays for 2012 were SEK 3.5 billion compared with the estimated SEK 3.5 billion. The main part of the total cash out for 2012 is warranty provisions of SEK 1.2 billion and restructuring provisions of SEK 1.2 billion. The expected total cash outlays in 2013 is approximately SEK 7 billion.

Of the total provisions, SEK 211 (280) million are classified as non-current. For more information, see Note C1, Significant accounting policies and Note C2, Critical accounting estimates and judgments .

**Warranty provisions**

Warranty provisions are based on historic quality rates for established products as well as estimates regarding quality rates for new products and costs to remedy the various types of faults predicted. Provisions amounting to SEK 1.1 billion were made and due to more favorable outcomes in certain cases reversals of SEK 0.2 billion were made. The actual cash outlays for 2012 were SEK 1.2 billion and in line with the expected SEK 1 billion. The cash outlays of warranty provisions during year 2013 are estimated to approximately SEK 1 billion.



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**Restructuring provisions**

In 2012 SEK 1.2 billion in provision were made and SEK 0.1 billion were reversed due to a more favorable outcome than expected. The cash outlays were SEK 1.2 billion for the full year and in line with the expected SEK 1 billion. SEK 0.6 billion were related to restructuring programs before 2011. The cash outlays for 2013 are estimated to approximately SEK 1 billion.

**Project related provisions**

Project provisions relate to estimated losses on onerous contracts, including probable contractual penalties. Provisions amounting to SEK 0.3 billion were made and SEK 0.2 billion were reversed due to a more favorable outcome than expected. The cash outlays of project related provisions were SEK 0.4 billion and in line with the estimated SEK 0.5 billion. The cash outlays for 2013 are estimated to approximately SEK 0.4 billion.

**Other provisions**

Other provisions include provisions for tax issues, litigations, supplier claims, and other. During 2012, new provisions amounting to SEK 4.4 billion were made, of which 3.3 billion was related to ST-Ericsson, for further information, see Note C3, Segment information . SEK 0.5 billion were reversed during 2012 due to a more favorable outcome. The cash outlays were SEK 0.7 billion in 2012 compared to the estimate of SEK 1 billion. For 2013, the cash outlays are estimated to approximately SEK 5 billion.

**C19 INTEREST-BEARING LIABILITIES**

As of December 31, 2012, the Company's outstanding interest-bearing liabilities were SEK 28.7 (31.0) billion.

**Interest-bearing liabilities**

|   | 2012          | 2011          |
|---|---------------|---------------|
| <b>Borrowings, current</b>                            |               |               |
| Current part of non-current borrowings <sup>1)</sup>  | 3,018         | 4,314         |
| Other current borrowings                              | 1,751         | 3,451         |
| <b>Total current borrowings</b>                       | <b>4,769</b>  | 7,765         |
| <b>Borrowings, non-current</b>                        |               |               |
| Notes and bond loans                                  | 16,519        | 17,197        |
| Other borrowings, non-current                         | 7,379         | 6,059         |
| <b>Total non-current interest-bearing liabilities</b> | <b>23,898</b> | 23,256        |
| <b>Total interest-bearing liabilities</b>             | <b>28,667</b> | <b>31,021</b> |

1) Including notes and bond loans of SEK 2,671 (3,461) million.

All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium-Term Note (EMTN) program or under its SEC Registered program. Bonds issued at a fixed interest rate are normally swapped to a floating interest rate using interest rate swaps leaving a maximum of 50% of outstanding loans at fixed interest rates. It resulted in a weighted average interest rate of 4.69% (4.21%). These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.



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In May 2012 the Company placed a US dollar denominated 1 billion 10-year bond with a fixed coupon rate of 4.125%. The offer was made pursuant to the Company's shelf registration statement filed with the SEC in April 2012, and a prospectus supplement thereto. This was the Company's debut issue on the US bond market.

In June 2012 the Company repurchased notes with a nominal value of EUR 286.79 million from the EUR 600 million 5% Notes due 2013 and notes with a nominal value of EUR 154.52 million from the EUR 375 million Floating Rate Notes due 2014 pursuant to a tender offer process.

In July 2012 the Company signed a loan of EUR 150 million with the Nordic Investment Bank (NIB). The loan is divided into two equal tranches with respective seven- and nine-year maturity and was disbursed in December 2012. The loan supports the Company's R&D activities to develop the next generation radio and IP technology supporting Mobile Broadband build-out globally.

In October 2012 the Company signed a loan agreement with the European Investment Bank (EIB). The loan amount is EUR 500 million (or the equivalent in USD), and the Company has an option for disbursement until April 2014. This loan facility currently remains undrawn. The loan will mature seven years after disbursement. The loan supports the Company's R&D activities to further develop the next generation radio and IP technology that supports mobile broadband build-out globally.

**Notes, bonds and bilateral loans**

| Issued maturing                   | Nominal amount | Coupon | Currency | Book value (SEK m.) | Maturity date              | Unrealized hedge gain/loss (included in book value) |
|-----------------------------------|----------------|--------|----------|---------------------|----------------------------|---|
| <b>Notes and bond loans</b>       |                |        |          |                     |                            |   |
| 2007-2014                         | 220            | 0.484% | EUR      | 1,891               | Jun 27, 2014 <sup>1)</sup> |   |
| 2007-2017                         | 500            | 5.375% | EUR      | 5,117 <sup>2)</sup> | Jun 27, 2017               | 799   |
| 2009-2013                         | 313            | 5.000% | EUR      | 2,671 <sup>2)</sup> | Jun 24, 2013               | 30  |
| 2009-2016 <sup>3)</sup>           | 300            |        | USD      | 1,952               | Jun 23, 2016               |   |
| 2010-2020 <sup>4)</sup>           | 170            |        | USD      | 1,106               | Dec 23, 2020               |   |
| 2012-2022                         | 1,000          | 4.125% | USD      | 6,453               | May 15, 2022               |   |
| <b>Total notes and bond loans</b> |                |        |          | <b>19,190</b>       |                            | <b>829</b>  |
| <b>Bilateral loans</b>            |                |        |          |                     |                            |   |
| 2008-2015 <sup>5)</sup>           | 4,000          |        | SEK      | 4,000               | Jul 15, 2015               |   |
| 2012-2019 <sup>6)</sup>           | 98             |        | USD      | 636                 | Sep 30, 2019               |   |
| 2012-2021 <sup>7)</sup>           | 98             |        | USD      | 637                 | Sep 30, 2021               |   |
| <b>Total bilateral loans</b>      |                |        |          | <b>5,273</b>        |                            |   |

1) Next contractual repricing date March 27, 2013 (quarterly).

2) Interest rate swaps are designated as fair value hedges.

3) Private Placement, Swedish Export Credits Guarantee Board (EKN) / Swedish Export Credit Corporation (SEK).

4) Private Placement, Swedish Export Credit Corporation (SEK).

5) European Investment Bank (EIB), R&D project financing.

6) Nordic Investment Bank (NIB), R&D project financing.

7) Nordic Investment Bank (NIB), R&D project financing.



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**C20 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company's financial risk management is governed by a policy approved by the Board of Directors. The Finance Committee of the Board of Directors is responsible for overseeing the capital structure and financial management of the Company and approving certain matters (such as investments, customer finance commitments, guarantees and borrowing) and is continuously monitoring the exposure to financial risks.

The Company defines its managed capital as the total Company equity. For the Company, a robust financial position with a strong equity ratio, investment grade rating, low leverage and ample liquidity is deemed important. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

The Company's overall capital structure should support the financial targets: to grow faster than the market, deliver best-in-class margins and generate a healthy cash flow. The capital structure is managed by balancing equity, debt financing and liquidity in such a way that the Company secure funding of operations at a reasonable cost of capital. Regular borrowings are complemented with committed credit facilities to give additional flexibility to manage unforeseen funding needs. The Company strive to finance growth, normal capital expenditures and dividends to shareholders by generating sufficient positive cash flows from operating activities.

The Company's capital objectives are:

An equity ratio above 40%

A cash conversion rate above 70%

To maintain a positive net cash position

To maintain a solid investment grade rating by Moody's and Standard & Poor's.

**Capital objectives related information, SEK billion**

|                      | 2012 | 2011 |
|----------------------|------|------|
| Capital              | 138  | 145  |
| Equity ratio         | 50%  | 52%  |
| Cash conversion rate | 116% | 40%  |
| Positive net cash    | 38.5 | 39.5 |

The Company has a treasury function with the principal role to ensure that appropriate financing is in place through loans and committed credit facilities, to actively manage the Company's liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures in a manner consistent with underlying business risks and financial policies. Hedging activities, cash management and insurance management are largely centralized to the treasury function in Stockholm.

The Company also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to the Company. To the extent customer loans are not provided directly by banks, the Parent Company provides or guarantees vendor credits. The customer finance function monitors the exposure from outstanding vendor credits and credit commitments. The Company classifies financial risks as:

Foreign exchange risk

Interest rate risk



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Credit risk

Liquidity and refinancing risk

Market price risk in own and other equity instruments.

The Board of Directors has established risk limits for defined exposures to foreign exchange and interest rate risks as well as to political risks in certain countries.

For further information about accounting policies, see Note C1, Significant accounting policies .

**Foreign exchange risk**

The Company is a global company with sales mainly outside Sweden. Revenues and costs are to a large extent in currencies other than SEK and therefore the financial results of the Company are impacted by currency fluctuations.

The Company reports the financial accounts in SEK and movements in exchange rates between currencies will affect:

Specific line items such as Net sales and Operating income

The comparability of our results between periods

The carrying value of assets and liabilities

Reported cash flows.

Net sales and Operating income are affected by changes in foreign exchange rates from two different kinds of exposures, translation exposure and transaction exposure. In the Operating income we are primarily exposed to transaction exposure which is partially addressed by hedging.

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**Currency exposure, SEK billion**

| Exposure currency       | Translation exposure | Transaction exposure | Net exposure | Net exposure, percent of total |
|-------------------------|----------------------|----------------------|--------------|--------------------------------|
| <b>Net sales</b>        |                      |                      |              |                                |
| SEK                     | 43.2                 | 40.5                 | 2.7          | 1%                             |
| USD                     | 57.2                 | 38.9                 | 96.1         | 42%                            |
| EUR                     | 29.7                 | 11.4                 | 41.1         | 18%                            |
| CNY                     | 12.1                 | 0.2                  | 11.9         | 5%                             |
| JPY                     | 17.5                 | 0.5                  | 18.0         | 8%                             |
| INR                     | 6.1                  | 0.0                  | 6.1          | 3%                             |
| BRL                     | 7.0                  | 0.3                  | 6.7          | 3%                             |
| GBP                     | 6.3                  | 1.3                  | 5.0          | 2%                             |
| Other                   | 48.5                 | 8.5                  | 40.0         | 18%                            |
| <b>Pre-hedge total</b>  |                      |                      | <b>227.6</b> | <b>100%</b>                    |
| Hedge                   |                      |                      | 0.2          |                                |
| <b>Total Net sales</b>  |                      |                      | <b>227.8</b> |                                |
| <b>Net cost</b>         |                      |                      |              |                                |
| SEK                     | 43.4                 | 29.9                 | 73.3         | 33%                            |
| USD                     | 57.9                 | 12.6                 | 70.5         | 32%                            |
| EUR                     | 27.4                 | 4.7                  | 32.1         | 15%                            |
| CNY                     | 11.5                 | 0.7                  | 10.8         | 5%                             |
| JPY                     | 16.1                 | 11.5                 | 4.6          | 2%                             |
| INR                     | 5.1                  | 2.4                  | 2.7          | 1%                             |
| BRL                     | 6.5                  | 0.7                  | 5.8          | 3%                             |
| GBP                     | 5.9                  | 0.3                  | 5.6          | 3%                             |
| Other                   | 43.9                 | 31.6                 | 12.3         | 6%                             |
| <b>Pre-hedge total</b>  |                      |                      | <b>217.7</b> | <b>100%</b>                    |
| Hedge                   |                      |                      | 0.4          |                                |
| <b>Total Net cost</b>   |                      |                      | <b>217.3</b> |                                |
| <b>Operating income</b> |                      |                      | <b>10.5</b>  |                                |

**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.

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According to Company policy, transaction exposure in subsidiaries' balance sheets (i.e. trade receivables and payables and customer finance receivables) should be fully hedged, except for non-tradable currencies.

Foreign exchange exposures in balance sheet items are hedged through offsetting balances or derivatives.

As of December 31, 2012, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of SEK 1.1 ( 0.5) billion. The market value is partly deferred in the hedge reserve in other comprehensive income to offset the gains/losses on hedged future sales in foreign currency.

*Cash flow hedges*

The purpose of hedging forecasted revenues and costs is to reduce volatility in the income statement. Hedging is done by selling or buying foreign currencies against the functional currency of the hedging entity using foreign exchange forwards.

Hedging is done based on a rolling 12-month exposure forecast. The Company uses a layered hedging approach, where the closest quarters are hedged to a higher degree than later quarters. Each consecutive quarter is hereby hedged on several occasions and is covered by an aggregate of hedging contracts initiated at various points in time, which supports the objective of reducing volatility in the income statement from changes in foreign exchange rates.

**Translation exposure in net assets**

The Company has many subsidiaries operating outside Sweden with other functional currencies than SEK. The results and net assets of such companies are exposed to exchange rate fluctuations, which affect the consolidated income statement and balance sheet when translated to SEK. Translation risk related to forecasted results from foreign operations can not be hedged, but net assets can be addressed by hedging.

Translation exposure in foreign subsidiaries is hedged according to the following policy established by the Board of Directors: Translation risk related to net assets in foreign subsidiaries is hedged up to 20% in selected companies. The translation differences reported in Other comprehensive income during 2012 were negative, SEK 3.9 ( 1.0) billion, including hedging gain/loss of SEK 0.0 (0.0) billion.

**Interest rate risk**

The Company is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position was SEK 38.5 (39.5) billion at the end of 2012, consisting of cash, cash equivalents and short-term investments of SEK 76.7 (80.5) billion and interest-bearing liabilities and post-employment benefits of SEK 38.2 (41.0) billion.

The Company manages the interest rate risk by (i) matching fixed and floating interest rates in interest-bearing balance sheet items and (ii) avoiding significant fixed interest rate exposure in the Company's net cash position. The policy is that interest-bearing assets shall have an average interest duration between 10 and 14 months, taking derivative instruments into consideration. Interest-bearing liabilities do not have a duration target as the duration of the fixed rate portion will be determined by market conditions when liabilities are issued, Group Treasury has a mandate to deviate from the asset management benchmark given by the Board and take foreign exchange positions up to an aggregated risk of VaR SEK 45 million given a confidence level of 99% and a 1-day horizon.

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**Interest duration, SEK billion**

|                              | < 3M | <1Y | 1-3Y | 3-5Y | >5Y | Total |
|------------------------------|------|-----|------|------|-----|-------|
| Interest Bearing Trading     | 4.7  | 5.4 | 1.0  | 0.0  | 0.3 | 0     |
| Interest Bearing Assets      | 58.2 | 2.6 | 11.5 | 3.6  | 0.8 | 76.7  |
| Interest Bearing Liabilities | 11.7 | 5.1 | 0.0  | 4.2  | 7.7 | 28.7  |

When managing the interest rate exposure, the Company uses derivative instruments, such as interest rate swaps. Derivative instruments used for converting fixed rate debt into floating rate debt are designated as fair value hedges.

*Fair value hedges*

The purpose of fair value hedges is to hedge the variability in the fair value of fixed-rate debt (issued bonds) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk/spread is not hedged.

The fixed leg of the IRS is matched against the cash flows of the hedged bond. Hereby the fixed-rate bond/debt is converted into a floating-rate debt in accordance with the policy.

**Outstanding derivatives<sup>1)</sup>**

| Fair value   | 2012         |           | 2011  |           |
|--|--------------|-----------|-------|-----------|
|  | Asset        | Liability | Asset | Liability |
| <b>Currency derivatives</b>                                  |              |           |       |           |
| Maturity within 3 months                                     | 976          | 60        | 557   | 881       |
| Maturity between 3 and 12 months                             | 611          | 10        | 364   | 393       |
| Maturity 1 to 3 years  | 4            |           |       |           |
| <b>Total</b>   | <b>1,591</b> | <b>70</b> | 921   | 1,274     |
| <i>Of which designated in cash flow hedge relations</i>      | <b>816</b>   | <b>6</b>  | 333   | 638       |
| <i>Of which designated in net investment hedge relations</i> |              |           |       |           |

**Interest rate derivatives**

|  |                           |              |                     |       |
|--|---------------------------|--------------|---------------------|-------|
| Maturity within 3 months                                 |                           |              |                     | 5     |
| Maturity between 3 and 12 months                         | 487                       | 285          | 324                 | 367   |
| Maturity 1 to 3 years                                    | 565                       | 681          | 380                 | 618   |
| Maturity 3 to 5 years                                    | 1,212                     | 739          | 416                 | 815   |
| Maturity more than 5 years                               | 38                        |              | 778                 | 161   |
| <b>Total</b>   | <b>2,302<sup>2)</sup></b> | <b>1,705</b> | 1,898 <sup>2)</sup> | 1,966 |
| <i>Of which designated in fair value hedge relations</i> | <b>969</b>                |              | 1,002               |       |

1) Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current derivatives due to hedge accounting.

2) Of which SEK 825 (816) million is reported as non-current assets.

**Sensitivity analysis**

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The Company uses the VaR methodology to measure foreign exchange and interest rate risks in portfolios managed by Treasury. This statistical method expresses the maximum potential loss that can arise with a certain

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degree of probability during a certain period of time. For the VaR measurement, the Company has chosen a probability level of 99% and a 1-day time horizon. The daily VaR measurement uses market volatilities and correlations based on historical daily data (one year).

The average VaR calculated for 2012 was SEK 9.8 (20.6) million for the combined mandates. No VaR-limits were exceeded during 2012.

**Financial credit risk**

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. This exposure arises in the investments in cash, cash equivalents, short-term investments and from derivative positions with positive unrealized results against banks and other counterparties.

The Company mitigates these risks by investing cash primarily in well-rated securities such as treasury bills, government bonds, commercial papers, and mortgage covered bonds with short-term ratings of at least A-1/P-1 and long-term ratings of AAA. Separate credit limits are assigned to each counterpart in order to minimize risk concentration. We have had no sub-prime exposure in our investments. All derivative transactions are covered by ISDA netting agreements to reduce the credit risk. No credit losses were incurred during 2012, SEK 0.0 (0.0) billion, neither on external investments nor on derivative positions.

At December 31, 2012, the credit risk in financial cash instruments was equal to the instruments' carrying value. Credit exposure in derivative instruments was SEK 3.9 (2.8) billion.

**Liquidity risk**

Liquidity risk is that the Company is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves.

The Company minimizes the liquidity risk by maintaining a sufficient net cash position. This is managed through centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. For information about contractual obligations, please see Note C31, "Contractual obligations". The current cash position is deemed to satisfy all short-term liquidity requirements.

During 2012, cash and bank and short-term investments decreased by SEK 3.8 billion to SEK 76.7 billion.

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

| SEK billion                       | Remaining time to maturity |             |              |             | Total |
|-----------------------------------|----------------------------|-------------|--------------|-------------|-------|
|                                   | < 3<br>months              | < 1<br>year | 1 5<br>years | >5<br>years |       |
| Bank Deposits                     | 40.6                       | 0.2         |              |             | 40.8  |
| <b>Type of issuer/counterpart</b> |                            |             |              |             |       |
| Governments                       | 3.4                        | 4.5         | 10.8         | 0.8         | 19.5  |
| Corporations                      | 3.1                        |             |              |             | 3.1   |
| Mortgage institutes               |                            | 0.1         | 13.2         |             | 13.3  |
| 2012                              | 47.1                       | 4.8         | 24.0         | 0.8         | 76.7  |
| 2011                              | 44.7                       | 4.0         | 29.8         | 2.0         | 80.5  |

The instruments are either classified as held for trading or as assets available for sale with maturity less than one year and are therefore short-term investments. Cash, Cash equivalents and short-term investments are mainly held in SEK unless off-set by EUR-funding.

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**Refinancing risk**

Refinancing risk is the risk that the Company is unable to refinance outstanding debt at reasonable terms and conditions, or at all, at a given point in time.

**Repayment schedule of non-current borrowings<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       |
|------------------------------|--------------------------------------|-------------------------------|---|-------------|
| 2013                         | 3.0                                  |                               |   | 3.0         |
| 2014                         |                                      | 1.9                           |   | 1.9         |
| 2015                         |                                      |                               | 5.1   | 5.1         |
| 2016                         |                                      | 2.0                           |   | 2.0         |
| 2017                         |                                      | 4.3                           |   | 4.3         |
| 2018                         |                                      |                               |   |             |
| 2019                         |                                      |                               | 0.6   | 0.6         |
| 2020                         |                                      | 1.1                           |   | 1.1         |
| 2021                         |                                      |                               | 0.6   | 0.6         |
| 2022                         |                                      | 6.4                           |   | 6.4         |
| <b>Total</b>                 | <b>3.0</b>                           | <b>15.7</b>                   | <b>6.3</b>  | <b>25.0</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.

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

|   | Amount        | Utilized | Unutilized |
|---|---------------|----------|------------|
| Euro Medium-Term Note program (USD million)       | 5,000         | 1,833    | 3,167      |
| SEC Registered program (USD Million)              | <sup>2)</sup> | 1,000    |            |
| Long-term Committed Credit facility (USD million) | 2,000         |          | 2,000      |
| Indian Commercial Paper program (INR million)     | 5,000         | 3,750    | 1,250      |
| EIB Committed Credit Facility (EUR million)       | 500           |          | 500        |

1) There are no financial covenants related to these programs.

2) Program amount indeterminate.

**Financial instruments carried at other than fair value**



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The fair value of the Company's financial instruments, recognized at fair value, are determined based on quoted market prices or rates. In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit or loss showed a net gain of SEK 2.7 billion. For further information about valuation principles, please see Note C1, Significant accounting policies .

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**Financial instruments carried at other than fair value<sup>1)</sup>**

| SEK billion                            | Book value  |      | Fair value  |      |
|--|-------------|------|-------------|------|
|  | 2012        | 2011 | 2012        | 2011 |
| Current part of non-current borrowings | 3.0         | 4.3  | 3.0         | 4.3  |
| Notes and bonds                        | 16.5        | 17.2 | 17.0        | 17.1 |
| Other borrowings non-current           | 7.4         | 4.9  | 7.6         | 4.9  |
| <b>Total</b>                           | <b>26.9</b> | 26.4 | <b>27.6</b> | 26.3 |

1) Excluding finance leases reported in Note C27, Leasing .

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

**Market price risk in own shares and other listed equity investments****Risk related to our own share price**

The Company is exposed to the development of its own share price through stock purchase plans for employees and synthetic share-based compensations to the Board of Directors.

*Stock purchase plans for employees*

The obligation to deliver shares under the stock purchase plan is covered by holding Ericsson Class B shares as treasury stock. A change in the share price will result in a change in social security charges, which represents a risk to the income statement. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares as treasury stock to be sold to generate funds to cover also social security payments.

*Synthetic share-based compensations to the Board of Directors*

For these plans, the Company is exposed to risks in relation to own share price, both in relation to compensation expenses and social security charges. The obligation to pay compensation amounts under the synthetic share-based compensations to the Board of Directors is covered by a liability in the balance sheet.

For further information about the stock purchase plan and the synthetic share-based compensations to the Board of Directors, please see note C28, Information regarding members of the board of directors, the Group management and employees .

**Financial instruments, book value**

| SEK billion | Customer<br>finance | Trade<br>receivables | Short-<br>term<br>invest-<br>ments | Cash<br>equiva-<br>lents | Borrowings | Trade<br>payables | Other<br>financial<br>assets | Other<br>current<br>receiv-<br>ables | Other<br>current<br>liabilities | 2012 | 2011 |
|-------------|---------------------|----------------------|------------------------------------|--------------------------|------------|-------------------|------------------------------|--------------------------------------|---------------------------------|------|------|
| Note        | C14                 | C14                  |                                    |                          | C19        | C22               | C12                          | C15                                  | C21                             |      |      |
|             |                     |                      |                                    |                          |            |                   |                              |                                      |                                 |      |      |

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|   |            |             |             |             |             |             |            |            |            |             |             |
|---|------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|-------------|-------------|
| Assets at fair value through profit or loss |            |             | 32.0        | 12.2        |             |             | 0.8        | 3.1        | 1.8        | <b>46.3</b> | 43.4        |
| Loans and receivables                       | 5.3        | 63.7        |             | 2.1         |             |             | 3.2        |            |            | <b>74.3</b> | 79.2        |
| Financial liabilities at amortized cost     |            |             |             |             | 28.7        | 23.1        |            |            |            | <b>51.8</b> | 56.3        |
| <b>Total</b>                                | <b>5.3</b> | <b>63.7</b> | <b>32.0</b> | <b>14.3</b> | <b>28.7</b> | <b>23.1</b> | <b>4.0</b> | <b>3.1</b> | <b>1.8</b> | <b>68.8</b> | <b>66.3</b> |

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**C21 OTHER CURRENT LIABILITIES****Other current liabilities**

|  | 2012          | 2011          |
|--|---------------|---------------|
| Income tax liabilities                                 | 3,878         | 2,691         |
| Advances from customers                                | 4,754         | 3,942         |
| Liabilities to associated companies and joint ventures |               | 119           |
| Accrued interest                                       | 259           | 351           |
| Accrued expenses, of which                             | 32,353        | 32,652        |
| <i>Employee related</i>                                | 11,166        | 11,314        |
| <i>Supplier related</i>                                | 11,440        | 11,621        |
| <i>Other<sup>1)</sup></i>                              | 9,747         | 9,717         |
| Deferred revenues                                      | 11,658        | 8,722         |
| Derivatives with a negative value <sup>2)</sup>        | 1,775         | 3,240         |
| Other <sup>3)</sup>                                    | 6,431         | 6,253         |
| <b>Total</b>   | <b>61,108</b> | <b>57,970</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**

|   | 2012          | 2011          |
|---|---------------|---------------|
| Payables to associated companies and joint ventures | 81            | 102           |
| Other   | 23,019        | 25,207        |
| <b>Total</b>  | <b>23,100</b> | <b>25,309</b> |

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

|                   | 2012       | 2011       |
|-------------------|------------|------------|
| Chattel mortgages | 185        | 185        |
| Bank deposits     | 335        | 267        |
| <b>Total</b>      | <b>520</b> | <b>452</b> |

**C24 CONTINGENT LIABILITIES**

**Contingent liabilities**

|                        | <b>2012</b> | <b>2011</b> |
|------------------------|-------------|-------------|
| Contingent liabilities | <b>613</b>  | <b>609</b>  |
| <b>Total</b>           | <b>613</b>  | <b>609</b>  |

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Contingent liabilities assumed by Ericsson include guarantees of loans to other companies of SEK 24 (25) million. Ericsson has SEK 59 (111) million issued to guarantee the performance of a third party.

All ongoing legal and tax proceedings have been evaluated, their potential economic outflows and probability estimated and necessary provisions made. In Note C2, Critical Accounting Estimates and Judgments, a further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Financial guarantees for third party amounted to SEK 286 (449) million as of December 31, 2012. Maturity date for major part of the issued guarantees occurs in 2021 at latest.

**C25 STATEMENT OF CASH FLOWS**

Interest paid in 2012 was SEK 1,650 million (SEK 1,422 million in 2011, SEK 977 million in 2010) and interest received was SEK 1,883 million (SEK 2,632 million in 2011, SEK 1,083 million in 2010). Taxes paid, including withholding tax, were SEK 5,750 million (SEK 4,393 million in 2011, SEK 4,808 million in 2010).

Cash and cash equivalents includes cash of SEK 30,358 (29,471) million and temporary investments of SEK 14,324 (9,205) million. For more information regarding the disposition of cash and cash equivalents and unutilized credit commitments, see Note C20, Financial risk management and financial instruments.

The Company holds cash or cash equivalents in countries where exchange controls or legal restrictions apply. These restrictions normally refer to approval procedures prior to cross-border cash transfers. The amount of cash and cash equivalents in such countries amounts to SEK 10.6 (13.9) billion. Of this amount, SEK 9.2 (12.8) billion can be used for repayment of external and internal liabilities as well as other operating needs. Therefore, net cash and cash equivalents that are not readily available for use by the Group is SEK 1.4 (1.1) billion.

**Adjustments to reconcile net income to cash**

|  | 2012         | 2011         | 2010         |
|--|--------------|--------------|--------------|
| <b>Property, plant and equipment</b>   |              |              |              |
| Depreciation   | 4,052        | 3,499        | 3,299        |
| Impairment losses/reversals of impairments   | 40           | 47           | 3            |
| <b>Total</b>   | <b>4,012</b> | <b>3,546</b> | <b>3,296</b> |
| <b>Intangible assets</b>   |              |              |              |
| <i>Amortization</i>  |              |              |              |
| Capitalized development expenses   | 1,058        | 995          | 664          |
| Intellectual Property Rights, brands and other intangible assets   | 4,436        | 4,470        | 4,999        |
| <b>Total amortization</b>  | <b>5,494</b> | <b>5,465</b> | <b>5,663</b> |
| <i>Impairments</i>   |              |              |              |
| Capitalized development expenses   | 266          | 7            | 49           |
| Intellectual Property Rights, brands and other intangible assets   | 117          | 18           | 945          |
| <b>Total</b>   | <b>5,877</b> | <b>5,490</b> | <b>6,657</b> |
| <b>Total depreciation, amortization and impairment losses on property, plant and equipment and intangible assets</b> | <b>9,889</b> | <b>9,036</b> | <b>9,953</b> |
| Taxes  | 1,140        | 1,994        | 351          |

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|  |               |        |        |
|--|---------------|--------|--------|
| Dividends from joint ventures/ associated companies <sup>1)</sup>                                  | 133           | 177    | 119    |
| Undistributed earnings in joint ventures/associated companies <sup>1)</sup>                        | 11,636        | 3,533  | 1,357  |
| Gains/losses on sales of investments and operations, intangible assets and PP&E, net <sup>2)</sup> | 8,087         | 159    | 237    |
| Other non-cash items <sup>3)</sup>   | 646           | 1,968  | 947    |
| <b>Total adjustments to reconcile net income to cash</b>   | <b>13,077</b> | 12,613 | 12,490 |

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- 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>2012</b>  |               |              |
| Cash flow from business combinations <sup>1)</sup> | 11,575        | 9,502        |
| Acquisitions/divestments of other investments      | 46            | 50           |
| <b>Total</b>                                       | <b>11,529</b> | <b>9,452</b> |
| <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>    |
| <b>2010</b>  |               |              |
| Cash flow from business combinations <sup>1)</sup> | 3,286         | 454          |
| <b>Total</b>                                       | <b>3,286</b>  | <b>454</b>   |

- 1) See also Note C26, Business combinations .

**C26 BUSINESS COMBINATIONS****Acquisitions and divestments****Acquisitions***Acquisitions 2010 2012*

|   | 2012                 | 2011  | 2010  |
|---|----------------------|-------|-------|
| Cash  | 12,564 <sup>1)</sup> | 1,162 | 3,789 |
| <b>Total consideration</b>                    | <b>12,564</b>        | 1,162 | 3,789 |
| <b>Acquisition-related costs<sup>2)</sup></b> | <b>150</b>           | 77    | 67    |
| <b>Net asset acquired</b>                     |                      |       |       |
| Cash and cash equivalents                     | 1,139                | 7     | 570   |
| Property, plant and equipment                 | 480                  | 259   | 205   |



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|  |               |              |              |
|--|---------------|--------------|--------------|
| Intangible assets                                      | 6,672         | 382          | 3,825        |
| Investments in joint ventures and associated companies |               | 120          | 138          |
| Other assets   | 2,105         | 140          | 2,506        |
| Provisions, including post-employment benefits         | 714           | 23           | 390          |
| Other liabilities                                      | 3,214         | 37           | 3,573        |
| <b>Total identifiable net assets</b>                   | <b>7,896</b>  | <b>848</b>   | <b>3,281</b> |
| <b>Non-controlling interest</b>                        | <b>375</b>    | <b>54</b>    | <b>748</b>   |
| <b>Goodwill</b>  | <b>4,293</b>  | <b>260</b>   | <b>1,256</b> |
|  | <b>12,564</b> | <b>1,162</b> | <b>3,789</b> |

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- 1) The cash transaction includes payment of external loan of SEK 6.2 billion and investment in subsidiary of SEK 2.5 billion.
  - 2) Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.
- In 2012, Ericsson made acquisitions with a negative cash flow effect amounting to SEK 11,575 (1,232) million. The acquisitions consist primarily of:

**BelAir:** On April 2, 2012, the Company acquired 100% of the shares in BelAir Networks, a North American telecom-grade Wi-Fi company. The acquisition gives the Company a telecom-grade Wi-Fi portfolio, technological expertise, IPR, and established customer contracts and relationships. The purchase price was USD 250 million on a cash and debt-free basis.

**ConceptWave:** On September 25, 2012, the Company announced the acquisition of 100% of the shares in the Canadian company ConceptWave in an all-cash transaction. The acquisition complements the Company's portfolio in OSS/BSS with order management and product catalog solutions. The purchase price was CAD 55 million on a cash and debt-free basis. Balances to facilitate the Purchase price allocation are preliminary.

**Ericsson-LG:** On March 22, 2012, the Company announced it had acquired additional shares in Ericsson-LG, thereby increasing the ownership from 50% plus one share to 75%. The company is fully consolidated by the Company, since the original acquisition in July 2010.

**Technicolor:** On July 3, 2012, the Company announced the closing of the acquisition of the broadcast services division of Technicolor. The acquisition brings broadcast customers and playout operations in France, UK and in the Netherlands. The purchase price amounted to EUR 20 million including a potential earn-out valued at EUR 2 million, based on 2015 revenues of the Broadcast services activity. Balances to facilitate the Purchase price allocation are preliminary.

**Telcordia:** On June 14, 2011, the Company announced that it had entered into an agreement to acquire 100% of the shares of Telcordia, a leader in the development of software and services for OSS/BSS. The acquisition was completed on January 12, 2012, with a purchase price of USD 1.15 billion in an all-cash transaction, on a cash and debt-free basis. Net sales for the acquired Telcordia business amounted to approximately SEK 4.2 billion for the period January 12 – December 31, 2012. The acquired Telcordia business had a positive impact on the result. Goodwill represented 57% of the total assets acquired. The goodwill is mainly attributable to the value of the competence acquired and future synergy effects. None of the goodwill is expected to be deductible for tax purposes. Transaction costs for the acquisition amounted to SEK 57 million.

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*Telcordia*

|  |                           |
|--|---------------------------|
|  | <b>2012</b>               |
| Cash   | <b>8,725<sup>1)</sup></b> |
| <b>Total consideration</b>                     | <b>8,725</b>              |
| <b>Acquisition-related costs<sup>2)</sup></b>  | <b>57</b>                 |
| <b>Net asset acquired</b>                      |                           |
| Cash and cash equivalents                      | <b>886</b>                |
| Property, plant and equipment                  | <b>305</b>                |
| Intangible assets                              | <b>5,543</b>              |
| Other assets <sup>3)</sup>                     | <b>1,713</b>              |
| Provisions, including post-employment benefits | <b>714</b>                |
| Other liabilities                              | <b>3,586</b>              |
| <b>Total identifiable net assets</b>           | <b>5,575</b>              |
| <b>Goodwill</b>                                | <b>3,150</b>              |
|  | <b>8,725</b>              |

1) The cash transaction includes payment of external loan of SEK 6.2 billion and investment in subsidiary of SEK 2.5 billion.

2) Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.

3) Other assets include trade receivables with a fair value of SEK 1.4 billion.

In order to finalize a Purchase price allocation all relevant information needs to be in place. Examples of such information are final consideration and final opening balances, they may remain preliminary for a period of time due to for example working capital adjustments, tax items or decisions from local authorities.

**Divestments***Divestments 2010 2012*

|  | <b>2012</b>  | <b>2011</b> | <b>2010</b> |
|--|--------------|-------------|-------------|
| <b>Cash</b>  | <b>9,502</b> | 28          | 454         |
| <b>Net assets disposed of</b>                          |              |             |             |
| Property, plant and equipment                          |              | 1           | 21          |
| Investments in joint ventures and associated companies | <b>1,353</b> | 10          |             |
| Other assets   | <b>296</b>   | 38          | 372         |
| Other liabilities                                      | <b>483</b>   | 224         | 183         |
|  | <b>1,166</b> | 175         | 210         |
| Net gains from divestments                             | <b>8,336</b> | 158         | 357         |
| Less Cash and cash equivalents                         |              | 11          | 113         |

**Cash flow effect**

**9,502**

28

454

In 2012, the Company made divestments with a cash flow effect amounting to SEK 9,502 ( 28) million.

**IPX:** On September 30, 2012, the Company divested its Multimedia brokering platform (IPX) to French listed company Gemalto, with the exception of the operations in the US. The sale resulted in a gain amounting to SEK 237 million and a positive cash flow effect of SEK 260 million.

**Sony Ericsson:** On February 16, 2012, the Company announced the completion of the divestment of its 50% stake in Sony Ericsson Mobile Communications, with a carrying value of 1.4 billion. The agreed

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cash consideration for the transaction was EUR 1.05 billion. The sale resulted in a gain amounting to SEK 7.7 billion and a positive cash flow effect of SEK 9.1 billion. For further information on the divestment of Sony Ericsson, see note C3, Segment information .  
*Acquisitions 2010 2012*

| <b>Company</b>                            | <b>Description</b>   | <b>Transaction date</b> |
|---|--|-------------------------|
| ConceptWave                               | A Canadian OSS/BSS company. The purchase price was CAD 55 million.   | Sep, 2012               |
| Technicolor                               | A technology company in the media and entertainment sector. The purchase price was EUR 20 million.   | Jul, 2012               |
| BelAir                                    | A telecom-grade Wi-Fi company based in Canada. The purchase price was USD 250 million.   | Apr, 2012               |
| Ericsson-LG                               | Increase of ownership from 50% plus one share, to 75%.   | Mar, 2012               |
| Telcordia                                 | A US company developing software and services for OSS/BSS. The purchase price was USD 1.15 billion.  | Jan, 2012               |
| GDNT                                      | An asset purchase agreement of certain assets. Enhances the Company's existing R&D, manufacturing and services capabilities in the China region. The purchase price was RMB 357 million. | May, 2011               |
| Nortel Multiservice Switch business (MSS) | An asset purchase agreement to acquire certain assets of Nortel's MSS. The purchase price was USD 53 million.  | Mar, 2011               |
| Optimi                                    | A US-Spanish telecommunications vendor providing products and services within the networks optimization and management sector. The purchase price was USD 99 million.                    | Dec, 2010               |
| inCode                                    | An asset purchase agreement of certain assets. A professional services firm providing strategic business and consulting services. The purchase price was USD 12 million.                 | Sep, 2010               |
| LG-Nortel                                 | Nortel's majority shareholding (50% + 1 share) in LG-Nortel. The purchase price was USD 234 million.   | Jun, 2010               |
| Nortel GSM                                | An asset purchase agreement of the Carrier networks division of Nortel relating to GSM business. The purchase price was USD 79 million.  | Mar, 2010               |
| Pride                                     | An Italian consulting and systems integration company. The purchase price was EUR 66 million.  | Jan, 2010               |

*Divestments 2010 2012*

| <b>Company</b> | <b>Description</b>   | <b>Transaction date</b> |
|----------------|--|-------------------------|
| IPX            | Sale of IPX to Gemalto, with a positive cash flow effect of SEK 260 million.                                     | Sep, 2012               |
| EDA 1500 GPON  | Capital asset sale of EDA 1500 GPON portfolio with a positive cash flow effect of SEK 80 million.                | Aug, 2012               |
| Sony Ericsson  | Sale of the Company's share in Sony Ericsson (50%) to Sony, with a positive cash flow effect of SEK 9.1 billion. | Feb, 2012               |
| EFI            | Sale of Ericsson Federal Inc. (EFI), with a positive cash flow effect of SEK 360 million.                        | Dec, 2010               |

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**C27 LEASING****Leasing with the Company as lessee**

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

**Finance leases**

|   | 2012         | 2011  |
|---|--------------|-------|
| <b><u>Cost</u></b>                          |              |       |
| Real estate                                 | 1,538        | 1,856 |
| Machinery                                   | 3            | 3     |
|   | <b>1,541</b> | 1,859 |
| <b><u>Accumulated depreciation</u></b>      |              |       |
| Real estate                                 | 601          | 725   |
| Machinery                                   | 3            | 3     |
|   | <b>604</b>   | 728   |
| <b><u>Accumulated impairment losses</u></b> |              |       |
| Real estate                                 | 35           | 42    |
|   | <b>35</b>    | 42    |
| <b>Net carrying value</b>                   | <b>902</b>   | 1,089 |

As of December 31, 2012, future minimum lease payment obligations for leases were distributed as follows:

**Future minimum lease payment obligations for leases**

|   | Finance<br>leases | Operating<br>leases |
|---|-------------------|---------------------|
| 2013  | 150               | 2,847               |
| 2014  | 229               | 1,794               |
| 2015  | 127               | 1,388               |
| 2016  | 85                | 1,105               |
| 2017  | 76                | 777                 |
| 2018 and later                                    | 795               | 2,472               |
| <b>Total</b>                                      | <b>1,462</b>      | <b>10,383</b>       |
| Future finance charges <sup>1)</sup>              | 398               | n/a                 |
| <b>Present value of finance lease liabilities</b> | <b>1,064</b>      | <b>10,383</b>       |

1) Average effective interest rate on lease payables is 5.69%.

Expenses in 2012 for leasing of assets were SEK 3,172 (3,362) million, of which variable expenses were SEK 20 (7) million. The leasing contracts vary in length from 1 to 20 years.

The Company's lease agreements normally do not include any contingent rents. In the few cases they occur, they relate to charges for heating linked to the oil price index. Most of the leases of real estate contain terms of renewal, giving the Company the right to prolong the agreement in question for a predefined period of time. All of the finance leases of facilities contain purchase options. Only a very limited number of the

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Company's lease agreements contain restrictions on stockholders' equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders' equity of at least SEK 25 billion.

**Leases with the Company as lessor**

Leasing income relates to subleasing of real estate as well as equipment provided to customers under leasing arrangements. These leasing contracts vary in length from 1 to 11 years.

At December 31, 2012, future minimum payment receivables were distributed as follows:

**Future minimum payment receivables**

|  | <b>Finance<br/>leases</b> | <b>Operating<br/>leases</b> |
|--|---------------------------|-----------------------------|
| 2013                                       | 6                         | 154                         |
| 2014                                       | 6                         | 143                         |
| 2015                                       | 6                         | 96                          |
| 2016                                       | 6                         | 23                          |
| 2017                                       | 6                         | 18                          |
| 2018 and later                             |                           | 52                          |
| <b>Total</b>                               | <b>30</b>                 | <b>486</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 2012 was SEK 236 (76) million.



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**C28 INFORMATION REGARDING MEMBERS OF THE BOARD OF DIRECTORS, THE GROUP MANAGEMENT AND EMPLOYEES****Remuneration to the Board of Directors****Remuneration to members of the Board of Directors**

| SEK                       | Board fees        | Number of synthetic shares/ portion of Board fee | Value at grant date of synthetic shares allocated in 2012<br>A | Number of previously allocated synthetic shares outstanding | Net change in value of allocated synthetic shares <sup>1)</sup><br>B | Committee fees   | Total fees paid in cash <sup>2)</sup><br>C | Total remuneration 2012 (A+B+C)  |
|---------------------------|-------------------|--|--|---|--|------------------|--|----------------------------------|
| <b>Board member</b>       |                   |  |  |   |  |                  |  |                                  |
| Leif Johansson            | 3,750,000         | 0/0%   |  |   |  | 400,000          | 4,150,000 <sup>3)</sup>                    | <b>4,150,000</b>                 |
| Sverker Martin-Löf        | 875,000           | 0/0%   |  |   |  | 250,000          | 1,125,000                                  | <b>1,125,000</b>                 |
| Jacob Wallenberg          | 875,000           | 6,984/50%  | 437,499  | 2,262.00  | 10,826   | 175,000          | 612,500                                    | <b>1,060,825</b>                 |
| Roxanne S. Austin         | 875,000           | 6,984/50%  | 437,499  | 29,172.60   | 31,648   | 250,000          | 687,500                                    | <b>1,156,647</b>                 |
| Sir Peter L.              |                   |  |  |   |  |                  |  |                                  |
| Bonfield                  | 875,000           | 3,492/25%  | 218,749  | 9,722.80  | 13,411   | 250,000          | 906,250                                    | <b>1,138,410</b>                 |
| Börje Ekholm              | 875,000           | 10,476/75%                                       | 656,248  | 29,172.60   | 40,228   | 175,000          | 393,750                                    | <b>1,090,226</b>                 |
| Alexander Izosimov        | 875,000           | 3,492/25%  | 218,749  |   | 8,580  |                  | 656,250                                    | <b>883,579</b>                   |
| Ulf J. Johansson          | 875,000           | 0/0%   |  | 22,384.60   | 33,495   | 350,000          | 1,225,000 <sup>4)</sup>                    | <b>1,258,495</b>                 |
| Nancy McKinstry           | 875,000           | 0/0%   |  | 22,002.60   | 18,092   | 175,000          | 1,050,000                                  | <b>1,068,092</b>                 |
| Anders Nyrén              | 875,000           | 0/0%   |  |   |  | 175,000          | 1,050,000                                  | <b>1,050,000</b>                 |
| Hans Vestberg             |                   |  |  |   |  |                  |  |                                  |
| Michelangelo Volpi        | 875,000           | 0/0%   |  | 4,380.00  | 2,409  |                  | 875,000                                    | <b>872,591</b>                   |
| <i>Employee</i>           |                   |  |  |   |  |                  |  |                                  |
| <i>Representatives</i>    |                   |  |  |   |  |                  |  |                                  |
| Pehr Claesson             | 18,000            |  |  |   |  |                  | 18,000                                     | <b>18,000</b>                    |
| Kristina Davidsson        | 18,000            |  |  |   |  |                  | 18,000                                     | <b>18,000</b>                    |
| Jan Hedlund <sup>5)</sup> | 6,000             |  |  |   |  |                  | 6,000                                      | <b>6,000</b>                     |
| Karin Åberg               | 18,000            |  |  |   |  |                  | 18,000                                     | <b>18,000</b>                    |
| Rickard                   |                   |  |  |   |  |                  |  |                                  |
| Fredriksson <sup>6)</sup> | 10,500            |  |  |   |  |                  | 10,500                                     | <b>10,500</b>                    |
| Karin Lennartsson         | 18,000            |  |  |   |  |                  | 18,000                                     | <b>18,000</b>                    |
| Roger Svensson            | 18,000            |  |  |   |  |                  | 18,000                                     | <b>18,000</b>                    |
| <b>Total</b>              | <b>12,606,500</b> | <b>31,428</b>                                    | <b>1,968,744</b>   | <b>119,097.20</b>   | <b>153,871</b>   | <b>2,200,000</b> | <b>12,837,750</b>                          | <b>14,960,365<sup>7)</sup></b>   |
| Total                     | 12,606,500        | 31,428   | 1,968,744  | 128,002.20 <sup>8)</sup>                                    | 138,792 <sup>8)</sup>  | 2,200,000        | 20,706,150 <sup>9)</sup>                   | <b>22,813,687<sup>7)9)</sup></b> |

1) The difference in value as of December 31, 2012, compared to December 31, 2011 (for synthetic shares allocated 2008, 2009, 2010 and 2011), and compared to grant date 2012 (for synthetic shares allocated in 2012). The value of synthetic shares allocated in 2008, 2009, 2010 and 2011 includes respectively SEK 1.85, SEK 2.00, SEK 2.25 and SEK 2.50 per share in compensation for dividends resolved by the Annual General Meetings 2009, 2010, 2011 and 2012.

2) Committee fee and cash portion of the Board fee.

3)

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In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 1,303,930.

- 4) In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 122,520.
- 5) Resigned as employee representative as of May 3, 2012.
- 6) Appointed deputy employee representative as of May 3, 2012.
- 7) Excluding social security charges in the amount of SEK 3,950,998.

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- 8) Including synthetic shares previously allocated to the former Director Carl-Henric Svanberg.
- 9) Including advance payments to the former Directors Michael Treschow and Marcus Wallenberg under the synthetic share programs. Michael Treschow: SEK 7,376,686 for 111,926.80 synthetic shares (in addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 753,159) and Marcus Wallenberg: SEK 491,714 for 7,460.80 synthetic shares.

**Comments to the table**

The Chairman of the Board was entitled to a Board fee of SEK 3,750,000 and a fee of SEK 200,000 for each Board Committee on which he served as Chairman.

The other Directors elected by the Annual General Meeting were entitled to a fee of SEK 875,000 each. In addition, the Chairman of the Audit Committee was entitled to a fee of SEK 350,000 and the other non-employed members of the Audit Committee were entitled to a fee of SEK 250,000 each. The Chairmen of the Finance and Remuneration Committees were entitled to a fee of SEK 200,000 each and the other non-employed members of the Finance and the Remuneration Committees were entitled to a fee of SEK 175,000 each.

Members of the Board, who are not employees of the Company, have not received any remuneration other than the fees and synthetic shares as above. None of the Directors have entered into a service contract with the Parent Company or any of its subsidiaries, providing for termination benefits.

Members and deputy members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees and a fee to the employee representatives and their deputies of SEK 1,500 per attended Board meeting.

Board members invoicing the amount of the Board and Committee fee through a company may add to the invoice an amount corresponding to social charges. The social charges thus included in the invoiced amount are not higher than the general payroll tax that would otherwise have been paid by the Company. The entire amount, i.e. the cash portion of the Board fee and the Committee fee, including social charges, constitutes the invoiced Board fee.

The Annual General Meeting 2012 resolved that non-employed Directors may choose to receive the Board fee (i.e. exclusive of committee fee) as follows: i) 25% of the Board fee in cash and 75% in the form of synthetic shares, with a value corresponding to 75% of the Board fee at the time of allocation, ii) 50% in cash and 50% in the form of synthetic shares, or iii) 75% in cash and 25% in the form of synthetic shares. Directors may also choose not to participate in the synthetic share program and receive 100% of the Board fee in cash. Committee fees are always paid in cash.

The number of synthetic shares is based on a volume-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 Annual General Meeting 2012: SEK 62.643. The number of synthetic shares is rounded down to the nearest whole number of shares.

The synthetic shares are vested during the Directors' term of office and the right to receive payment with regard to the allocated synthetic shares occurs after the publication of the Company's year-end financial statement during the fifth year following the Annual General Meeting which resolved on the synthetic share program, i.e. in 2017.

The amount payable shall be determined based on the volume-weighted average price for shares of Class B during the five trading days immediately following the publication of the year-end financial statement.



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Synthetic shares were allocated to members of the Board for the first time in 2008, on equal terms and conditions as resolved in 2009, 2010, 2011 and 2012. Payment based on synthetic shares may thus, under the main rule, occur for the first time in 2013 with respect to the synthetic shares allocated in 2008. The value of all outstanding synthetic shares fluctuates in line with the market value of Ericsson's Class B share and may differ from year to year compared to the original value on their respective grant dates. The change in value of the outstanding synthetic shares is established each year and affects the total recognized costs that year. As per December 31, 2012, the total number of synthetic shares under the programs is 159,430.20, and the total accounted debt is SEK 11,113,237 (including synthetic shares previously allocated to the former Director Carl-Henric Svanberg). In accordance with the terms and conditions for the synthetic shares, the time for payment to the former Director Carl-Henric Svanberg has been advanced, to occur after the publication of the year-end financial statement 2013. In February 2012, advance payment was made to the former Directors Michael Treschow and Marcus Wallenberg with respect to their synthetic shares, all in accordance with the terms and conditions for the synthetic shares.

**Remuneration to the Group Management**

The Company's costs for remuneration to the Group management are the costs recognized in the Income Statement during the fiscal year. These costs are disclosed under "Remuneration costs" below.

Costs recognized during a fiscal year in the Income Statement are not fully paid by the Company at the end of the fiscal year. The unpaid amounts that the Company has in relation to the Group management are disclosed under "Outstanding balances" .

**Remuneration costs**

The total remuneration to the President and CEO and to other members of the Group management, consisting of the Executive Leadership Team (ELT) includes fixed salary, short-term and long-term variable remuneration, pension and other benefits. These remuneration elements are based on the guidelines for remuneration and other employment conditions for the ELT as approved by the Annual General Meeting held in 2012, see the approved guidelines in section "Guidelines for remuneration to Group Management 2012" .

**Remuneration costs for the President and CEO and other members of Executive Leadership Team (ELT)**

| SEK  | The President and CEO 2012 | The President and CEO 2011 | Other members of ELT 2012 | Other members of ELT 2011 | Total 2012         | Total 2011         |
|--|----------------------------|----------------------------|---------------------------|---------------------------|--------------------|--------------------|
| Salary   | 12,573,233                 | 11,739,341                 | 76,973,215                | 76,031,733                | 89,546,448         | 87,771,074         |
| Costs for annual variable remuneration earned 2012 to be paid 2013 | 3,972,247                  | 2,771,134                  | 21,877,700                | 18,460,645                | 25,849,947         | 21,231,779         |
| Long-term variable remuneration provision                          | 6,439,873                  | 5,636,050                  | 6,472,215                 | 8,916,556                 | 12,912,088         | 14,552,606         |
| Pension costs  | 6,491,713                  | 5,960,566                  | 22,865,674                | 22,154,413                | 29,357,387         | 28,114,979         |
| Other benefits   | 123,612                    | 78,594                     | 4,431,160                 | 4,944,762                 | 4,554,772          | 5,023,356          |
| Social charges and taxes   | 9,114,641                  | 7,800,766                  | 22,877,888                | 23,529,200                | 31,992,529         | 31,329,966         |
| <b>Total</b>   | <b>38,715,319</b>          | <b>33,986,451</b>          | <b>155,497,852</b>        | <b>154,037,309</b>        | <b>194,213,171</b> | <b>188,023,760</b> |

**Comments to the table**

During 2012 there were three Executive Vice Presidents, who have been appointed by the Board of Directors. None of them has acted as deputy to the President and CEO during the year. The Executive Vice Presidents are included in the group "Other members of ELT" .



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The group Other members of ELT comprises the following persons: Per Borgklint, Bina Chaurasia, Håkan Eriksson (up to January 31), Ulf Ewaldsson (from February 1), Jan Frykhammar, Douglas L. Gilstrap, Nina Macpherson, Magnus Mandersson, Helena Norrman, Mats H. Olsson, Rima Qureshi, Angel Ruiz, Johan Wibergh and Jan Wäreby.

The salary stated in the table for the President and CEO and other members of the ELT includes vacation pay paid during 2012 as well as other contracted compensation which were paid during 2012 or provisioned for 2012.

Long-term variable remuneration provision refers to the compensation costs during 2012 for all outstanding share-based plans.

For a description of compensation cost, including accounting treatment, see Note C1, Significant accounting policies, section Share-based compensation to employees and the Board of Directors.

For the President and CEO and other members of the ELT employed in Sweden before 2011 a supplementary plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP) with pension from 60 years. These pension plans are not conditional upon future employment at Ericsson.

**Outstanding balances**

The Company has recognized the following liabilities relating to unpaid remunerations in the Balance Sheet:

Ericsson's commitments for benefit based pensions as of December 31, 2012 under IAS 19 amounted to SEK 5,971,282 for the President and CEO which includes ITP plan and temporary disability and survivor's pension. For other members of ELT the Company's commitments amounted to SEK 27,103,244 of which SEK 21,429,454 refers to the ITP plan and the remaining SEK 5,673,790 to temporary disability and survivor's pensions.

For previous Presidents and CEOs, the Company has made provisions for defined benefit pension plans in connection with their active service periods within the Company.

Deferred salary, earned 2012 or earlier, to be paid 12 months after period end or later, amounts to SEK 7,899,000.

**Maximum outstanding matching rights**

As per December 31, 2012

|  | The President<br>and CEO | Other members<br>of the ELT |
|--|--------------------------|-----------------------------|
| Number of Class B shares   |                          |                             |
| Stock Purchase Plans 2009, 2010, 2011 and 2012 and Executive Performance Stock Plans 2009, 2010, 2011 and 2012 | 503,382                  | 661,456                     |
| Comments to the table  |                          |                             |

For the definition of matching rights, see the description in section Long-term variable remuneration .

The performance matching result of 70,3% is included for 2009 plan.

Cash conversion target for 2012 was reached, but not reached in 2011.

During 2012, the President and CEO received 10,108 matching shares and other members of the ELT 54,803 matching shares.



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**Guidelines for remuneration to Group Management 2012**

For Group Management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short and long-term variable remuneration, pension and other benefits. Furthermore, the following guidelines apply for the remuneration to the Executive Leadership Team:

Variable remuneration is through cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either corporate or unit level, operational targets, employee motivation targets and customer satisfaction targets.

With the current composition of the Executive Leadership Team, the Company's cost during 2012 for variable remuneration to the Executive Leadership Team can, at a constant share price, amount to between 0 and 150% of the aggregate fixed salary cost, all excluding social security costs.

All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account. The retirement age is normally 60 to 65 years of age.

By way of exception, additional arrangements can be made when deemed required. Such additional arrangement shall be limited in time and shall not exceed a period of 36 months and two times the remuneration that the individual concerned would have received had no additional arrangement been made.

The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months' fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

**Long-Term Variable remuneration**

**The Stock Purchase Plan**

The Stock Purchase Plan is designed to offer an incentive for all employees to participate in the Company where practicable, which is consistent with industry practice and with our ways of working. For the 2012 plan, employees are able to save up to 7.5% of gross fixed salary (President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration) for purchase of Class B contribution shares at market price on the NASDAQ OMX Stockholm or American Depositary Shares (ADSs) at NASDAQ New York (contribution shares) during a twelve-month period (contribution period). If the contribution shares are retained by the employee for three years after the investment and the employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs free of consideration. Employees in 100 countries participate in the plans.

The table below shows the contribution periods and participation details for ongoing plans as of December 31, 2012.

**Stock purchase plans**

| Plan | Contribution period |
|------|---------------------|
|------|---------------------|

|                          |             |           | <b>Number of<br/>participants<br/>at launch</b> | <b>Take-up<br/>rate percent of<br/>eligible employees</b> |
|--------------------------|-------------|-----------|---|---|
| Stock Purchase plan 2009 | August 2009 | July 2010 | 18,000  | 25%   |
| Stock Purchase plan 2010 | August 2010 | July 2011 | 22,000  | 27%   |
| Stock Purchase plan 2011 | August 2011 | July 2012 | 24,000  | 30%   |
| Stock Purchase plan 2012 | August 2012 | July 2013 | 27,000  | 28%   |

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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 to encourage retention of key employees. Under the program, up to 10% of employees (2012 plan: up to 8,000 employees) are selected through a nomination process that identifies individuals according to performance, critical skills and potential. Participants selected obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period.

**Executive Performance Stock Plans**

|   | Executive Performance Stock Plan |           |           |           |
|---|----------------------------------|-----------|-----------|-----------|
|   | 2012 <sup>1)</sup>               | 2011      | 2010      | 2009      |
| Base year EPS <sup>2)</sup>                                     |                                  |           | 1.14      | 2.90      |
| Target average annual EPS growth range <sup>3)</sup>            |                                  |           | 5% to 15% | 5% to 15% |
| Matching share vesting range <sup>4)</sup>                      | <b>0.67 to 4</b>                 | 0.67 to 4 | 0.67 to 4 | 0.67 to 4 |
|   | <b>1 to 6</b>                    | 1 to 6    | 1 to 6    | 1 to 6    |
|   | <b>1.5 to 9</b>                  | 1.5 to 9  | 1.5 to 9  | 1.33 to 8 |
| Maximum opportunity as percentage of fixed salary <sup>5)</sup> | <b>30%</b>                       | 30%       | 30%       | 30%       |
|   | <b>45%</b>                       | 45%       | 45%       | 45%       |
|   | <b>162%</b>                      | 162%      | 162%      | 72%       |

- 1) Targets for Executive Performance Stock Plan 2012 are described in the next table.
- 2) Sum of four quarters up to June 30 of plan year 2009. For 2010 plan the sum of 4 quarters up to December 31, 2010.
- 3) EPS range found from three-year average EPS of the twelve quarters to the end of the performance period and corresponding growth targets.
- 4) Corresponding to EPS range (no Performance Share Plan matching below this range). Matching shares per contribution share invested in addition to Stock Purchase Plan matching according to program of up to 4, 6 or 9 matching shares.
- 5) At full investment, full vesting and constant share price. Excludes Stock Purchase Plan matching.

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**Executive Performance Stock Plan targets**

|  | Base year<br>value<br>SEK billion | Year 1                               | Year 2           | Year 3           |
|--|-----------------------------------|--------------------------------------|------------------|------------------|
| <b>2012</b>                                    |                                   |                                      |                  |                  |
| Growth (Net Sales Growth)                      | 227.8                             | Compound annual growth rate of 2 8%  |                  |                  |
| Margin (Operating Income Growth)               | 17.9                              | Compound annual growth of 5 15%      |                  |                  |
| Cash Flow (Cash Conversion)                    |                                   | <sup>3</sup> 70%                     | <sup>3</sup> 70% | <sup>3</sup> 70% |
| <b>2011</b>                                    |                                   |                                      |                  |                  |
| Growth (Net Sales Growth)                      | 203.3                             | Compound annual growth rate of 4 10% |                  |                  |
| Margin (Operating Income Growth) <sup>1)</sup> | 23.7                              | Compound annual growth of 5 15%      |                  |                  |
| Cash Flow (Cash Conversion)                    |                                   | <sup>3</sup> 70%                     | <sup>3</sup> 70% | <sup>3</sup> 70% |

1) Consolidated operating margin excluding restructuring for 2010.

**The Executive Performance Stock Plan**

The Executive Performance Stock Plan is designed to focus management on driving earnings and provide competitive remuneration. Senior executives, including ELT, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan. Up to 0.5% of employees (2012 plan: up to 400 executives) are offered to participate in the plan. The President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration, and may obtain up to nine performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching for the 2009 and 2010 plans is subject to the fulfillment of a performance target of average annual Earnings per Share (EPS) growth.

The performance targets changed from Earnings Per Share (EPS) targets to targets linked to the business strategy as from 2011.

The tables above show all Executive Performance Stock Plans as per December 31, 2012.

**Shares for all plans**

| Plan (million shares)                                | Stock Purchase Plan, Key Contributor Retention Plan and Executive Performance Stock Plans |      |                 |                   |                   |                  | Total            |                   |
|--|---|------|-----------------|-------------------|-------------------|------------------|------------------|-------------------|
|  | 2012  | 2011 | 2010            | 2009              | 2008              |                  |                  |                   |
| Originally designated <sup>1)</sup>                  | A   | 26.2 | 19.4            | 19.4              | 22.4              | 16.5             | 103.9            |                   |
| Outstanding beginning of 2012                        | B   |      | 3.4             | 10.6              | 9.1               | 6.1              | 29.2             |                   |
| Awarded during 2012                                  | C   | 4.4  | 10.8            |                   |                   |                  | 15.2             |                   |
| Exercised/matched during 2012                        | D   |      | 0.3             | 0.5               | 2.3               | 6.0              | 9.1              |                   |
| Forfeited/expired during 2012                        | E   |      | 0.4             | 0.9               | 0.8               | 0.1              | 2.2              |                   |
| Outstanding end of 2012 <sup>2)</sup>                | F=B+C   | D E  | 4.4             | 13.5              | 9.2               | 6.0              | 33.1             |                   |
| Compensation costs charged during 2012 (SEK million) | G   |      | 6 <sup>3)</sup> | 132 <sup>3)</sup> | 148 <sup>3)</sup> | 91 <sup>3)</sup> | 28 <sup>3)</sup> | 405 <sup>4)</sup> |



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- 1) Adjusted for rights offering and reverse split when applicable.
- 2) Presuming maximum performance matching under the Executive Performance Stock Plans. The 2008 plan has lapsed. The 2009 plan partially vested to an extent of 70,3%.
- 3) Fair value is calculated as the share price on the investment date, reduced by the net present value of the dividend expectations during the three-year vesting period. Net present value calculations are based on data from external party. Fair value is also adjusted for participants failing to keep hold of their contribution shares during the vesting period. For shares under the Executive Performance Stock Plans, the Company presumes maximum performance matching for all ongoing plans when calculating the compensation cost. The 2008 plan has lapsed. The 2009 plan partially vested to an extent of 70,3%. Fair value of the Class B share at each investment date during 2012 was: February 15 SEK 56.26, May 15 SEK 53.93, August 15 SEK 55.85 and November 15 SEK 49.99.
- 4) Total compensation costs charged during 2011: SEK 413 million, 2010: SEK 757 million.

**Shares for all plans**

All plans are funded with treasury stock and are equity settled. Treasury stock for all plans has been issued in directed cash issues of Class C shares at the quotient value and purchased under a public offering at the subscription price plus a premium corresponding to the subscribers financing costs, and then converted to Class B shares.

For all plans, additional shares have been allocated for financing of social security expenses. Treasury stock is sold on the NASDAQ OMX Stockholm to cover social security payments when arising due to matching of shares. During 2012, 1,038,200 shares were sold at an average price of SEK 63.17. Sale of shares is recognized directly in equity.

If, as of December 31, 2012, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 61 million Class B shares would be transferred, corresponding to 1.9% of the total number of shares outstanding, 3,220 million not including treasury stock. As of December 31, 2012, 85 million Class B shares were held as treasury stock.

The table above shows how shares (representing matching rights but excluding shares for social security expenses) are being used for all outstanding plans. From up to down the table includes (A) the number of shares originally approved by the Annual General Meeting, adjusted for reverse split where applicable; (B) the number of originally designated shares that were outstanding at the beginning of 2012; (C) the number of shares awards that were granted during 2012; (D) the number of shares matched during 2012; (E) the number of shares forfeited by participants or expired under the plan rules during 2012; and (F) the balance left as outstanding at the end of 2012, having added new awards to the shares outstanding at the beginning of the year and deducted the shares related to awards matched, forfeited and expired.

The final column (G) shows the compensation costs charged to the accounts during 2012 for each plan, calculated as fair value in SEK.

For a description of compensation cost, including accounting treatment, see Note C1, Significant accounting policies, section Share-based compensation to employees and the Board of Directors.

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**Employee numbers, wages and salaries****Employee numbers****Average number of employees**

|  | 2012          |               |                | 2011          |               |                |
|--|---------------|---------------|----------------|---------------|---------------|----------------|
|  | Women         | Men           | Total          | Women         | Men           | Total          |
| North America                                  | 3,479         | 12,607        | 16,086         | 2,876         | 12,106        | 14,982         |
| Latin America                                  | 2,137         | 9,230         | 11,367         | 1,913         | 7,837         | 9,750          |
| Northern Europe & Central Asia <sup>1)2)</sup> | 5,746         | 15,351        | 21,097         | 5,656         | 14,927        | 20,583         |
| Western & Central Europe <sup>2)</sup>         | 1,790         | 9,463         | 11,253         | 1,663         | 8,968         | 10,631         |
| Mediterranean <sup>2)</sup>                    | 2,966         | 10,064        | 13,030         | 2,743         | 9,077         | 11,820         |
| Middle East                                    | 617           | 4,603         | 5,220          | 634           | 4,343         | 4,977          |
| Sub-Saharan Africa                             | 548           | 1,672         | 2,220          | 661           | 1,290         | 1,951          |
| India  | 2,137         | 11,924        | 14,061         | 1,613         | 9,912         | 11,525         |
| North East Asia                                | 4,191         | 9,584         | 13,775         | 3,480         | 8,839         | 12,319         |
| South East Asia & Oceania                      | 1,175         | 3,474         | 4,649          | 1,155         | 3,437         | 4,592          |
| <b>Total</b>                                   | <b>24,786</b> | <b>87,972</b> | <b>112,758</b> | <b>22,394</b> | <b>80,736</b> | <b>103,130</b> |

<sup>1)</sup> *Of which Sweden* 4,232 13,337 17,569 4,188 12,881 17,069

<sup>2)</sup> *Of which EU* 9,911 33,581 43,492 9,575 31,667 41,242

**Number of employees by region at year-end**

|  | 2012           | 2011           |
|--|----------------|----------------|
| North America                                  | 15,501         | 14,801         |
| Latin America                                  | 11,219         | 11,191         |
| Northern Europe & Central Asia <sup>1)2)</sup> | 21,211         | 20,987         |
| Western & Central Europe <sup>2)</sup>         | 11,257         | 10,806         |
| Mediterranean <sup>2)</sup>                    | 12,205         | 11,645         |
| Middle East                                    | 3,992          | 4,336          |
| Sub-Saharan Africa                             | 2,014          | 2,283          |
| India  | 14,303         | 11,535         |
| North East Asia                                | 14,157         | 12,567         |
| South East Asia & Oceania                      | 4,396          | 4,374          |
| <b>Total</b>                                   | <b>110,255</b> | <b>104,525</b> |

<sup>1)</sup> *Of which Sweden* 17,712 17,500

<sup>2)</sup> *Of which EU* 42,872 41,596

**Employees by gender and age at year-end 2012**

|                    | <b>Women</b> | <b>Men</b> | <b>Percent<br/>of total</b> |
|--------------------|--------------|------------|-----------------------------|
| Under 25 years old | 2,517        | 6,018      | 8%                          |
| 25 35 years old    | 8,530        | 31,054     | 36%                         |
| 36 45 years old    | 7,818        | 28,954     | 33%                         |
| 46 55 years old    | 3,984        | 15,692     | 18%                         |
| Over 55 years old  | 1,233        | 4,455      | 5%                          |
| Percent of total   | 22%          | 78%        | 100%                        |



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**Employee movements**

|                                       | 2012    | 2011    |
|---------------------------------------|---------|---------|
| Head count at year-end                | 110,255 | 104,525 |
| Employees who have left the Company   | 12,280  | 10,571  |
| Employees who have joined the Company | 18,010  | 24,835  |
| Temporary employees                   | 766     | 901     |

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

| (SEK million)            | 2012   | 2011   |
|--------------------------|--------|--------|
| Wages and salaries       | 48,428 | 43,707 |
| Social security expenses | 15,672 | 15,198 |
| Of which pension costs   | 2,762  | 3,888  |

Amounts related to the President and CEO and the Executive Leadership Team are included.

**Remuneration to Board members and Presidents in subsidiaries**

| (SEK million)                         | 2012 | 2011 |
|---------------------------------------|------|------|
| Salary and other remuneration         | 243  | 223  |
| Of which annual variable remuneration | 33   | 22   |
| Pension costs                         | 27   | 20   |

**Board members, Presidents and Group management by gender at year end**

|                              | 2012  |     | 2011  |     |
|------------------------------|-------|-----|-------|-----|
|                              | Women | Men | Women | Men |
| <b>Parent Company</b>        |       |     |       |     |
| Board members and President  | 27%   | 73% | 20%   | 80% |
| Group Management             | 29%   | 71% | 29%   | 71% |
| <b>Subsidiaries</b>          |       |     |       |     |
| Board members and Presidents | 12%   | 88% | 11%   | 89% |

**C29 RELATED PARTY TRANSACTIONS**

During 2012, various related party transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis. For information regarding equity and Ericsson's share of assets, liabilities and income in joint ventures and associated companies, see Note C12, Financial assets, non-current. For information regarding transactions with senior management, see Note C28,

Information regarding members of the Board of Directors, the Group management and employees.

**ST-Ericsson**

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ST-Ericsson, the joint venture between Ericsson and STMicroelectronics, was formed on February 2, 2009, by merging Ericsson Mobile Platforms with ST-NXP Wireless. The joint venture is equally owned by Ericsson and STMicroelectronics. For further information, see Note C3, Segment information .

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Major transactions are as follows:

**Sales:** Ericsson provides ST-Ericsson with services in the areas of R&D, HR, IT and facilities.

**Purchases:** A major part of Ericsson's purchases from ST-Ericsson consists of chipsets and R&D services.

**Dividends:** Both owners of ST-Ericsson receive dividends, when so decided by the Board of Directors. Ericsson received no dividends from ST-Ericsson during 2012.

**ST-Ericsson**

|                                   | 2012 | 2011 | 2010 |
|-----------------------------------|------|------|------|
| <b>Related party transactions</b> |      |      |      |
| Sales                             | 138  | 182  | 403  |
| Purchases                         | 634  | 781  | 629  |
| <b>Related party balances</b>     |      |      |      |
| Receivables                       | 127  | 51   | 53   |
| Liabilities                       |      | 24   | 48   |

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

**Ericsson Nikola Tesla d.d.**

Ericsson Nikola Tesla d.d. is a company for design, sales and service of telecommunication systems and equipment, and an associated member of the Ericsson Group. Ericsson Nikola Tesla d.d. is located in Zagreb, Croatia. Ericsson holds 49.07% of the shares.

Major transactions are as follows:

**Sales:** Ericsson sells telecommunication equipment to Ericsson Nikola Tesla d.d.

**License revenues:** Ericsson receives license revenues for Ericsson Nikola Tesla d.d.'s usage of trademarks.

**Purchases:** Ericsson purchases development resources from Ericsson Nikola Tesla d.d.

**Dividends:** Ericsson received dividends from Ericsson Nikola Tesla d.d. during 2012.

**Ericsson Nikola Tesla D.D.**

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|                                   | 2012  | 2011 | 2010 |
|-----------------------------------|-------|------|------|
| <b>Related party transactions</b> |       |      |      |
| Sales                             | 1,161 | 465  | 563  |
| License revenues                  | 8     | 4    | 2    |
| Purchases                         | 607   | 595  | 566  |
| Ericsson's share of dividends     | 133   | 154  | 104  |
| <b>Related party balances</b>     |       |      |      |
| Receivables                       | 189   | 59   | 120  |
| Liabilities                       | 81    | 76   | 75   |

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Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards Ericsson Nikola Tesla d.d.

**Sony Ericsson Mobile Communications AB**

The company has divested its 50% stake in Sony Ericsson Mobile Communications to Sony. The divestment was effective on January 1, 2012.

**Sony Ericsson Mobile Communications AB**

|                                   | 2012 | 2011 | 2010  |
|-----------------------------------|------|------|-------|
| <b>Related party transactions</b> |      |      |       |
| License revenues                  |      | 855  | 1,255 |
| Purchases                         |      | 126  | 61    |
| <b>Related party balances</b>     |      |      |       |
| Receivables                       |      | 27   | 258   |
| Liabilities                       |      | 2    | 8     |

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

|                    | PwC        | Others    | Total      |
|--------------------|------------|-----------|------------|
| <b>2012</b>        |            |           |            |
| Audit fees         | 82         | 5         | 87         |
| Audit related fees | 15         |           | 15         |
| Tax services fees  | 16         | 3         | 19         |
| Other fees         | 10         | 10        | 20         |
| <b>Total</b>       | <b>123</b> | <b>18</b> | <b>141</b> |
| <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> |

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During the period 2010-2012, in addition to audit services, PwC provided certain audit related services, tax and other services to the Company. The audit related services include quarterly reviews, ISO audits, SSAE16 reviews and services in connection with issuing of certificates and opinions. The tax services include general expatriate services and corporate tax compliance work. Other services include consultation on financial accounting, services related to acquisitions, operational effectiveness and assessments of internal control.

Audit fees to other auditors largely consist of local statutory audits for minor companies.

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**C31 CONTRACTUAL OBLIGATIONS****Contractual obligations 2012**

| SEK billion                                    | Payment due by period |              |              |             | Total       |
|--|-----------------------|--------------|--------------|-------------|-------------|
|  | <1<br>year            | 1 3<br>years | 3 5<br>years | >5<br>years |             |
| Long-term debt <sup>1) 2)</sup>                | 3.3                   | 7.0          | 7.1          | 9.0         | 26.4        |
| Finance lease obligations <sup>3)</sup>        | 0.2                   | 0.3          | 0.2          | 0.8         | 1.5         |
| Operating leases <sup>3)</sup>                 | 2.8                   | 3.2          | 1.9          | 2.5         | 10.4        |
| Other non-current liabilities                  | 0.1                   | 0.3          | 0.1          | 1.9         | 2.4         |
| Purchase obligations <sup>4)</sup>             | 5.7                   |              |              |             | 5.7         |
| Trade payables                                 | 23.1                  |              |              |             | 23.1        |
| Commitments for customer finance <sup>5)</sup> | 5.9                   |              |              |             | 5.9         |
| <b>Total</b>                                   | <b>41.1</b>           | <b>10.8</b>  | <b>9.3</b>   | <b>14.2</b> | <b>75.4</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 finance .

For information about financial guarantees, see Note C24, Contingent liabilities .

Except for those transactions described in this report, the Company has not been a party to any material contracts over the past three years other than those entered into during the ordinary course of business.

**C32 TRANSFERS OF FINANCIAL ASSETS****Transfers where the Company has not derecognized the assets in their entirety**

As per December 31, 2012 there existed certain customer financing assets that the Company had transferred to third parties where the Company did not derecognize the assets in their entirety. The total carrying amount of the original assets transferred was SEK 471 (194) million, the amount of the assets that the Company continues to recognize was SEK 28 (10) million, and the carrying amount of the associated liabilities was SEK 0 (0) million. More information is disclosed about Customer Finance in Note C14 Trade receivables and customer finance .

**Transfers where the Company has continuing involvement**

The Company has during 2012 derecognized financial assets where the Company had continuing involvement. A repurchase of these assets would amount to SEK 225 (596) million. No assets or liabilities were recognized in relation to the continuing involvement.

**C33 EVENTS AFTER THE REPORTING PERIOD**

On January 10, 2013, Ericsson entered into an agreement with Unwired Planet whereby Ericsson will transfer 2,185 issued patents and patent applications to Unwired Planet. Ericsson will also contribute 100 additional patent assets annually to Unwired Planet commencing in 2014 through 2018. Unwired Planet will compensate Ericsson with certain ongoing rights in future revenues generated from the enlarged patent portfolio. Unwired Planet will also grant Ericsson a license to its patent portfolio.





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On January 21, 2013, Ericsson announced its intention to acquire Devoteam Telecom & Media operations in France. Devoteam has employees in Europe, Middle East and Africa. The acquisition is in line with Ericsson's services strategy to broaden its IT capabilities.

In January 2013, ST-Ericsson was granted a loan facility by their owners of USD 260 million. Ericsson's share of this credit facility is USD 130 million.

On January 10, 2013, Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25, 2013, Adaptix filed a complaint with the US International Trade Commission (ITC) against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications requesting that the commission open a patent infringement investigation of certain Ericsson products and further on January 29, 2013, Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two Japanese patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On March 18, 2013, Ericsson and STMicroelectronics announced an agreement on the way forward for the joint venture (JV) ST-Ericsson.

The main steps agreed upon to split up the JV are the following: Ericsson will take on the design, development and sales of the LTE multimode thin modem products, including 2G, 3G and 4G multimode; ST will take on the existing ST-Ericsson products, other than LTE multimode thin modems, and related business as well as certain assembly and test facilities; starting the close down of the remaining parts of ST-Ericsson.

The formal transfer of the relevant parts of ST-Ericsson to the parent companies is expected to be completed during the third quarter of 2013, subject to regulatory approvals.

After the split up it is proposed that Ericsson will assume approximately 1,800 employees and contractors.

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**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 International Financial Reporting Standards (IFRS) 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 International Financial Reporting Standards (IFRS), 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.

**Controls and procedures**

Ericsson's management assessed the effectiveness of Ericsson's internal control over financial reporting as of December 31, 2012. 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, 2012, Ericsson's internal control over financial reporting was effective at a reasonable assurance level.

**Attestation report of registered public accounting firm**

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012, 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 69.

**Changes in internal control over financial reporting**

During the period covered by the Annual Report 2012, there were no changes to the internal control over financial reporting that have materially affected, or are likely to materially affect, the internal control over financial reporting.

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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 operators and other customers to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. If demand for our products and services were to fall in the future, we could experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we could incur operating losses. Furthermore, if demand is significantly weaker or more volatile than expected, our credit rating, borrowing opportunities and costs as well as the trading price of our shares could be adversely impacted. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

Should global economic conditions fail to improve, or worsen, other business risks we face could intensify and could also negatively impact the business prospects of operators and other customers. Some operators and other customers, in particular in markets with weak currencies, may incur borrowing difficulties and slower traffic development, which may negatively affect their investment plans and cause them to purchase less of our products and services.

The potential adverse effects of an economic downturn include:

Reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not fully compensated through reduced costs

Risks of excess and obsolete inventories and excess manufacturing capacity

Risk of financial difficulties or failures among our suppliers

Increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures

Risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products

Increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results

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A decline in the value of the assets in our pension plans and/or increased pension liabilities due to discount rate changes

End user demand could also be adversely affected by reduced consumer spending on technology, changed operator pricing, security breaches and trust issues.

**The telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by operators and other customers regarding their deployment of technology and their timing of purchases.**

The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Moreover, market conditions are subject to substantial fluctuation, and could vary geographically and across technologies. Even if global conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected.

If capital expenditures by operators and other customers is weaker than we anticipate, our revenues and profitability may be adversely affected. The level of demand by operators and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results, and cash flow remains difficult.

**Sales volumes and gross margin levels are affected by the variation and short order time of our products and services.**

Our sales to operators and other customers represent a mix of equipment, software and services, which normally generate different gross margins. We sell our own products as well as third party products, which normally have lower margins than our own products. As a consequence, our reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Further, network expansions and upgrades have much shorter lead times for delivery than initial network build outs. Orders for such network expansions and upgrades are normally placed with short notice by customers, often with less than a month's notice, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix and the short order time for certain of our products may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus. Short-term variation could have a material adverse effect on our business, operating results and financial condition.

**We may not be able to properly respond to market trends in the industries in which we operate, including the ongoing convergence of the telecom, data and media industries, which may harm our market position relative to our competitors.**

We are affected by market conditions and trends within the industries in which we operate, including the convergence of the telecom, data and media industries. Convergence is largely driven by technological development related to IP-based communications. This has changed the competitive landscape and affects our objective setting, risk assessment and strategies. Competitors new to our business may enter this new business context and negatively impact our market share in selected areas. If we fail to understand the market development, or fail to acquire the necessary competences to develop and market products, services and solutions that are competitive in this changing market, our business, operating results and financial condition will suffer.

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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 business, operating results, financial condition and market share.

**Vendor consolidation may lead to stronger competitors who are able to benefit from integration, scale and greater resources.**

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

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**A significant portion of our revenue is currently generated from a limited number of key customers, and operator consolidation may increase our dependence on key customers.**

We derive most of our business from large, multi-year frame agreements with a limited number of significant customers. Many of these agreements are opened up on a yearly basis to re-negotiate the price for our products and services and do not contain committed purchase volumes. Although no single customer represents more than 7% of our sales in 2012, our ten largest customers accounted for 46% of our sales in 2012. A loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in a fewer number of operators with activities in several countries. This trend is expected to continue, and intra-country consolidation is likely to accelerate as a result of competitive pressure. A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services may be required. Network investments could be delayed by the consolidation process, which may include, among others, actions relating to merger or acquisition agreements, securing necessary regulatory approvals, or integration of their businesses. Network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment. Accordingly, operator consolidation may have a material adverse effect on our business, operating results and financial condition.

**Certain long-term frame agreements with customers still include commitments to future price reductions, requiring us to constantly manage and control our cost base.**

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

**Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.**

Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth and profitability.

**We depend upon the development of new products and enhancements to our existing products, and the success of our substantial research and development investments is uncertain.**

Rapid technological and market changes in our industry require us to make significant investments in technological innovation. We invest significantly in new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and

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by the industry as a whole. There can be no assurance that our research and development efforts will be technically or commercially successful. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, or are not successful in the marketplace our sales and earnings may materially suffer. Additionally, it is common for research and development projects to encounter delays due to unforeseen problems. Delays in production may increase the cost of research and development efforts and put us at a disadvantage against our competition.

**We engage in acquisitions and divestments which may be disruptive and require us to incur significant expenses.**

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits such as reduced time-to-market, access to technology and competence, increased scale or to broaden our product portfolio or customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect upon our business, financial condition and results of operations. Risks we could face with respect to acquisitions include:

Difficulties in the integration of the operations, technologies, products and personnel of the acquired company

Risks of entering markets in which we have no or limited

prior experience

Potential loss of employees

Diversion of management's attention away from other business concerns

Expenses of any undisclosed or potential legal liabilities of the acquired company.

From time to time we also divest parts of our business to optimize our product portfolio or operations. Any decision to dispose of or otherwise exit businesses may result in the recording of special charges, such as workforce reduction costs and industry and technology-related write-offs. We cannot assure that we will be successful in consummating future acquisitions or divestments on favourable terms or at all. The risks associated with such acquisitions and divestments could have a material adverse effect upon our business, financial condition and results of operations.

**We are a party to joint ventures and partnerships which may not be successful and expose us to future costs.**

We are partners in joint ventures and partnerships. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs, our inability to take action without the approval of our partners or the capabilities or financial stability of our strategic partners. Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the market.

Additionally, our share of any losses from or commitments to contribute additional capital to such partnerships may adversely affect our results of operations or financial position.

The Board of Directors' report includes further information regarding our joint venture ST Ericsson.



**We rely on a limited number of suppliers of components, production capacity and R&D and IT services, which exposes us to supply disruptions and cost increases.**

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining a timely and adequate supply of materials, components, production capacity and other vital services on

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competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Accordingly, there is a risk that we will be unable to obtain key supplies we need to produce our products and provide our services on commercially reasonable terms, or at all. Failure by any of our suppliers could interrupt our product or services supply or operations and significantly limit sales or increase our costs. To find an alternative supplier or re-design products to replace components may take significant time which could cause significant delays or interruptions in the delivery of our products and services. We have from time to time experienced interruptions of supply and we may experience such interruptions in the future.

Furthermore, our procurement of supplies requires us to predict future customer demands. If we fail to anticipate customer demand properly, an over or under supply of components and production capacity could occur. In many cases, some of our competitors utilize the same contract manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers or could increase costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers where we pay in advance for supplies.

**Product or service quality issues could lead to reduced revenue, gross margins and declining sales to existing customers.**

Sales contracts normally include warranty undertakings for faulty products and often include provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may negatively affect our reputation, results and financial position. If significant warranty obligations arise due to reliability or quality issues, our operating results and financial position could be negatively impacted by costs associated with fixing software or hardware defects, high service and warranty expenses, high inventory obsolescence expense, delays in collecting accounts receivable or declining sales to existing customers.

**Due to having a significant portion of our costs in SEK and revenues in other currencies, our business is exposed to foreign exchange fluctuations that could negatively impact our revenue and results of operation.**

We incur a significant portion of our expenses in SEK. As a result of our international operations, we generate, and expect to continue to generate, a significant portion of our revenue in currencies other than SEK. To the extent we are unable to match revenue received in foreign currencies with costs paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

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

**Our ability to benefit from intellectual property rights (IPR) which are critical to our business may be limited by changes in regulation limiting patents, inability to prevent infringement, the loss of licenses from third parties and IP infringement claims brought against us by competitors.**

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

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

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

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

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

**We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.**

In the normal course of our business we are involved in legal proceedings. These lawsuits include such matters as commercial disputes, claims regarding intellectual property, antitrust, tax and labour disputes. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavourable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

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

**Our operations are complex and several critical operations are centralized in a single location. Any disruption of our operations, whether due to natural or man made events, may be highly damaging to the operation of our business.**

Our business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced a significant portion of our IT operations, we depend partly on security and reliability measures of external companies. Regardless of protection measures, our systems and communications networks are susceptible to disruption due to failure, vandalism, computer

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viruses, security breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, including R&D, production, network operation centres, and logistic centres and shared services centres, where business interruptions could cause material damage and costs. The delivery of goods from suppliers, and to customers, could also be hampered for the reasons stated above. We cannot provide any assurance that interruptions to our systems and communications will not have an adverse effect on our operations and financial conditions.

**Cyber security incidents affecting our business may have a material adverse effect on our business operations, financial condition and brand.**

Ericsson's business operations involve areas that are particularly vulnerable to cyber security incidents such as data breaches, intrusions, espionage, knowhow and data privacy infringements, leakage and general malfeasance. Examples of these areas include, amongst others, research and development, managed services, usage of cloud solutions, software development, lawful interception and product engineering. Any cyber security incident including unintended use, involving our operations, product development, services, our third party providers or installed product base, could cause severe harm to Ericsson and could have a material adverse effect on our business operations, financial condition and brand.

Ericsson relies heavily on third parties to whom we have outsourced significant aspects of our IT infrastructure, product development and engineering services. While we have taken precautions relating to the selection, integration and ongoing management of these third parties, any event or attack that is caused as a result of vulnerabilities in their operations or products supplied to us, could have a material adverse effect upon Ericsson, our business operations, financial condition and brand, potentially slowing operations, leaking valuable intellectual property or damaging our products which have been installed in our customers' networks.

**We must continue to attract and retain highly qualified employees to remain competitive.**

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers.

Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future, and failure in retention and recruiting could have a material adverse effect on our business.

**If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks.**

After completing sales to customers, we may encounter difficulty collecting accounts receivables and could be exposed to risks associated with uncollectable accounts receivable. We regularly assess the credit worthiness of our customers and based on that we determine a credit limit for each one of them. Challenging economic conditions have impacted some of our customers' ability to pay their accounts receivables. Although our credit losses have historically been low and we have policies and procedures for managing customer finance credit risk we may be unable to avoid future losses on our trade receivables. We have also experienced demands for customer financing, and in adverse financial markets or more competitive environments, those demands may increase. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's on-going business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

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**We rely on various capital sources for short-term and long-term capital for the funding of our business. Should such capital become unavailable or available in insufficient amounts or unreasonable terms, our business may materially suffer.**

If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the required times and terms, our business is likely to be adversely affected. Access to funding may decrease or become more expensive as a result of our operational and financial condition, market conditions, including financial conditions in the Euro-zone, or due to deterioration in our credit rating. There can be no assurance that additional sources of funds that we from time to time may need, will be available or available on reasonable terms. If we cannot access capital on commercially viable terms, our business could materially suffer.

**Impairment of goodwill may negatively impact financial condition.**

An impairment of goodwill or other intangible assets could adversely affect our financial condition or results of operations. We have a significant amount of goodwill and intangible assets, for example patents, customer relations, trademarks and software. Goodwill is the only intangible asset the company has recognized to have indefinite useful life.

Other intangible assets are mainly amortized on a straight-line basis over their estimated useful lives, but no more than ten years, and are reviewed for impairment whenever events such as product discontinuances, product dispositions or other changes in circumstances indicate that the carrying amount may not be wholly recoverable. Those not yet in use are tested for impairment annually.

Historically, we have recognized impairment charges related to intangible assets mainly due to restructuring. Additional impairment charges may be incurred in the future that could be significant due to various reasons, including restructuring actions or adverse market conditions that are either specific to us or the broader telecommunications industry or more general in nature and that could have an adverse effect on our results of operations or financial condition.

Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. Estimates require management judgment as well as the definition of cash generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

**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

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technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline. Regulatory changes in license fees, environmental, health and safety, privacy and other regulatory areas may increase costs and restrict our operations or the operations of network operators and service providers. Also indirect impacts of such changes and regulatory changes in other fields, such as pricing regulations, could have an adverse impact on our business even though the specific regulations may not apply directly to our products or us.

Ericsson may fail or be unable to comply with laws or regulations and could experience adverse rulings in enforcement or other proceedings, which could have a material adverse impact on our business operations, financial condition and brand.

**Our substantial international operations are subject to uncertainties which could affect our operating results.**

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to specific countries or regions. We have customers in more than 180 countries, with a significant proportion of our sales to emerging markets in the Asia Pacific region, Latin America, Eastern Europe, the Middle East and Africa.

Our extensive operations are subject to numerous additional risks, including civil disturbances, economic and political instability, the imposition of exchange controls, economies which are subject to significant fluctuations, nationalization of private assets or other governmental actions affecting the flow of goods and currency, and difficulty of enforcing agreements and collecting receivables through local legal systems. Further, in certain markets in which we operate, there is a risk of protectionist governmental measures implemented to assist domestic market participants at the expense of foreign competitors. The implementation of such measures could adversely affect sales or our ability to purchase critical components.

We must always comply with relevant export control regulations and sanctions or other trade embargoes in force, not only at the time of sale but also at the time of delivery. The political situation in parts of the world, particularly in the Middle East, has led to an increase of sanctions imposed by the global community. A universal element of these sanctions is the financial restrictions with respect to individuals and/or legal entities, but sanctions can also restrict certain exports and ultimately lead to a complete trade embargo towards a country. In particular, the sanctions towards Iran have been strengthened significantly during 2012, both by the EU and the U.S. Even though the EU has imposed a ban on deliveries on many items, especially so called dual use items, an exemption for certain standard telecom equipment is still maintained.

There is a risk in many of these countries of unexpected changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, or other governmental policies which could limit our operations and decrease our profitability. Further export control regulations, sanctions or other forms of trade restrictions imposed on countries in which we are active may result in a reduction of commitment in those countries. The need to terminate activities as a result of further trade restrictions may also expose us to customer claims and other actions. Although we seek to comply with all such regulations, there can be no assurance that we are, or will be in the future, compliant with all relevant regulations and such violations, even unintentional violations, could have material adverse effects on our business, operational results and brand.

There has been a growing concern reported by media and others, that certain countries may use features of their telecommunications systems violating the human rights. This may adversely affect the telecommunications business and may have a negative impact on our brand.

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As a result of the credit crisis in Europe, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states. These and other concerns could in worst case lead to the re-introduction of individual currencies in one or more member states, or, in more extreme circumstances, the possible dissolution of the euro entirely. These potential developments, or market perceptions concerning these and related issues, could adversely affect our operations and have a material adverse effect on our business, operating results and financial condition.

**We may fail to comply with our corporate governance standards which could negatively affect our financial condition, business, results of operations and our brand.**

We are subject to corporate governance laws and regulations and are also committed to several corporate responsibility and environmental initiatives. In some of the countries where we operate corruption risks are high. In addition, there is higher focus on anticorruption, with changed legislation in many countries. To ensure that our operations are executed in accordance with applicable requirements, our management system includes a Code of Business Ethics, a Sustainability Policy, as well as other policies and directives to govern our processes and operations. Our commitment to apply the UN Guiding principles for business and human rights to our operation cannot prevent unintended or unlawful use of our technology by non democratic regimes. While we attempt to monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Code of Conduct and strive for continuous improvements, we cannot provide any assurances that violations will not occur which could have material adverse effects on our operations, business results and brand.

**Failure to comply with environmental, health and safety regulations in many jurisdictions may expose us to significant penalties and other sanctions.**

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. While we believe that we are in compliance with all material laws and regulations related to the environment, health, and safety, we can provide no assurance that we have been, are, or will in the future be compliant with these regulations. If we have failed or fail to comply with these regulations, we could be subject to significant penalties and other sanctions that could have a material adverse effect on our business, operating results and financial condition. Additionally, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, such as climate change and weather events, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters. Adverse future events, regulations, or judgments could have a material effect on our business, operating results and financial condition.

**Potential health risks related to electromagnetic fields may subject us to various product liability claims and result in regulatory changes.**

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects from mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and

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recommendations regarding applicable electromagnetic fields, we cannot guarantee that we or the jointly owned ST-Ericsson will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business, operating results and financial condition.

**New regulations related to conflict minerals may cause us to incur additional expenses, and may make our supply chain more complex.**

On August 22, 2012, the US Securities and Exchange Commission (the SEC), adopted a new rule requiring disclosures beginning in 2014 of specified minerals ( conflict minerals ) that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies registered with the SEC, whether or not these products or its components are manufactured by third parties. While we believe that we will be able to fulfill these requirements without materially affecting our costs or access to materials, we can provide no assurance that there will not be material costs associated with complying with the disclosure requirements.

While we work and strive to be able to sufficiently verify the origins of these minerals, our supply chain is complex, and we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. In addition, we may encounter challenges if customers require that all of the components of our products be certified as conflict-free. These new disclosure requirements may negatively affect our brand, financial condition, business and results of operations.

**RISKS ASSOCIATED WITH OWNING ERICSSON SHARES**

**Our share price has been and may continue to be volatile, especially as technology companies, securities and markets as a whole remain volatile.**

Our share price has been volatile due to various factors, including our operating performance as well as the high volatility in the securities markets generally and volatility in telecommunications and technology companies securities in particular. Our share price is also likely to be affected by future developments in our market, our reported financial results and the expectations of financial analysts, as well as statements and market speculation regarding our future prospects or the timing or content of any public communications, including reports of operating results, by us or our competitors.

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

A weakening of our brand name or other circumstances with adverse effects on our reputation

Announcements by our customers, competitors or us regarding capital spending plans of our customers

Financial difficulties for our customers

Awards of large supply or service contracts

Speculation in the press or investment community about the business level or growth in the telecommunications market

Technical problems, in particular those relating to the introduction and viability of new network systems, including lte/4g and new platforms such as the rbs 6000 (multi-standard radio base station) platform



Actual or expected results of ongoing or potential litigation

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Announcements concerning bankruptcy or investigations into the accounting procedures of ourselves or other telecommunications companies

Our ability to forecast and communicate our future results in a manner consistent with investor expectations.

**Currency fluctuations may adversely affect share value or value of dividends.**

Because our shares are quoted in SEK on NASDAQ OMX Stockholm (our primary stock exchange), but in USD on NASDAQ New York (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of our shareholders' investment. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions when converted into other currencies. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on NASDAQ OMX Stockholm or NASDAQ New York.

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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", "forecast", "will", "should", "predict", "aim", "ambition", "target", "might" and similar words are intended to help identify forward-looking statements.

Forward-looking statements may be found throughout this document, but in particular in the chapter "Board of Directors' Report" and include statements regarding:

Our goals, strategies and operational or financial performance expectations

Development of corporate governance standards, stock market regulations and related legislation

The future characteristics of the markets in which we operate

Projections and other characterizations of future events

Our liquidity, capital resources, capital expenditures, our credit ratings and the development in the capital markets, affecting our industry or us

The expected demand for our existing as well as new products and services

The expected operational or financial performance of our joint ventures and other strategic cooperation activities

The time until acquired entities will be accretive to income

Technology and industry trends including regulatory and standardization environment, competition and our customer structure

Our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions, judgments and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein.

Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

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Our ability to respond to changes in the telecommunications market and other general market conditions in a cost effective and timely manner

Developments in the political, economic or regulatory environment affecting the markets in which we operate, including trade embargoes, changes in tax rates, changes in patent protection regulations, allegations of health risks from electromagnetic fields, cost of radio licenses for our customers, allocation of radio frequencies for different purposes and results of standardization activities

The effectiveness of our strategies and their execution, including partnerships, acquisitions and divestments

Financial risks, including changes in foreign exchange rates or interest rates, lack of liquidity or access to financing, our credit ratings, changes in tax liabilities, credit risks in relation to counterparties, customer defaults under significant customer finance arrangements and risks of confiscation of assets in foreign countries

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The financial strength of our customer base

The impact of the consolidation in the industry, and the resulting (i) reduction in the number of customers, and adverse consequences of a loss of, or significant decline in, our business with a major customer; (ii) increased strength of a competitor or the establishment of new competitors

The impact of changes in product demand, technology adoption, price erosion, competition from existing or new competitors or new technologies or alliances between vendors of different types of technology and the risk that our products and services may not sell at the rates or levels we anticipate

The product mix and margins of our sales

The volatility of market demand and difficulties to forecast such demand

Our ability to develop commercially viable products, systems and services, to acquire licenses of necessary technology, to protect our intellectual property rights through patents and trademarks and to license them to others and defend them against infringement, and the results of patent litigation

Our ability to manage cyber security incidents

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

Our ability to trace conflict minerals in our complex supply chain.

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 2012**

Corporate governance describes how rights and responsibilities are distributed among corporate bodies according to applicable laws, rules and processes. Corporate governance also defines the decision-making systems and structure through which owners directly or indirectly control a company.

Good corporate governance forms the basis for building a robust corporate culture throughout a global organization. Efficient and reliable controls and procedures are important, but it is also crucial that ethical business practices are highly valued and followed by all people in the organization starting at the top.

As Chairman of the Board, it is my responsibility to ensure that the Board's work is efficient and that applicable principles and processes in the Board's work procedure are complied with. The Board of Directors' main tasks include supporting Group management and exercising critical review of their work. To be able to fulfill these tasks successfully, it is also my responsibility as Chairman to enable an open and meaningful dialogue between the Board and Group management. Relevant and timely information from Group management is very important as it forms the best possible basis for the Board's discussions and resolutions. The Board's work is constantly evaluated and improved to allow the Board to fulfill its duties successfully.

I believe that Ericsson's continuous focus on corporate governance matters, ethical business and open and meaningful dialogue within the organization promote sustainable business. I believe that this, in turn, generates value for Ericsson's shareholders.

**Leif Johansson**

Chairman of the Board of Directors

This Corporate Governance Report is rendered as a separate report added to the Annual Report in accordance with the Annual Accounts Act ((SFS 1995:1554) Chapter 6, Sections 6 and 8) and the Swedish Corporate Governance Code. The report has been reviewed by Ericsson's auditor in accordance with the Annual Accounts Act.

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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 Rule Book for issuers of NASDAQ OMX Stockholm

The Swedish Corporate Governance Code (the Code )

NASDAQ Stock Market Rules, including applicable NASDAQ New York corporate governance requirements (subject to certain exemptions principally reflecting mandatory Swedish legal requirements)

Applicable requirements of the US Securities and Exchange Commission (the SEC ).

**Internal rules**

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

A Code of Business Ethics

Group Steering Documents, including Group policies and directives, instructions and business processes for approval, control and risk management

A Code of Conduct, to be applied in the product development, production, supply and support of Ericsson products and services worldwide.

The work procedure for the Board of Directors also includes internal corporate governance rules.

**Compliance with the Swedish Corporate Governance Code**

The Code has been applied by Ericsson since 2005. Ericsson is committed to complying with best-practice corporate governance on a global level wherever possible. This includes continued compliance with the Code. Ericsson has not deviated from any of the rules of the Code. The Code can be found on the website of the Swedish Corporate Governance Board which administrates the Code: [www.corporategovernanceboard.se](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 works to achieve and maintain high ethical standards. It summarizes the Group's basic policies and directives and underpins the importance of ethical conduct in all business activities.

The Code of Business Ethics has been translated into 30 languages. This ensures that it is accessible to all employees. During recruitment, employees acknowledge that they are aware of the principles of the Code of

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Business Ethics. This procedure is repeated at regular intervals throughout the term of employment. Through this process, Ericsson strives to raise awareness and to ensure that the business is run with integrity so that Ericsson can maintain credibility with customers, partners, employees, shareholders and other stakeholders. During 2012, the Code of Business Ethics was reviewed and updated and acknowledged by employees throughout the global organization. In addition, Ericsson's whistleblower procedure was extended to a greater scope.

All employees have an individual responsibility to ensure that business practices adhere to the Code of Business Ethics.

**GOVERNANCE STRUCTURE**

Shareholders may exercise their decision-making rights in the Company at General Meetings of shareholders.

A Nomination Committee is appointed by the major shareholders in accordance with the Instruction for the Nomination Committee adopted by the Annual General Meeting of shareholders. The tasks of the Nomination Committee include the proposal of an external auditor and the proposal of Board members for election by the Annual General Meeting of shareholders.

In addition to the Directors elected by shareholders, the Board of Directors consists of employee representatives appointed by the unions. The Board of Directors is ultimately responsible for the organization of Ericsson and the management of its operations.

The President and CEO, appointed by the Board of Directors, is responsible for handling the day-to-day management of Ericsson in accordance with instructions from the Board. The President and CEO is supported by the Executive Leadership Team (ELT).

The external auditor of Ericsson is elected by the General Meeting of shareholders.

**SUSTAINABILITY, CORPORATE RESPONSIBILITY AND CORPORATE GOVERNANCE**

Sustainability and Corporate Responsibility (CR) are important parts of Ericsson's corporate governance framework. For Ericsson, sustainability is about long-term social equity, economic prosperity and environmental performance. CR is about maintaining the necessary controls to minimize risks, while creating positive business impacts for Ericsson's stakeholders and brand, by linking products, services and solutions to an overall business goal of sustainable growth, ensuring that Ericsson is a trusted partner to its stakeholders. Ericsson's Sustainability and CR strategy is integrated in the Group's yearly strategy process and implemented in the business units and the regions. The strategy process is further described on pages 204 and 205. CR risks are also included in Ericsson's risk management framework.

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During 2012, Ericsson's continued focus on sustainability and CR matters was reflected through a number of corporate governance activities within the organization:

Effective October 2012, Ericsson's Head of Sustainability and Corporate Responsibility reports directly to the President and CEO. This repositioning of the Sustainability and CR unit within the organization was made to better integrate the sustainability and CR work with the company's business operations, decision-making, culture and ways of working and to help build sustainable value creation for Ericsson.

Ericsson's Code of Business Ethics was reviewed and updated and now includes a commitment to the new UN Guiding Principles on Business and Human Rights. Also, Ericsson's whistleblower procedure was extended to a wider scope in terms of incidents covered by the procedure and with respect to who can report violations. The updated Code was confirmed by employees throughout the global organization.

The Sales Compliance Board was further strengthened and formalized to assess and manage human rights and CR risks.

**SHAREHOLDERS**

**Ownership structure**

As of December 31, 2012, Telefonaktiebolaget LM Ericsson (the Parent Company) had 551,719 shareholders (according to the share register kept by Euroclear Sweden AB). Swedish institutions hold approximately 58% of the votes. The largest shareholders are Investor AB, holding 21.37% of the votes, and AB Industrivärden, holding 19.81% of the votes (together with Svenska Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening).

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

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

**CONTACT THE BOARD OF DIRECTORS**

Telefonaktiebolaget LM Ericsson

The Board of Directors Secretariat

SE-164 83 Stockholm

Sweden

boardsecretariat@ericsson.com

**Shares and voting rights**

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

The Parent Company may also issue Class C shares in order to create treasury stock to finance and hedge long-term variable remuneration programs resolved by the General Meeting of shareholders. Class C shares are converted into Class B shares before they are used for long-term variable remuneration programs.

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

**GENERAL MEETINGS OF SHAREHOLDERS**

**Decision-making at General Meetings**

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

Amendment of the Articles of Association

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Resolution to transfer own shares to employees participating in long-term variable remuneration programs.

**The Annual General Meeting of shareholders**

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

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

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

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

The external auditor is always present at the AGM.

**Ericsson's Annual General Meeting 2012**

Including shareholders represented by proxy, 3,224 shareholders were represented at the AGM held on May 3, 2012, representing approximately 70% of the votes.

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

Decisions of the AGM 2012 included:

Payment of a dividend of SEK 2.50 per share

Re-election of Leif Johansson as Chairman of the Board of Directors

Re-election of members of the Board of Directors: Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Hans Vestberg, Michelangelo Volpi and Jacob Wallenberg

Election of Alexander Izosimov as a new member of the Board of Directors

Board of Directors' fees:

Chairman: SEK 3,750,000 (unchanged)

Other non-employed Board members: SEK 875,000 each (previously SEK 825,000)

Chairman of the Audit Committee: SEK 350,000 (unchanged)

Other non-employed members of the Audit Committee: SEK 250,000 each (unchanged)

Chairmen of the Finance and Remuneration Committees: SEK 200,000 each (unchanged)

Other non-employed members of the Finance and Remuneration Committees: SEK 175,000 each (unchanged)

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Approval for part of the Directors' fees to be paid in the form of synthetic shares

Approval of Guidelines for remuneration to Group Management

Implementation of a Long-Term Variable Remuneration Program 2012, including a share issue of and authorization to the Board to buy back 31,700,000 shares for the program

Approval of the Instruction for the Nomination Committee, including among other things, a procedure on how to appoint the members of the Nomination Committee, to apply until the General Meeting of shareholders resolves otherwise.

The minutes of the AGM 2012 are available at Ericsson's website.

**ANNUAL GENERAL MEETING 2013**

Ericsson's AGM 2013 will take place on April 9, 2013 at Kistamässan in Kista, Stockholm. Shareholders who wish to have a matter addressed at the AGM should submit their written request to the Board in due time before the AGM. Further information is available on Ericsson's website.

**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)

**NOMINATION COMMITTEE**

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

The AGM 2012 resolved on an Instruction for the Nomination Committee, including the tasks of the Nomination Committee and the procedure for appointing the members of the Nomination Committee. The Instruction for the Nomination Committee shall apply until the General Meeting of shareholders resolves otherwise. Under the instruction, the Nomination Committee shall consist of:

Representatives of the four largest shareholders by voting power by the end of the month in which the AGM was held

The Chairman of the Board of Directors.

As described in the Instruction for the Nomination Committee, the Committee may include additional members following a request by a shareholder. The request must be justified by changes in the shareholder's ownership of shares and be received by the Nomination Committee no later than December 31. No fees are paid to the members of the Nomination Committee.

**Members of the Nomination Committee**

In addition to the Chairman of the Board of Directors, Leif Johansson, the current Nomination Committee consists of four representatives appointed by the four shareholders with the largest voting power as of May 31, 2012:

Petra Hedengran (Investor AB), Chairman of the Nomination Committee



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Carl-Olof By (AB Industrivärden, Svenska Handelsbankens Pensionsstiftelse)

Johan Held (AFA Försäkring)

Marianne Nilsson (Swedbank Robur Fonder).

**The tasks of the Nomination Committee**

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

In addition, the Committee prepares remuneration proposals, for resolution by the AGM, to non-employed Directors elected by the AGM and to the auditor.

The assignment of the Nomination Committee further includes proposing auditors, whereby candidates are selected in cooperation with the Audit Committee of the Board. The Committee also proposes a candidate for election of the Chairman at the AGM.

**Work of the Nomination Committee for the AGM 2013**

The Nomination Committee started its work by going through a checklist of all its duties according to the Code and the Instruction for the Nomination Committee, resolved by the AGM. The Committee also set a time plan for its work ahead. A thorough understanding of Ericsson's business is paramount to the role of the members of the Committee. Therefore, the President and CEO was invited to, together with the Chairman of the Board, present their views on the Company's position and strategy.

The Committee was thoroughly informed of the results of the evaluation of the Board's work and procedures, including the performance of the Chairman of the Board. On this basis, the Committee was able to assess the competence and experience required by Board members. When proposing Board members, the Nomination Committee considered a number of things, including necessary experience and competence as well as the value of diversity and renewal and the improvement of gender balance.

The Committee also acquainted itself with the assessments made by the Company and the Audit Committee on the quality and efficiency of external auditor work, and received recommendations on external auditor and audit fees. As of March 5, 2013 the Nomination Committee has held six meetings.

**PROPOSALS TO THE NOMINATION COMMITTEE**

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

**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.



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

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

The President and CEO may be elected director of the Board, but, under the Swedish Companies Act, the President of a public company may not be elected Chairman of the Board.

### **Conflicts of interest**

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

The Audit Committee has implemented a procedure on related-party transactions and a pre-approval process for non-audit services carried out by the external auditor.

### **Composition of the Board of Directors**

The Board of Directors consists of 12 Directors, including the Chairman of the Board, elected by the shareholders at the AGM 2012 for the period until the close of the AGM 2013. It also consists of three employee representatives, each with a deputy, appointed by the trade unions for the same period of time. The President and CEO, Hans Vestberg, is the only Board member who was also a member of Ericsson's management during 2012.

### **Work procedure**

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

### **Independence**

The Board of Directors and its Committees are subject to a variety of independence rules under applicable Swedish law, the Code and applicable US securities laws, SEC rules and the NASDAQ Stock Market Rules. However, Ericsson can rely on exemptions from certain US requirements.

The composition of the Board of Directors meets all applicable independence criteria. The Nomination Committee concluded before the AGM 2012 that, for purposes of the Code, at least seven of the nominated Directors were independent of Ericsson, its senior management and its major shareholders. These were Roxanne S. Austin, Sir Peter L. Bonfield, Alexander Izosimov, Leif Johansson, Ulf J. Johansson, Nancy McKinstry and Michelangelo Volpi.

### **Structure of the work of the Board of Directors**

The work of the Board follows a yearly cycle. This enables the Board to appropriately address each of its duties and to keep strategy, risk assessment and value creation high on the agenda.

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**Statutory meeting**

The yearly cycle starts with the statutory Board meeting which is held in connection with the AGM. At this meeting, members of each of the three Board Committees are appointed and the Board resolves on signatory power.

**First interim report meeting**

At the next ordinary meeting (depending on the date of the AGM), the Board handles the interim financial report for the first quarter of the year.

**Main strategy meeting**

Various strategic issues are addressed at most of the Board meetings. In accordance with the annual cycle for the strategy process, a main strategy Board meeting is also held, which is in essence dedicated to short- and long-term strategies of the Group. Following the Board's input on and approval of the overall strategy, the strategy is cascaded throughout the entire organization, starting at the Global Leadership Summit with Ericsson's top 250 leaders.

**Second interim report meeting**

At the second interim report meeting, the Board handles the interim financial report for the second quarter of the year.

**Follow-up strategy and risk management meeting**

Following the summer, a meeting is held to address particular strategy matters in further detail and to finally confirm the Group strategy. The meeting also addresses the overall risk management of the Group.

**Third interim report meeting**

A Board meeting is held to handle the interim financial report for the third quarter of the year. At this meeting, the results of the Board evaluation are presented to and discussed by the Board.

**Budget and financial outlook meeting**

A meeting is held for the Board to address the budget and financial outlook as well as further analysis of internal and external risks.

**Fourth-quarter and full-year financial results meeting**

Following the end of the calendar year, the Board holds a meeting which focuses on the financial results of the entire year and handles the fourth-quarter financial report.

**Annual Report meeting**

The Annual Report meeting closes the yearly cycle of work of the Board of Directors. At this meeting the Board approves the Annual Report.

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

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At every Board meeting, the President and CEO reports on business and market developments as well as on the financial performance of the Company. Strategic issues and risks are also addressed at most Board meetings. The Board is regularly informed of developments in legal and regulatory matters of importance.

**The Board's annual work cycle**

The annual cycle applied to the Board's work allows the Board to appropriately address its duties during the year. It also facilitates for the organization to align its global processes to allow appropriate Board involvement. This is particularly relevant for the Group's strategy process and risk management.

**Auditor involvement**

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

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

In addition, the Board reviews and assesses the process for financial reporting, as described later in Internal control over financial reporting 2012. Combined with internal controls, the Board's and the auditor's review of interim and annual reports are deemed to give reasonable assurance on the quality of financial reporting.

**Training of the Board of Directors**

All new Directors receive comprehensive training tailored to their individual needs. Introductory training typically includes meetings with the heads of the business units and Group functions, as well as training arranged by NASDAQ OMX Stockholm on listing issues and insider rules. In addition, full-day training sessions are held twice a year for all Directors. These sessions enhance the Directors' knowledge of specific operations and issues as appropriate to ensure that the Board has knowledge and understanding of the forefront of technical development and of the business activities of the Group.

As a rule, the Board receives Sustainability and Corporate Responsibility training at least once a year.

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Key focus areas in Board training in 2012 were:

Technology leadership, including market development, competitor overview, Ericsson Research long-term view and ways of working.

Ericsson's strategic forecast, including purpose, process, roles and methodology forecast.

**Work of the Board of Directors in 2012**

In 2012, 12 Board meetings were held. For attendance at Board meetings, see the table on page 195. Among the matters addressed by the Board this year (apart from regular matters in the annual Board work cycle) were:

A number of acquisitions, including BelAir Networks, Technicolor's broadcast services division, ConceptWave and increased ownership in Ericsson-LG.

Entry to the US bond market through issuing a ten-year US bond.

Loan agreements with the European Investment Bank (EIB) and the Nordic Investment Bank (NIB).

Strong focus on risk management, strategy and the competitive market development, as well as on sustainability and corporate responsibility matters.

A number of divestments, including the divestment of the Multimedia brokering platform (IPX) and EDA 1500 GPON assets.

Continued focus on the effects of general financial uncertainty on the market, including the effects of political unrest in the Middle East and Africa and financial uncertainty in Europe.

Continuous work relating to strategic plans for the joint venture ST-Ericsson.

**Board work evaluation**

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

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

In 2012, all the Directors responded to written questionnaires, covering the Director's individual performance, Board work in general, Committee work and the Chairman's performance. The Chairman was not involved in the development or compilation of the questionnaire which related to his performance, nor was he present when his performance was evaluated. The evaluations were thoroughly discussed and an action plan was

developed in order to further improve the work of the Board.

**COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors has established three Committees: the Audit Committee, the Finance Committee and the Remuneration Committee. Members of each Committee are appointed for one year amongst the Board members.

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



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

Prior to the Board meetings, each Committee submits to the Board minutes from Committee meetings. The Chairman of the Committee also reports on the Committee work at each Board meeting.

**Audit Committee**

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

The scope and correctness of the financial statements

Compliance with legal and regulatory requirements

Internal control over financial reporting

Risk management

The effectiveness and appropriateness of the Group's anti-corruption program.

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

Reviewing, with management and the external auditor, the financial statements (including their conformity with generally accepted accounting principles)

Reviewing, with management, the reasonableness of significant estimates and judgments made in preparing the financial statements, as well as the quality of the disclosures in the financial statements

Reviewing matters arising from reviews and audits performed.

The Audit Committee itself does not perform audit work. Ericsson has an internal audit function which reports directly to the Audit Committee.

The Committee is also involved in the preparatory work of proposing auditor for election by the AGM. It also monitors Group transactions and the ongoing performance and independence of the auditor with the aim to avoid conflicts of interest.



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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 Audit Committee also oversees:

The process for reviewing transactions with related parties

The whistleblower procedure for the reporting of alleged violations of the Code of Business Ethics that (i) are conducted by Group or local management, and (ii) relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety. The whistleblower procedure was updated and extended during 2012 in connection with the review and update of the Code of Business Ethics.

Violations reported through the whistleblower procedure are investigated by Ericsson's internal audit function together with the relevant Group function. Information regarding any incident is reported to the Audit Committee. Reports include measures taken, details of the responsible Group function and the status of any investigation.

**Members of the Audit Committee**

The Audit Committee consists of five Board members appointed by the Board. In 2012, the Audit Committee comprised Ulf J. Johansson (Chairman of the Committee), Roxanne S. Austin, Sir Peter L. Bonfield, Kristina Davidsson and Sverker Martin-Löf.

The composition of the Audit Committee meets all applicable independence requirements. The Board of Directors has determined that each of Ulf J. Johansson, Roxanne S. Austin, Sir Peter L. Bonfield and Sverker Martin-Löf is an audit committee financial expert, as defined under the SEC rules. Each of them is independent under applicable US securities laws, SEC rules and NASDAQ Stock Market Rules and each of them is financially literate and familiar with the accounting practices of an international company, such as Ericsson.

Former authorized public accountant Peter Markborn was previously appointed as an external expert advisor to assist and advise the Audit Committee. He left this assignment during 2012.

**Work of the Audit Committee in 2012**

The Audit Committee held six meetings in 2012. Directors' attendance is reflected in the table on page 195. 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.

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The Committee approved the annual audit plan for the internal audit function and reviewed its reports. Prior to publishing it, the Committee also reviewed and discussed each interim report with the external auditor.

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

The Committee reviewed and evaluated the effectiveness and appropriateness of the Group's anti-corruption program.

### **Finance Committee**

The Finance Committee is primarily responsible for:

Handling matters related to acquisitions and divestments

Handling capital contributions to companies inside and outside the Ericsson Group

Raising loans, issuing guarantees and similar undertakings, and approving financial support to customers and suppliers

Continuously monitoring the Group's financial risk exposure.

The Finance Committee is authorized to determine matters such as:

Direct or indirect financing

Provision of credits

Granting of securities and guarantees

Certain investments, divestments and financial commitments.

### **Members of the Finance Committee**

The Finance Committee consists of four Board members appointed by the Board. In 2012, the Finance Committee comprised: Leif Johansson (Chairman of the Committee), Pehr Claesson, Anders Nyrén and Jacob Wallenberg.

### **Work of the Finance Committee in 2012**

The Finance Committee held seven meetings in 2012. Directors' attendance is reflected in the table on page 195. During the year, the Finance Committee approved numerous customer finance credit arrangements and reviewed a number of potential mergers and acquisitions and real estate investments from a financial perspective. As a result of the uncertainty on the financial markets and the macroeconomic development, the Finance Committee has focused particularly on discussing and securing an adequate capital structure, cash flow and cash-generating ability. It

has also continuously monitored Ericsson's financial position and credit exposure.

**Remuneration Committee**

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

Reviewing and preparing for resolution by the Board, proposals on salary and other remuneration, including retirement compensation, for the President and CEO

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Reviewing and preparing for resolution by the Board, proposals to the AGM on guidelines for remuneration to the ELT

Approving proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other CEO direct reports

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

**Members of the Remuneration Committee**

The Remuneration Committee consists of four Board members appointed by the Board. In 2012, the Remuneration Committee comprised: Leif Johansson (Chairman of the Committee), Börje Ekholm, Nancy McKinstry and Karin Åberg.

Piia Pilv has been appointed by the Remuneration Committee as an independent expert advisor to assist the Committee, particularly regarding international trends and developments.

**Work of the Remuneration Committee in 2012**

The Remuneration Committee held six meetings in 2012. Directors' attendance is reflected in the table on page 195.

The Committee reviewed and prepared a proposal for the LTV 2012 for resolution by the Board. This was approved by the AGM 2012. The Committee further resolved on salaries and Short-Term Variable remuneration (STV) for 2012 for CEO direct reports. It prepared remuneration to the President and CEO, for resolution by the Board. The Committee also prepared guidelines for remuneration to the ELT, which were subsequently referred by the Board to the AGM for approval.

Towards the end of the year, the Committee concluded its analysis of the current LTV structure and executive remuneration. The resulting proposals on LTV and guidelines for remuneration to the ELT will be referred to the AGM 2013 for resolution.

For further information on fixed and variable remuneration, please see Notes to the consolidated financial statements Note C28 Information regarding members of the Board of Directors, the Group management and employees and the Remuneration Report included in the Annual Report.

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**Directors attendance and fees 2012**

| Board member                             | Fees resolved by the<br>AGM 2012 |                   | Board     | Number of Board/Committee<br>meetings attended |                      |                           |
|--|----------------------------------|-------------------|-----------|--|----------------------|---------------------------|
|  | Board<br>fees <sup>1)</sup>      | Committee<br>fees |           | Audit<br>Committee                             | Finance<br>Committee | Remuneration<br>Committee |
| Leif Johansson                           | 3,750,000                        | 400,000           | 12        |  | 7                    | 6                         |
| Sverker Martin-Löf                       | 875,000                          | 250,000           | 12        | 6  |                      |                           |
| Jacob Wallenberg                         | 875,000                          | 175,000           | 12        |  | 5                    |                           |
| Roxanne S. Austin                        | 875,000                          | 250,000           | 11        | 6  |                      |                           |
| Sir Peter L. Bonfield                    | 875,000                          | 250,000           | 12        | 6  |                      |                           |
| Börje Ekholm                             | 875,000                          | 175,000           | 12        |  |                      | 6                         |
| Alexander Izosimov <sup>2)</sup>         | 875,000                          |                   | 8         |  |                      |                           |
| Ulf J. Johansson                         | 875,000                          | 350,000           | 12        | 6  |                      |                           |
| Nancy McKinstry                          | 875,000                          | 175,000           | 11        |  |                      | 6                         |
| Anders Nyrén                             | 875,000                          | 175,000           | 12        |  | 7                    |                           |
| <i>Carl-Henric Svanberg<sup>3)</sup></i> |                                  |                   | 4         |  |                      |                           |
| Hans Vestberg                            |                                  |                   | 12        |  |                      |                           |
| Michelangelo Volpi                       | 875,000                          |                   | 10        |  |                      |                           |
| Pehr Claesson                            | 18,000 <sup>7)</sup>             |                   | 12        |  | 7                    |                           |
| <i>Jan Hedlund<sup>4)</sup></i>          | 6,000 <sup>7)</sup>              |                   | 4         | 3  |                      |                           |
| Karin Åberg                              | 18,000 <sup>7)</sup>             |                   | 12        |  |                      | 6                         |
| Kristina Davidsson <sup>5)</sup>         | 18,000 <sup>7)</sup>             |                   | 12        | 3  |                      |                           |
| Rickard Fredriksson <sup>6)</sup>        | 10,500 <sup>7)</sup>             |                   | 7         |  |                      |                           |
| Karin Lennartsson                        | 18,000 <sup>7)</sup>             |                   | 12        |  |                      |                           |
| Roger Svensson                           | 18,000 <sup>7)</sup>             |                   | 12        |  |                      |                           |
| <b>Total number of meetings</b>          |                                  |                   | <b>12</b> | <b>6</b>                                       | <b>7</b>             | <b>6</b>                  |

- 1) Non-employed Directors can choose to receive part of their Board fee (exclusive of Committee fees) in the form of synthetic shares.
- 2) Elected Board member as of May 3, 2012.
- 3) Resigned as Board member as of May 3, 2012.
- 4) Resigned as employee representative and from the Audit Committee as of May 3, 2012.
- 5) Member of the Audit Committee since May 3, 2012.
- 6) Appointed deputy employee representative as of May 3, 2012.
- 7) Employee representative Board members and their deputies are not entitled to a Board fee but compensation in the amount of SEK 1,500 per attended Board meeting.

**REMUNERATION TO BOARD MEMBERS**

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

The AGM 2012 approved the Nomination Committee's proposal for fees to the non-employed Board members for Board and Committee work. For information on Board of Directors' fees 2012, please refer to Notes to the consolidated financial statements Note C28. Information regarding members of the Board of Directors, the Group management and employees in the Annual Report. The AGM 2012 also approved the Nomination Committee's proposal that Board members may be paid part of their Board fee in the form of synthetic shares.

A synthetic share gives the right to receive a future cash payment of an amount which corresponds to the market value of a Class B share in Ericsson at the time of payment. The director's right to receive payment with regard to allocated synthetic shares occurs, as a main rule, after the

publication of the Company's year-end



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financial statement during the fifth year following the General Meeting which resolved on the allocation of the synthetic shares. The purpose of paying part of the Board of Directors' fee in the form of synthetic shares is to further align the Directors' interest with shareholder interest. For more information on the terms and conditions of the synthetic shares, please refer to the notice convening the AGM 2012 and to the minutes from the AGM 2012, which are available at Ericsson's website.

**MEMBERS OF THE BOARD OF DIRECTORS**

**Board members elected by the AGM 2012**

**Leif Johansson** (first elected 2011)

*Chairman of the Board of Directors, Chairman of the Remuneration Committee and of the Finance Committee*

Born 1951. Master of Science in Engineering, Chalmers University of Technology, Gothenburg, Sweden.

**Board Chairman:** Astra Zeneca PLC, European Round Table of Industrialists and the International Advisory Board of the Nobel Foundation.

**Board Member:** Svenska Cellulosa Aktiebolaget SCA and Ecolean AB.

**Holdings in Ericsson<sup>1)</sup>:** 17,933 Class B shares. Principal work experience and other information: President of the Royal Swedish Academy of Engineering Sciences. President and CEO of AB Volvo 1997-2011. Executive Vice President of AB Electrolux 1988-1991, President 1991-1994 and President and CEO of AB Electrolux 1994-1997. Holds honorary Doctorates at Blekinge Institute of Technology, the University of Gothenburg and Chalmers University of Technology. Awarded the Large Gold Medal of the Royal Swedish Academy of Engineering Sciences in 2011.

**Sverker Martin-Löf** (first elected 1993)

*Deputy Chairman of the Board of Directors, Member of the Audit Committee*

**Born 1943.** Doctor of Technology and Master of Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.

**Board Chairman:** Svenska Cellulosa Aktiebolaget SCA, SSAB and AB Industrivärden.

**Board Member:** Skanska AB and Svenska Handelsbanken AB.

**Holdings in Ericsson<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.

**Jacob Wallenberg** (first elected 2011)

*Deputy Chairman of the Board of Directors, Member of the Finance Committee*

Born 1956. Bachelor of Science in Economics and Master of Business Administration, Wharton School, University of Pennsylvania, USA. Officer of the Reserve, Swedish Navy.

**Board Chairman:** Investor AB.

**Deputy Board Chairman:** SAS AB and SEB Skandinaviska Enskilda Banken AB (SEB).

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**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>:** 2,413 Class B shares.

**Principal work experience and other information:** Chairman of the Board of Investor AB since 2005. Extensive experience in banking and finance, including experience from the commercial banks JP Morgan, New York and SEB. Appointed President and CEO of SEB in 1997 and appointed Chairman of SEB's Board of Directors in 1998. Executive Vice President and CFO of Investor AB 1990-1993. Honorary Chairman of IBLAC (Mayor of Shanghai's International Business Leaders Advisory Council) and member of The European Round Table of Industrialists.

**Roxanne S. Austin** (first elected 2008)

*Member of the Audit Committee*

Born 1961. Bachelor of Business Administration in Accounting, University of Texas, San Antonio, USA.

Board Member: Abbott Laboratories, Teledyne Technologies Inc. and Target Corporation.

**Holdings in Ericsson<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 COO of DirecTV 2001-2003. Corporate Senior Vice President and CFO of Hughes Electronics Corporation 1997-2000, which she joined in 1993. Previously a partner at Deloitte & Touche. Member of the California State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

**Sir Peter L. Bonfield** (first elected 2002)

*Member of the Audit Committee*

Born 1944. Honors degree in Engineering, Loughborough University, Leicestershire, UK.

**Board Chairman:** NXP Semiconductors N.V.

**Board Member:** Mentor Graphics Inc., Sony Corporation and Taiwan Semiconductor Manufacturing Company, Ltd.

**Holdings in Ericsson<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.

Chair of Council and Senior Pro-Chancellor, Loughborough University, UK. Fellow of the Royal Academy of Engineering.

**Börje Ekholm** (first elected 2006)

*Member of the Remuneration Committee*

Born 1963. Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden. Master of Business Administration, INSEAD, France.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**Board Chairman:** KTH Royal Institute of Technology, Stockholm and Nasdaq OMX Group Inc.

**Board Member:** Investor AB, AB Chalmersinvest, EQT Partners AB and Husqvarna AB.

**Holdings in Ericsson<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.

**Alexander Izosimov** (first elected 2012)

Born 1964. Master of Business Administration, INSEAD, France and Master of Science in Production Management Systems and Computer Science, Moscow Aviation Institute, Russian Federation.

**Board Member:** East Capital AB, Modern Times Group MTG AB, EVRAZ Group S.A., Dynasty Foundation, Transcom WorldWide SA and International Chamber of Commerce (ICC).

**Holdings in Ericsson<sup>1)</sup>:** 1,600 Class B shares.

**Principal work experience and other information:** CEO and President of VimpelCom 2003-2011. Previous positions with Mars Inc., including Member of the Global Executive Board and Regional President for CIS, Central Europe and Nordics. Earlier positions with McKinsey & Co as consultant in the Stockholm and London offices. Served as GSMA Board member 2005-2008 and Chairman of GSMA 2008-2010.

**Ulf J. Johansson** (first elected 2005)

*Chairman of the Audit Committee*

Born 1945. Doctor of Technology and Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.

**Board Chairman:** Acando AB, Eurostep Group AB, Novo A/S, Novo Nordisk Foundation and Trimble Navigation Ltd.

**Board Member:** European Institute of Innovation and Technology.

**Holdings in Ericsson<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:** Abbott Laboratories and Sanoma Corporation.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**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.

**Anders Nyrén** (first elected 2006)

*Member of the Finance Committee*

Born 1954. Graduate of Stockholm School of Economics, Sweden, Master of Business Administration from Anderson School of Management, UCLA, USA.

**Board Chairman:** Sandvik AB.

**Deputy Board Chairman:** Svenska Handelsbanken AB.

**Board Member:** Svenska Cellulosa Aktiebolaget SCA, AB Industrivärden, SSAB, AB Volvo, Ernströmgruppen and Stockholm School of Economics.

**Holdings in Ericsson<sup>1)</sup>:** 6,686 Class B shares.

**Principal work experience and other information:** President and CEO of Industrivärden since 2001. CFO and Executive Vice President of Skanska AB 1997–2001. Director Capital Markets of Nordbanken 1996–1997. CFO and EVP of Securum AB 1992–1996. Managing Director of OM International AB 1987–1992. Earlier positions at STC Scandinavian Trading Co AB and AB Wilhelm Becker.

**Hans Vestberg** (first elected 2010)

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board Chairman:** ST-Ericsson and Svenska Handbollförbundet.

**Board Member:** Thernlunds AB.

**Holdings in Ericsson<sup>1)</sup>:** 149,382 Class B shares.

**Principal work experience and other information:** President and CEO of Telefonaktiebolaget LM Ericsson since January 1, 2010. Previously, First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's climate change working group. Member of the European Cloud Partnership Steering Board and the Leadership Council of the United Nations Sustainable Development Solutions Network.

1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.





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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**Michelangelo Volpi** (first elected 2010)

Born 1966. Bachelor of Science in Mechanical Engineering and Masters in Manufacturing Systems Engineering from Stanford University, USA. MBA from the Stanford Graduate School of Business, USA.

**Board Member:** EXOR S.p.A.

**Holdings in Ericsson<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 and General Manager of the Routing and Service Provider Technology Group and Chief Strategy Officer. Has also worked for Hewlett Packard in the optoelectronics division.

**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>:** 999 Class B shares. Employed since 1997. Working with marketing and communication for Consulting and Systems Integration within Business Unit Global Services.

**Kristina Davidsson** (first appointed 2006)

*Employee representative, Member of the Audit Committee*

Born 1955. Appointed by the union IF Metall.

**Holdings in Ericsson<sup>1</sup>:** 1,629 Class B shares. Employed since 1995. Previously working as repairer within Business Unit Networks and currently working full time as union representative.

**Karin Åberg** (first appointed 2007)

*Employee representative, Member of the Remuneration Committee*

Born 1959. Appointed by the union Unionen.

**Holdings in Ericsson<sup>1</sup>:** 2,751 Class B shares. Employed since 1995. Working as a Service Engineer within the IT organization.

**Rickard Fredriksson** (first appointed 2012)

*Deputy employee representative*

Born 1969. Appointed by the union IF Metall.

**Holdings in Ericsson<sup>1</sup>:** 799 Class B shares.

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Employed since 2000. Previously working as machine operator within Business Unit Networks and currently working full time as union representative.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**Karin Lennartsson** (first appointed 2010)

*Deputy employee representative*

Born 1957. Appointed by the union Unionen.

**Holdings in Ericsson<sup>1)</sup>**: 493 Class B shares.

Employed since 1976. Working as Process Expert within Group Function Finance Process Management.

**Roger Svensson** (first appointed 2011)

*Deputy employee representative*

Born 1971. Appointed by the union The Swedish Association of Graduate Engineers.

**Holdings in Ericsson<sup>1)</sup>**: 7,710 Class B shares.

Employed since 1999. Working as Senior Specialist Test Strategy Power Amplifier within Business Unit Networks.

Hans Vestberg was the only Director who held an operational management position at Ericsson in 2012. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person.

At the Annual General Meeting 2012, Alexander Izosimov was elected new member of the Board of Directors, replacing Carl-Henric Svanberg. Jan Hedlund resigned as employee representative of the Board of Directors as of the date of the Annual General Meeting 2012 and Kristina Davidsson (previously deputy employee representative) was appointed employee representative as of the same date. Rickard Fredriksson was appointed new deputy employee representative as of the date of the Annual General Meeting 2012.

**MANAGEMENT**

**The President/CEO and the Executive Leadership Team**

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. The President and CEO is responsible for the management of day-to-day operations and is supported by the Executive Leadership Team (the ELT). During 2012, the ELT consisted of the President and CEO, the heads of Group functions, the heads of business units and the heads of two of Ericsson's regions. The role of the ELT is to:

Establish a strong corporate culture, a long-term vision and Group strategies and policies, all based on objectives stated by the Board

Determine targets for operational units, allocate resources and monitor unit performance

Secure operational excellence and realize global synergies through efficient organization of the Group.

**Remuneration to the Executive Leadership Team**

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Guidelines for remuneration to the ELT were approved by the AGM 2012. For further information on fixed and variable remuneration, see the Remuneration report and Notes to the consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees in the Annual Report.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**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 is currently globally certified to ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Health & Safety). Selected Ericsson units are also certified to additional standards, for example ISO 27001 (Information Security) and TL 9000 (telecom-specific standard).

The EGMS comprises three elements:

Management and control

Ericsson business processes

Organization and resources.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

### **Management and control**

Ericsson's strategy and target setting processes consider the demands and expectations of customers as well as other key stakeholders. The process facilitates the alignment of objectives and their measurement in activities at all levels of the organization.

Ericsson uses balanced scorecards as tools for translating strategic objectives into a set of performance indicators for its operational units. Based on annual strategy work, these scorecards are updated with targets for each unit for the next year and are communicated throughout the organization.

Group-wide policies and directives govern how the organization works and are core elements in managing and controlling Ericsson. The Group Policies and Directives include a Code of Business Ethics, a Code of Conduct and accounting and reporting directives to fulfill external reporting requirements and the Sarbanes-Oxley Act.

The Group Steering Documents Committee works to ensure that the policies and directives cover relevant issues; that they are aligned and consistent with Group strategies, values and structures; and that they are not in conflict with legal and regulatory requirements. In addition, the Group Steering Documents Committee works to ensure that the said strategies, values and structures are implemented by the responsible function.

### **Ericsson business processes**

As a market leader, Ericsson utilizes the competitive advantages that are gained through global scale and has implemented common processes and IT tools across all operational units worldwide. Customer requirements are identified, clarified and formalized in Ericsson Business Processes where requirements transform from theory to reality. Through management and continuous improvement of processes and IT tools, Ericsson attempts to reduce costs with efficient and effective process flows and with standardized internal controls and performance indicators.

### **Organization and resources**

Ericsson is operated in two dimensions: one operational structure and one legal structure.

The operational structure aligns accountability and authority regardless of country borders and supports the process flow with cross-country operations. During 2012 there were four business units and ten regions. Group functions coordinate Ericsson's strategies, operations and resource allocation and define the necessary directives, processes and organization for the effective governance of the Group.

The legal structure is the basis for legal requirements and responsibility as well as for tax and statutory reporting purposes. There are more than 200 legal entities within the Ericsson Group with representation (via legal entities, branch and representative offices) in more than 140 countries.

### **Risk management**

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

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**Strategic and tactical risks**

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

In the annual strategy and target setting process, objectives are set for the next three to five years. Risks and opportunities are assessed and strategies are developed to achieve the objectives. The strategy process in the Company is well established and involves regions, business units and Group functions. The strategy is finally summarized and discussed in a yearly Global Leadership Summit with approximately 250 leaders from all parts of the business. By involving all parts of the business in the process, potential risks are identified early and mitigating actions can be incorporated in the strategy and in the annual target process following the finalization of the strategy.

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

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

Ericsson continuously strives to improve its risk management and believes that it is important that the entire global organization takes part in the risk management and strategy work. Therefore, risk management was given a stronger focus in 2012. During the year, an enhanced risk management framework was implemented and aligned with the Strategy and Target setting process. Risks were identified and analyzed in four categories: industry & market risks, commercial risks, operational risks and compliance risks. For more information on risks related to Ericsson's business, see the chapter "Risk factors" in the Annual Report.

**Strategic, target setting and risk management cycle**

The annual strategic, target setting and risk management cycle is part of Ericsson's strategy process, which is well established within the Group and involves regions, business units and Group functions.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**Operational and financial risks**

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

**Compliance risks**

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

**Compliance officer**

Ericsson has a Chief Compliance Officer (CCO) whose responsibilities include providing support for compliance with laws, regulations, internal policies and directives, coordinating the different strands of expertise within Ericsson. Attention from senior-management level on compliance matters is crucial, as is ensuring that this is addressed from a cross-functional perspective. Initially, the CCO's primary focus has been to further develop Ericsson's Anti-corruption Compliance Program. This is reviewed and evaluated by the Audit Committee at least annually.

**Monitoring and audits**

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

**Risk mitigation**

Significant ongoing activities in order to mitigate risks include:

Establishing flexibility to cost-effectively accommodate to fluctuations in customer demand

Conducting regular Supplier Code of Conduct audits

Continuous assessment and management of CR risks

Conducting business continuity management in an efficient way



Conducting corporate governance training as needed

Continuous monitoring of information systems to guard against data breaches

Reviewing top risks and mitigating actions at various internal governance meetings.

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**Example of risk heat map document**

Risk heat maps are generated by business units, regions and Group functions in four risk categories:

Industry and market

Commercial

Operational

Compliance

**MEMBERS OF THE EXECUTIVE LEADERSHIP TEAM**

**Hans Vestberg**

**President and CEO** (since 2010)

Born 1965.

Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board Chairman:** ST-Ericsson and Svenska Handbollförbundet.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**Board member:** Telefonaktiebolaget LM Ericsson and Thernlunds AB.

**Holdings in Ericsson<sup>1)</sup>:** 149,382 Class B shares.

**Background:** Previously First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's broadband and climate change working group. Member of the European Cloud Partnership Steering Board and the Leadership Council of the United Nations Sustainable Development Solutions Network.

**Jan Frykhammar**

**Executive Vice President and Chief Financial Officer and Head of Group Function Finance** (since 2009)

Born 1965.

Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board member:** ST-Ericsson and the Swedish International Chamber of Commerce.

**Holdings in Ericsson<sup>1)</sup>:** 14,844 Class B shares.

**Background:** Previously Senior Vice President and Head of Business Unit Global Services. Various positions within Ericsson including Sales and Business Control in Business Unit Global Services, CFO in North America and Vice President, Finance and Commercial within the Global Customer Account Vodafone.

**Magnus Mandersson**

**Executive Vice President (since 2011) and Head of Business Unit Global Services** (since 2010)

Born 1959.

Bachelor of Business Administration, University of Lund, Sweden.

**Board member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 22,602 Class B shares.

**Background:** Previously Head of Business Unit CDMA, Market Unit Northern Europe, Global Customer Account Deutsche Telekom AG and Product Area Managed Services. Has also been President and CEO of SEC/ Tele2 Europe and COO of Millicom International Cellular S.A.

**Johan Wibergh**

**Executive Vice President (since 2010) and Head of Business Unit Networks** (since 2008)

Born 1963.

Master of Computer Science, Linköping Institute of Technology, Sweden.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**Board member:** ST-Ericsson, Confederation of Swedish Enterprise, KTH Royal Institute of Technology and Teknikföretagen.

**Holdings in Ericsson<sup>1)</sup>:** 40,448 Class B shares.

**Background:** President of Ericsson Brazil, President of Market Unit Nordic and Baltics and Vice President and Head of Sales at Business Unit Global Services.

**Per Borgklint**

**Senior Vice President and Head of Business Unit Support Solutions** (since 2011)

Born 1972.

Master of Science in Business Administration, Jönköping International Business School, Sweden.

**Board member:** None.

**Holdings in Ericsson<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, Chief Human Resources Officer and Head of Group Function Human Resources and Organization** (since 2010)

Born 1962.

Master of Science in Management and Human Resources, Ohio State University, USA, and Master of Arts in Philosophy, University of Wisconsin, USA.

**Holdings in Ericsson<sup>1)</sup>:** 19,144 Class B shares.

**Background:** Joined Ericsson from Hewlett Packard, where she was Vice President of Global Talent Management. Has held senior HR leadership roles at Gap, Sun Microsystems and PepsiCo/Yum.

**Ulf Ewaldsson**

**Senior Vice President, Chief Technology Officer and Head of Group Function Technology** (since February 1, 2012)

Born 1965.

Master of Science in Engineering and Business Management, Linköping Institute of Technology, Sweden.

**Board member:** None.

1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.



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**Holdings in Ericsson<sup>1</sup>:** 14,985 Class B shares. Background: Previously Head of Product Area Radio within Business Unit Networks. Has held various managerial positions within Ericsson since 1990.

**Douglas L. Gilstrap**

**Senior Vice President and Head of Group Function Strategy** (since 2009)

Born 1963.

Bachelor of Science in Accounting, University of Richmond, USA, and Master of Business Administration, Emory University, Atlanta, USA. Executive program at INSEAD, France.

**Board member:** Telecom Management Forum (TMF). Deputy board member: ST-Ericsson.

**Holdings in Ericsson<sup>1</sup>:** 8,643 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, Head of Group Function Legal Affairs and secretary to the Board of Directors** (since 2011)

Born 1958.

Master of Laws, LL M, University of Stockholm, Sweden.

**Board member:** The Association for Swedish Listed Companies.

**Holdings in Ericsson<sup>1</sup>:** 7,857 Class B shares.

**Background:** Previously Vice President and Deputy Head of Group Function Legal Affairs at Ericsson. Previous positions also include private practice and in-house attorney. Member of the Swedish Securities Council.

**Helena Norrman**

**Senior Vice President and Head of Group Function Communications** (since 2011)

Born 1970.

Master of International Business Administration, Linköping University, Sweden.

**Board member:** None.

**Holdings in Ericsson<sup>1</sup>:** 8,312 Class B shares.

**Background:** Previously Vice President, Communications Operations at Group Function Communications at Ericsson. Has held various positions within Ericsson's global communications organization since 1998. Previous positions as communications consultant.

**Mats H. Olsson**

**Head of Region North East Asia** (since 2010)

Born 1954.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.



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Master of Business Administration, Stockholm School of Economics, Sweden.

**Board member:** None.

**Holdings in Ericsson<sup>1</sup>:** 61,252 Class B shares.

**Background:** International economic advisor to a number of Chinese provincial and municipal governments. Previously Head of Market Unit Greater China. Appointed President of Ericsson Greater China in 2004, with overall responsibility for mainland China, Hong Kong, Macao and Taiwan. Also assumed overall responsibility for Japan and South Korea in 2010. Has held various executive positions across Asia-Pacific over the last 25 years.

**Rima Qureshi**

**Senior Vice President and Head of Business Unit CDMA Mobile Systems** (since 2010)

Born 1965.

Bachelor of Information Systems and Master of Business Administration, McGill University, Montreal, Canada.

**Board member:** MasterCard Incorporated.

**Holdings in Ericsson<sup>1</sup>:** 4,932 Class B shares.

**Background:** Also serves as Head of Ericsson Response. Previously Vice President of Strategic Improvement Program and Vice President Product Area Customer Support. Has held various positions within Ericsson since 1993.

**Angel Ruiz**

**Head of Region North America** (since 2010)

Born 1956.

Bachelor of Electrical Engineering, University of Central Florida, USA, and Master of Management Science and Information Systems, Johns Hopkins University, USA.

**Board member:** CTIA.

**Holdings in Ericsson<sup>1</sup>:** 38,546 Class B shares. **Background:** Joined Ericsson in 1990 and has held a variety of technical, sales and managerial positions within the Company, including heading up the global account teams for Cingular/SBC/BellSouth (now AT&T). Was appointed President of Ericsson North America in 2001.

**Jan Wäreby**

**Senior Vice President and Head of Sales and Marketing** (since 2011)

Born 1956.

Master of Science, Chalmers University, Gothenburg, Sweden.

**Board member:** ST-Ericsson.

- 1) The number of shares reflects ownership as of December 31, 2012 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**Holdings in Ericsson<sup>1)</sup>:** 66,495 Class B shares. Background: Senior Vice President and Head of Business Unit Multimedia and Executive Vice President and Head of Sales and Marketing for Sony Ericsson Mobile Communications.

Up until January 31, 2012, Håkan Eriksson, former Senior Vice President, Chief Technology Officer and Head of Group Function Technology & Portfolio Management, was a member of the Executive Leadership Team.

**AUDITOR**

According to the Articles of Association, the Parent Company shall have no less than one and no more than three registered public accounting firms as external independent auditor. Pursuant to the Swedish Companies Act, the mandate period of an auditor shall be one year, unless the Articles of Association provide for a longer mandate period up to four years. The auditor reports to the shareholders at General Meetings.

The duties of the auditor include the following:

Updating the Board of Directors regarding the planning, scope and content of the annual audit

Examining the interim and year-end financial statements to assess accuracy and completeness of the accounts and adherence to accounting standards and policies

Advising the Board of Directors of non-audit services performed, the consideration paid and other issues that determine the auditor's independence.

For further information on the contacts between the Board and the auditor, please see "Work of the Board of Directors" earlier in this Corporate Governance Report.

All Ericsson's quarterly financial reports are reviewed by the auditor.

**Current auditor**

PricewaterhouseCoopers AB was elected auditor at the AGM 2012 for a period of one year, i.e. until the close of the AGM 2013.

PricewaterhouseCoopers AB has appointed Peter Nyllinge, Authorized Public Accountant, to serve as auditor in charge.

**Fees to the auditor**

Ericsson paid the fees (including expenses) for audit-related and other services listed in the table in Notes to the consolidated financial statements Note C30, "Fees to auditors" in the Annual Report.

**INTERNAL CONTROL OVER FINANCIAL REPORTING 2012**

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

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

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In order to support high quality reporting and to meet the requirement of SOX, the Company has implemented detailed documented controls and testing and reporting procedures based on the internationally established COSO framework for internal control. The COSO framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

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

During 2012, the Company has included operations of acquired entities as well as continued to improve the design and execution of its financial reporting controls.

**Disclosure policies**

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

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

Transparent – enhancing understanding of the economic drivers and operational performance of the business, building trust and credibility

Consistent – comparable in scope and level of detail to facilitate comparison between reporting periods

Simple – to support understanding of business operations and performance and to avoid misinterpretations

Relevant – with focus on what is relevant to Ericsson's stakeholders or required by regulation or listing agreements, to avoid information overload

Timely – with regular scheduled disclosures as well as ad-hoc information, such as press releases on important events, performed in a timely manner

Fair and equal – where all material information is published via press releases to ensure that the whole investor community receives the information at the same time

Complete, free from material errors and a reflection of best practice – disclosure is compliant with applicable financial reporting standards and listing requirements and in line with industry norms.

Ericsson's website comprises comprehensive information on the Group, including:

An archive of annual and interim reports

On-demand access to recent news

Copies of presentations given by senior management at industry conferences.

**Disclosure controls and procedures**

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

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

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

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During the year, Ericsson's President and CEO and the CFO evaluated the disclosure controls and procedures and concluded that they were effective at a reasonable assurance level as at December 31, 2012.

### **Internal control over financial reporting**

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

During the period covered by the Annual Report 2012, there were no changes to the internal control over financial reporting that have materially affected, or are likely to materially affect, the internal control over financial reporting.

### **Control environment**

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

Steering documents, such as policies, directives and a Code of Business Ethics

A strong corporate culture

The Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority

Several well-defined Group-wide processes for planning, operations and support.

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

Changes to laws

Financial reporting standards and listing requirements, such as IFRS and SOX.

The processes include specific controls to be performed to ensure high quality financial reports. The management of each reporting legal entity, region and business unit is supported by a financial controller function with execution of controls related to transactions and reporting. The financial controller functions are organized in a number of Company Control Hubs, each supporting a number of legal entities within a geographical area. A financial controller function is also established on Group level, reporting to the CFO.

### **Risk assessment**

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

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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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### **Control activities**

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

Regular analyses of the financial results for each subsidiary, region and business unit cover the significant elements of assets, liabilities, revenues, costs and cash flow. Together with further analysis of the consolidated financial statements performed at Group level, these procedures are designed to produce financial reports without material errors.

For external financial reporting purposes, the Disclosure Committee performs additional control procedures to review whether the disclosure requirements are fulfilled.

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

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

In order to secure compliance, governance and risk management in the areas of legal entity accounting and taxation, as well as securing funding and equity levels, the Company operates through a Company Control hub structure, covering subsidiaries in each respective geographical area.

Based on a common IT platform, a common chart of account and common master data, the hubs and shared services centers perform accounting and financial reporting services for most subsidiaries.

### **Information and communication**

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

Subsidiaries and operating units prepare regular financial and management reports for internal steering groups and Company management. These include analysis and comments on financial performance and risks. The Board of Directors receives financial reports monthly. Ericsson has established a whistleblower procedure for the reporting of alleged violations that (i) are conducted by Group or local management, and (ii) relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety.

### **Monitoring**

The Company's process for financial reporting is reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all

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significant areas related to financial reporting. The shared service center and company control hub management continuously monitors accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and company controllers in all subsidiaries as well as in business units and regions.

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

**BOARD OF DIRECTORS**

Stockholm, March 5, 2013

Telefonaktiebolaget LM Ericsson (publ)

Org. no. 556016 0680

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**REMUNERATION REPORT**

**INTRODUCTION**

This report outlines how the remuneration policy is implemented throughout Ericsson in line with corporate governance best practice, with specific references to Group management. The work of the Remuneration Committee in 2012 and the remuneration policy are explained, at the beginning of the report, followed by descriptions of plans and approaches.

More details of the remuneration of Group management and Board members' fees can be found in the Notes to the Consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees .

**THE REMUNERATION COMMITTEE**

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration to the Executive Leadership Team (ELT). This includes fixed salaries, pensions, other benefits and short-term and long-term variable remuneration, all in the context of pay and employment conditions throughout Ericsson. The Remuneration Committee reviews and prepares for resolution by the Board:

Proposals on salary and other remuneration, including retirement compensation, for the President and CEO

Proposals on targets for the short-term variable remuneration for the President and CEO

Proposals to the Annual General Meeting on guidelines for remuneration to the ELT

Proposals to the Annual General Meeting on long-term variable remuneration and similar equity arrangements

The responsibility for the Remuneration Committee is also to:

Approve proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other ELT.

Approve proposals on targets for the short-term variable remuneration for the Executive Vice Presidents and other ELT.

Approve pay out of the short-term variable remuneration for the ELT, based on achievements and performance.

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

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

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The Remuneration Committee has appointed an independent expert advisor, Pii Pii, to assist and advise the Committee. The independent advisor provided no other services to the Company during 2012. The

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

The purpose and function of the Remuneration Committee and its responsibilities can be found on the Ericsson website. These responsibilities, together with the Guidelines for remuneration to Group Management (ELT) and the Long-Term Variable remuneration plan, are reviewed and evaluated annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy.

The Guidelines for remuneration to Group Management are, in accordance with Swedish law, brought to shareholders annually for approval.

The Remuneration Committee met six times during the year 2012.

The winter meetings focused on following up on results from the 2011 variable remuneration programs and preparing proposals to shareholders for the 2012 Annual General Meeting (AGM). During the spring the committee determined remuneration to a new member of the ELT and revised the remuneration to others. In the fall, the committee reviewed the Guidelines for remuneration to Group Management and decided to continue the Long-Term Variable remuneration plans without any material changes and the Short-Term Variable remuneration plans with an increased weighting on capital and margins for 2013. The committee based its considerations on the business needs, analyses and reviews of the global market trends and feedback from shareholders and institutions. Supported by the independent advisor, the Committee also reviewed the competitiveness of the ELT remuneration in the global market. The Remuneration Committee is of the opinion that the Long-Term Variable remuneration plans fulfill the defined objectives to promote One Ericsson and to align the interests of employees with those of shareholders. The number of participants as of December 1, 2012 was 27,000 employees, compared to 24,000 employees as of December 1, 2011. The evaluation also confirms that the Key Contributor Retention Plan meets the purpose of retaining our key employees. The voluntary attrition rate among Key Contributors is about two-thirds compared to the attrition rate in the total number of employees.

**REMUNERATION POLICY**

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. The remuneration policy, together with the mix of remuneration elements, is designed to reflect these principles by creating a balanced remuneration package. The Guidelines for remuneration to Group Management 2012 approved by AGM can be found in note C28. The auditor's report regarding whether we have complied with the guidelines for compensation to the ELT during 2012 is posted on the Ericsson website.

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**Summaries of 2012 short- and long-term variable remuneration**

| <b>What we call it</b>  | <b>What is it?</b>   | <b>What is the objective?</b>   | <b>Who participates?</b>   | <b>How is it earned?</b>   |
|---|--|---|--|--|
| <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.<br>Approx. 73,900 in 2012 | Achievements against set targets. Reward can increase to up to twice the target level and decrease to zero, depending on performance |
| Local and Sales Incentive Plans   | Tailored versions of the STV                                 | As for STV, tailored for local or business requirements, such as sales  | Employees in sales.<br>Approx. 2,300 in 2012                                       | 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 mentality and align employees interests with those of shareholders                                     | All employees are eligible   | Buy one share and it will be matched by one share after 3 years if still employed  |
| Key Contributor Retention Plan (KC)                                     | Share-based plan for selected individuals                    | Recognize, retain and motivate key contributors for performance, critical skills and potential                                  | Up to 10% of employees   | If selected, get one more matching share in addition to the SPP one  |
| Executive Performance Stock Plan (EPSP)                                 | Share-based plan for senior executives                       | Remuneration for long-term commitment and value creation  | Senior executives, including Executive Leadership Team                             | Get up to 4, 6 or, for CEO, 9 further matching shares  |

to  
the SPP one for  
long-term  
performance

**REMUNERATION 2012**

To enhance the understanding of how Ericsson translates remuneration principles and policy into practice, an internal remuneration website was launched in January 2011. The site contains e-learning and training programs targeted at line managers. It supports more informed decisions and better communication to the wider employee population. The next step in this development is the planned implementation of an Integrated HR IT tool. The first phase was launched to all managers in Ericsson in November 2012 and include performance management, talent planning, variable pay and annual salary review.

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**TOTAL REMUNERATION**

When considering the remuneration of an individual, it is the total remuneration that matters. First, the total annual cash compensation is defined, consisting of the target level of short-term variable remuneration plus fixed salary. Thereafter, target long-term variable remuneration may be added to get to the total target remuneration and, finally, pension and other benefits may be added to arrive at the total remuneration.

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

The remuneration costs for the CEO and the ELT are reported in Note C28.

**Fixed salary**

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

**Variable remuneration**

Ericsson strongly believes that, where possible, variable compensation should be encouraged as an integral part of total remuneration. First and foremost, this aligns employees with clear and relevant targets, but it also enables more flexible payroll costs and emphasizes the link between performance and pay. All variable remuneration plans have maximum award and vesting limits. Short-term variable remuneration is to a greater extent dependent on the specific unit or function, while long-term variable remuneration is dependent on the achievements of the Ericsson Group.

**Short-term variable remuneration**

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

Net sales growth

Operating income

Cash flow.

For the ELT, targets are thus predominantly financial at either Group level (for Heads of Group functions) or at the individual unit level (for Heads of regions or business units) and may also include operational targets like customer satisfaction and employee engagement.



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

**Short-term variable remuneration structure**

|                                | Short-term variable remuneration<br>as percentage of fixed salary |                  |                         | Percentage of short-term variable<br>remuneration maximal opportunity |                                      |                          |
|--------------------------------|---|------------------|-------------------------|---|--------------------------------------|--------------------------|
|                                | Target<br>level   | Maximum<br>level | Actual paid<br>for 2012 | Group financial<br>targets  | Unit/functional<br>financial targets | Non-financial<br>targets |
| CEO 2012                       | 40%   | 80%              | 32%                     | 90%   | 0%                                   | 10%                      |
| CEO 2013                       | 40%   | 80%              |                         | 100%  | 0%                                   | 0%                       |
| Average ELT 2012 <sup>1)</sup> | 36%   | 72%              | 37%                     | 49%   | 27%                                  | 24%                      |
| Average ELT 2013 <sup>1)</sup> | 38%   | 76%              |                         | 50%   | 24%                                  | 26%                      |

1) Excludes CEO differences in target and maximum levels from year to year are due to changes in the composition of the ELT. The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are cascaded to unit-related targets throughout the Company, always subject to a two-level management approval process. The Remuneration Committee monitors the appropriateness and fairness of Group target levels throughout the performance year and has the authority to revise them should they cease to be relevant or stretching or to enhance shareholder value.

During 2012, approximately 76,200 employees participated in short-term variable remuneration plans.

**Long-term variable remuneration**

Share-based long-term variable remuneration plans are submitted each year for approval by shareholders at the AGM. All long-term variable remuneration plans are designed to form part of a well-balanced total remuneration package and to span over a minimum of three years. As these are variable plans, outcomes are unknown and rewards depend on long-term personal investment, corporate performance and resulting share price performance. During 2012, share-based remuneration was made up of three different but linked plans: the all-employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

**The Stock Purchase Plan**

The all-employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate. This reinforces One Ericsson aligned with shareholder interests. Employees can save up to 7.5% of gross fixed salary (the President and CEO can save up to 10% of gross fixed salary and short-term variable remuneration) for purchase of Class B shares at market price on NASDAQ OMX Stockholm or ADSs on

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NASDAQ New York (contribution shares) over a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs, as applicable. The plan was introduced in 2002 and employees in 71 countries participated during its first year. In December 2012, the number of participants was over 27,000, or approximately 28% of eligible employees in 100 countries.

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

**The Key Contributor Retention Plan**

The Key Contributor Retention Plan is part of Ericsson's talent management strategy. It is designed to recognize individuals for performance, critical skills and potential as well as to encourage retention of key employees.

Under the program, operating units around the world can nominate up to 10% of employees worldwide. Each unit nominates individuals that have been identified according to performance, critical skills and potential. The nominations are calibrated in management teams locally and are reviewed by both local and corporate Human Resources to ensure that there is a minimum of bias and a strong belief in the system.

Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month investment period. The plan was introduced in 2004.

**The Executive Performance Stock Plan**

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

In the 2004 to 2010 plans, the performance targets were Earnings Per Share (EPS) targets.

To support the long-term strategy and value creation of the Company, new targets were defined for the 2011 plan. At the AGM 2012, the following targets for the 2012 Executive Performance Stock Plan were resolved on proposal by the Board:

Up to one-third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated net sales between year 0 (2011 financial year) and year 3 (2014 financial year) is between 2% and 8%.

Up to one-third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated operating income between year 0 (2011 financial year) and year 3 (2014 financial year) is between 5% and 15%.

Up to one-third of the award will be based on the cash conversion during each of the years during the performance period, calculated as cash flow from operating activities divided by net income reconciled to cash. One-ninth of the total award will vest for any year, i.e. financial years 2012, 2013 and 2014, if cash conversion is at or above 70%.



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Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, as determined by the Board of Directors, reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors. When undertaking its evaluation of performance outcomes the Board of Directors will consider, in particular, the impact of larger acquisitions, divestitures, the creation of joint ventures and any other significant capital event on the three targets on a case by case basis.

**Benefits and terms of employment**

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

For the President and CEO and other members of the ELT employed in Sweden before 2011, a supplementary pension plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP). The pension age for these ELT members is normally 60 years.

The ELT members employed in Sweden from 2011 are normally covered by the defined contribution plan under the ITP1 scheme, with a pensionable age of 65 years.

For members of the ELT who are not employed in Sweden, local market competitive pension arrangements apply.

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

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

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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 2012, approximately 2.4 (3.4) billion shares were traded on NASDAQ OMX Stockholm and about 1.1 (1.6) billion shares were traded on NASDAQ New York. A total of 3.5 (5) billion Ericsson shares were thus traded on the exchanges where we are listed. Trading volume in Ericsson shares decreased by approximately 27% on NASDAQ OMX Stockholm and by approximately 30% on NASDAQ New York compared to 2011.

The Ericsson share is also traded on other venues such as BATS Europe, Burgundy, Chi-X Europe.

**The Ericsson share****Share listings**

NASDAQ OMX Stockholm

NASDAQ New York

**Share data**

|  |                    |
|--|--------------------|
| Total number of shares in issue  | 3,305,051,735      |
| of which Class A shares, each carrying one vote <sup>1)</sup>              | 261,755,983        |
| of which Class B shares, each carrying one tenth of one vote <sup>1)</sup> | 3,043,295,752      |
| Ericsson treasury shares, Class B  | 84,798,095         |
| Quotient value   | SEK 5.00           |
| Market capitalization, December 31, 2012                                   | approx. SEK 215 b. |
| ICB (Industry Classification Benchmark)                                    | 9500               |

**Ticker codes**

|                                |                   |
|--------------------------------|-------------------|
| NASDAQ OMX Stockholm           | ERIC A/ERIC B     |
| NASDAQ New York                | ERIC              |
| Bloomberg NASDAQ OMX Stockholm | ERICA SS/ERICB SS |
| Bloomberg NASDAQ               | ERIC US           |
| Reuters NASDAQ OMX Stockholm   | ERICa.ST/ERICb.ST |
| Reuters NASDAQ                 | ERIC.O            |

1) Both classes of shares have the same rights of participation in the net assets and earnings.

**Changes in number of shares and capital stock 2008 2012**

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

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|      |   |               |                |
|------|---|---------------|----------------|
| 2010 | December 31   | 3,273,351,735 | 16,366,758,678 |
| 2011 | December 31   | 3,273,351,735 | 16,366,758,678 |
| 2012 | June 29, new issue (Class C shares, later converted to Class B) <sup>1)</sup> | 31,700,000    | 158,500,000    |
| 2012 | December 31   | 3,305,051,735 | 16,525,258,678 |

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- 1) The Annual General Meeting (AGM) 2012 resolved to issue 31.7 million Class C shares for the Long-Term Variable Remuneration Program (LTV). In accordance with an authorization from the AGM, in the second quarter 2012, the Board of Directors resolved to repurchase the new issued shares, which were subsequently converted into Class B shares. The quotient value of the repurchased shares was SEK 5.00, totaling SEK 158.5 million, representing less than one percent of capital stock, and the acquisition cost was approximately SEK 158.7 million.

**Share performance indicators**

|   | 2012  | 2011  | 2010  | 2009  | 2008  |
|---|-------|-------|-------|-------|-------|
| Earnings per share, diluted (SEK) <sup>1)</sup>                           | 1.78  | 3.77  | 3.46  | 1.14  | 3.52  |
| Earnings per share, diluted non-IFRS (SEK) <sup>2)</sup>                  | 2.74  | 4.72  | 4.80  | 2.87  | 4.24  |
| Operating income per share (SEK) <sup>3)4)</sup>                          | 3.25  | 5.58  | 7.42  | 5.80  | 7.50  |
| Stockholders' equity per share, basic, end of period (SEK <sup>5)</sup> ) | 42.51 | 44.57 | 45.34 | 43.79 | 44.21 |
| P/E ratio   | 36    | 19    | 22    | 57    | 17    |
| Total shareholder return (%)  | 3     | 7     | 22    | 15    | 20    |
| Dividend per share (SEK) <sup>6)</sup>                                    | 2.75  | 2.50  | 2.25  | 2.00  | 1.85  |

- 1) Calculated on average number of shares outstanding, diluted.  
 2) EPS, diluted, excluding amortizations and write-downs of acquired intangible assets, SEK.  
 3) Calculated on average number of shares outstanding, basic.  
 4) For 2010, 2009 and 2008 excluding restructuring charges.  
 5) Calculated on number of shares, end of period.  
 6) For 2012 as proposed by the Board of Directors.  
 For definitions of the financial terms used, see Glossary, Financial Terminology and Exchange Rates.

**SHARE TREND**

In 2012, Ericsson's total market capitalization decreased by about 7% to SEK 215 billion, compared to a decrease by 10% reaching SEK 230 billion in 2011. The OMX Stockholm Index on NASDAQ OMX Stockholm increased by 12% and the NASDAQ composite index increased by 16%. The S&P 500 Index increased by 13%.

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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 258 companies.

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**Share prices on NASDAQ OMX Stockholm**

| (SEK)                           | 2012         | 2011  | 2010  | 2009  | 2008  |
|---------------------------------|--------------|-------|-------|-------|-------|
| Class A at last day of trading  | <b>63.90</b> | 69.55 | 74.00 | 65.00 | 59.30 |
| Class A high (January 3, 2012)  | <b>72.00</b> | 93.60 | 88.40 | 78.80 | 83.60 |
| Class A low (November 16, 2012) | <b>55.55</b> | 59.05 | 65.20 | 55.40 | 40.60 |
| Class B at last day of trading  | <b>65.10</b> | 70.40 | 78.15 | 65.90 | 58.80 |
| Class B high (January 3, 2012)  | <b>71.90</b> | 96.65 | 90.45 | 79.60 | 83.70 |
| Class B low (July 18, 2012)     | <b>55.90</b> | 61.70 | 65.90 | 55.50 | 40.60 |

Source: Nasdaq OMX Stockholm

**Share prices on NASDAQ New York**

| (USD)                      | 2012         | 2011  | 2010  | 2009  | 2008  |
|----------------------------|--------------|-------|-------|-------|-------|
| ADS at last day of trading | <b>10.10</b> | 10.13 | 11.53 | 9.19  | 7.81  |
| ADS high (April 3, 2012)   | <b>10.60</b> | 15.44 | 12.39 | 10.92 | 14.00 |
| ADS low (May 17, 2012)     | <b>8.23</b>  | 8.83  | 9.40  | 6.60  | 5.49  |

Source: Nasdaq New York

**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.

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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<br>High | Low   | SEK per Class B share<br>High | Low   | USD per ADS <sup>1)</sup><br>High | Low   |
| <b>Annual high and low</b>    |                               |       |                               |       |                                   |       |
| 2008                          | 83.60                         | 40.60 | 83.70                         | 40.60 | 14.00                             | 5.49  |
| 2009                          | 78.80                         | 55.40 | 79.60                         | 55.50 | 10.92                             | 6.60  |
| 2010                          | 88.40                         | 65.20 | 90.45                         | 65.90 | 12.39                             | 9.40  |
| 2011                          | 93.60                         | 59.05 | 96.65                         | 61.70 | 15.44                             | 8.83  |
| 2012                          | 72.00                         | 55.55 | 71.90                         | 55.90 | 10.60                             | 8.23  |
| <b>Quarterly high and low</b> |                               |       |                               |       |                                   |       |
| 2011 First Quarter            | 80.05                         | 70.50 | 83.00                         | 73.25 | 13.06                             | 10.99 |
| 2011 Second Quarter           | 93.60                         | 73.00 | 96.65                         | 75.30 | 15.44                             | 12.06 |
| 2011 Third Quarter            | 91.80                         | 60.50 | 93.80                         | 63.15 | 14.82                             | 9.33  |
| 2011 Fourth Quarter           | 71.50                         | 59.05 | 72.55                         | 61.70 | 11.25                             | 8.83  |
| 2012 First Quarter            | 72.00                         | 59.25 | 71.90                         | 58.15 | 10.53                             | 8.58  |
| 2012 Second Quarter           | 69.70                         | 58.75 | 69.95                         | 59.60 | 10.60                             | 8.23  |
| 2012 Third Quarter            | 67.00                         | 55.95 | 67.80                         | 55.90 | 10.05                             | 8.23  |
| 2012 Fourth Quarter           | 64.90                         | 55.55 | 66.85                         | 56.60 | 10.21                             | 8.31  |
| <b>Monthly high and low</b>   |                               |       |                               |       |                                   |       |
| August 2012                   | 67.00                         | 60.55 | 67.80                         | 61.50 | 10.05                             | 9.14  |
| September 2012                | 62.55                         | 58.35 | 64.10                         | 59.85 | 9.79                              | 8.91  |
| October 2012                  | 59.85                         | 56.10 | 61.00                         | 57.40 | 9.27                              | 8.57  |
| November 2012                 | 60.50                         | 55.55 | 62.30                         | 56.60 | 9.41                              | 8.31  |
| December 2012                 | 64.90                         | 60.00 | 66.85                         | 62.45 | 10.21                             | 9.40  |
| January 2013                  | 74.30                         | 62.90 | 76.95                         | 64.50 | 11.82                             | 9.78  |
| February 2013                 | 77.75                         | 72.30 | 79.90                         | 74.20 | 12.70                             | 11.97 |
| March 2013                    | 84.55                         | 75.60 | 86.40                         | 77.60 | 13.46                             | 12.07 |

1) One ADS = 1 Class B share.

Source: Nasdaq OMX Stockholm and Nasdaq New York

**SHAREHOLDERS**

As of December 31, 2012, the Parent Company had 551,719 shareholders registered at Euroclear Sweden AB (the Central Securities Depository CSD), of which 1,080 holders had a US address. According to information provided by our depository, Citibank, there were 189,454,944 ADSs outstanding as of December 31, 2012, and 4,500 registered holders of such ADSs. A significant number of Ericsson ADSs are held by banks, brokers and/or nominees for the accounts of their customers. As of January 3, 2013, the total number of bank, broker and/or nominee accounts holding Ericsson ADSs was 169,190.

According to information known at year-end 2012, approximately 78% of our Class A and Class B shares were owned by institutions, Swedish and international.

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

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



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The table shows the total number of shares in the Parent Company owned by the Executive Leadership Team and Board members (including Deputy employee representatives) as a group as of December 31, 2012.

**The Executive Leadership Team and Board members, ownership**

|   | <b>Number of<br/>Class A<br/>shares</b> | <b>Number of<br/>Class B<br/>shares</b> | <b>Voting<br/>rights,<br/>percent</b> |
|---|---|---|---------------------------------------|
| The Executive Leadership Team and Board members as a group (31 persons) | 0                                       | 559,450                                 | 0.01                                  |

For individual holdings, see Corporate Governance Report.

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The following table shows share information, as of December 31, 2012, with respect to our 15 largest shareholders, ranked by voting rights, as well as percentage of voting rights as of December 31, 2012, 2011 and 2010.

**Largest shareholders, December 31, 2012 and percentage of voting rights, December 31, 2012, 2011 and 2010**

| Identity of person or group <sup>1)</sup> | Number of<br>Class A<br>shares | Of total<br>Class A<br>shares,<br>percent | Number of<br>Class B<br>shares | Of total<br>Class B<br>shares,<br>percent | 2012<br>Voting rights,<br>percent | 2011<br>Voting rights,<br>percent | 2010<br>Voting rights,<br>percent |
|---|--------------------------------|---|--------------------------------|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Investor AB                               | 115,018,707                    | 43.94                                     | 59,284,545                     | 1.95                                      | 21.37                             | 21.48                             | 19.33                             |
| AB Industrivärden                         | 84,708,520                     | 32.36                                     | 0                              | 0.00                                      | 14.96                             | 14.34                             | 13.80                             |
| Handelsbankens Pensionsstiftelse          | 21,057,443                     | 8.04                                      | 0                              | 0.00                                      | 3.72                              | 4.20                              | 3.52                              |
| Swedbank Robur Fonder AB                  | 1,505,751                      | 0.58                                      | 138,107,152                    | 4.54                                      | 2.71                              | 2.79                              | 2.73                              |
| AFA Försäkring AB                         | 11,423,000                     | 4.36                                      | 9,151,631                      | 0.30                                      | 2.18                              | 2.31                              | 0.45                              |
| Blackrock Fund Advisors                   | 0                              | 0.00                                      | 77,802,606                     | 2.56                                      | 1.37                              | 1.46                              | 1.44                              |
| Norges Bank Investment Management         | 0                              | 0.00                                      | 77,226,311                     | 2.54                                      | 1.36                              | 1.24                              | 0.89                              |
| Skandia Liv                               | 6,263,167                      | 2.39                                      | 11,414,818                     | 0.38                                      | 1.31                              | 1.36                              | 2.98                              |
| AMF Pensionsförsäkring AB                 | 0                              | 0.00                                      | 71,108,980                     | 2.34                                      | 1.26                              | 1.34                              | 1.34                              |
| Aberdeen Asset Managers Ltd.              | 0                              | 0.00                                      | 65,706,158                     | 2.16                                      | 1.16                              | 1.05                              | 1.01                              |
| Dodge & Cox, Inc.                         | 0                              | 0.00                                      | 64,443,081                     | 2.12                                      | 1.14                              | 0.96                              | 1.43                              |
| Pensionskassan SHB Försäkringsförening    | 6,381,570                      | 2.44                                      | 0                              | 0.00                                      | 1.13                              | 1.39                              | 2.07                              |
| Orbis Investment Management Ltd.          | 0                              | 0.00                                      | 62,271,048                     | 2.05                                      | 1.10                              | 0.35                              | 0.06                              |
| OppenheimerFunds, Inc.                    | 0                              | 0.00                                      | 62,070,708                     | 2.04                                      | 1.10                              | 1.20                              | 1.29                              |
| Handelsbanken Fonder AB                   | 261,500                        | 0.10                                      | 58,019,980                     | 1.91                                      | 1.07                              | 0.96                              | 1.05                              |
| Others                                    | 15,136,325                     | 5.78                                      | 2,286,688,734                  | 75.14                                     | 43.07                             | 43.57                             | 46.61                             |
| <b>Total</b>                              | <b>261,755,983</b>             | <b>100</b>                                | <b>3,043,295,752</b>           | <b>100</b>                                | <b>100</b>                        | <b>100</b>                        | <b>100</b>                        |

1) Source: Capital Precision

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**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)

The information included on our website is not incorporated herein by reference.

**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 venture ST-Ericsson, we are engaged in a number of other minor joint ventures and cooperative arrangements. For more information regarding risks associated with joint ventures, strategic alliances and third-party agreements please see Risk Factors, Market, Technology and Business Risks.

**Filings in the US:** Annual reports and other information are filed with, or furnished to, 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](http://www.sec.gov), where they are stored in the EDGAR database.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**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 support solutions. Our customers, in over 180 countries, are mainly operators of communications networks worldwide. We manage networks, or parts of networks, for 950 million subscribers.

**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 29, 2013, was SEK 6.5280 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> |
|-------------------------------|----------------|
| 2008                          | 6.6424         |
| 2009                          | 7.6232         |
| 2010                          | 7.1895         |
| 2011                          | 6.4263         |
| 2012                          | 6.7247         |

**EXCHANGE RATES, MONTHLY HIGH AND LOW**

| <b>Month</b>                                       | <b>High</b> | <b>Low</b> |
|--|-------------|------------|
| September 2012                                     | 6.7450      | 6.5018     |
| October 2012                                       | 6.7023      | 6.5484     |
| November 2012                                      | 6.8019      | 6.6092     |
| December 2012                                      | 6.6920      | 6.5074     |
| January 2013                                       | 6.5568      | 6.3476     |
| February 2013                                      | 6.4764      | 6.2880     |
| March 2013 (latest available data is for March 29) | 6.5280      | 6.3412     |

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. Noon buying rates are not used in the preparation of our financial statements.



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ERICSSON ANNUAL REPORT ON FORM 20-F 2012

**PRIMARY MANUFACTURING AND ASSEMBLY FACILITIES**

We continuously adjust our production capacity to meet expected customer demand. At year-end 2012, 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**

|              | 2012      |                        | 2011      |                        | 2010      |                        |
|--------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|
|              | Sites     | Thousands of sq meters | Sites     | Thousands of sq meters | Sites     | Thousands of sq meters |
| Sweden       | 7         | 125.1                  | 7         | 125.1*                 | 6         | 204.4                  |
| China        | 5         | 83.5                   | 5         | 91.1                   | 4         | 61.1                   |
| Estonia      | 1         | 23.7                   | 1         | 23.7                   | 1         | 20.6                   |
| Italy        | 1         | 10.5                   | 2         | 20.1                   | 2         | 20.1                   |
| Brazil       | 1         | 37.4                   | 1         | 33.7                   | 1         | 23.3                   |
| Mexico       | 1         | 0.6                    |           |                        |           |                        |
| India        | 1         | 25.0                   | 1         | 25.0*                  | 1         | 15.6                   |
| <b>Total</b> | <b>17</b> | <b>305.8</b>           | <b>17</b> | <b>318.7</b>           | <b>15</b> | <b>345.1</b>           |

\* Restated for 2011 to only include manufacturing and assembly areas. The reported number for China in the 20-F for 2011 was 80.7 and for Sweden 429.3. These numbers comprised total land use.

**OPERATING RESULTS****Years ended December 31, 2011 and 2012**

Please refer to Board of Directors Report.

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Years ended December 31, 2010 and 2011

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

| SEK billion  | IFRS         |       |       | Restructuring charges |      |      | Non-IFRS measures |       |       |
|--|--------------|-------|-------|-----------------------|------|------|-------------------|-------|-------|
|  | 2011         | 2010  | 2009  | 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 measures of financial performance calculated or presented 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 financial measures to facilitate analysis by indicating Ericsson's underlying performance. Non-IFRS financial measures have limitations as analytical tools and should not be viewed in isolation or as substitutes to the IFRS financial 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.

**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%.



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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.

**MOST RECENT FIVE-YEAR AVERAGE SEASONALITY**

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



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Selling and administrative expenses represented 11.8% of sales compared to 12.4% in 2010. The amount was SEK 26.7 (25.3) billion. In 2010, the amount including restructuring charges was SEK 27.1 billion, representing 13.3% of sales. In the year, there were positive effects from efficiency work along with the strong SEK.

**Operating margin before JVs**

Operating margin before share in JV earnings decreased to 9.6% (12.0%). However, in 2010, operating margin before share in JV earnings and including restructuring charges amounted to 8.7%.

**Share in earnings of JVs**

In 2011, Sony Ericsson reported a loss. The loss reflects intense competition, price erosion, restructuring charges and supply chain issues following the earthquake and tsunami in Japan. Ericsson's share in Sony Ericsson's income before tax was SEK 1.2 (0.9) billion. In 2010, Ericsson's share amounted to SEK 0.7 billion including restructuring charges.

ST-Ericsson reported a loss also in 2011. ST-Ericsson is currently in a shift from legacy to new products. Ericsson's share in ST-Ericsson's income before tax, adjusted to IFRS, was SEK 2.7 ( 1.5) billion. In 2010, the loss amounted to SEK 1.8 billion including restructuring charges.

**Operating income**

Operating income was SEK 17.9 (23.7) billion. However, in 2010, operating income including restructuring charges amounted to SEK 16.5 billion.

**Financial net**

The financial net was SEK 0.2 ( 0.7) billion. The difference is mainly attributable to a higher interest net of SEK 0.8 billion compared to 2010.

**Taxes**

The tax expense for the year was SEK 5.6 (4.5) billion or 30.6% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographic mix. The tax rate excluding joint ventures and associated companies was 26.4% (25.7%) due to lower tax rates from the loss-making joint ventures.

**Net income**

Net income increased 12% to SEK 12.6 (11.2) billion driven by higher sales and lower restructuring charges.

**Earnings per share, diluted**

Earnings per share increased 9% to SEK 3.77 (3.46). 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.



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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.

**FINANCIAL POSITION****CONSOLIDATED BALANCE SHEET (ABBREVIATED)**

| December 31, SEK billion  | 2011               | 2010         | 2009         |
|---|--------------------|--------------|--------------|
| <b>ASSETS</b>   |                    |              |              |
| Non-current assets, total   | 81.5               | 83.4         | 87.4         |
| <i>of which intangible assets</i>                                 | 44.0               | 46.8         | 48.2         |
| <i>of which property, plant and equipment</i>                     | 10.8               | 9.4          | 9.6          |
| <i>of which financial assets</i>                                  | 13.7               | 14.5         | 15.3         |
| <i>of which deferred tax assets</i>                               | 13.0               | 12.7         | 14.3         |
| Current assets, total   | 198.8              | 198.4        | 182.4        |
| <i>of which inventory</i>   | 33.1               | 29.9         | 22.7         |
| <i>of which trade receivables</i>                                 | 64.5               | 61.1         | 66.4         |
| <i>of which other receivables/financing</i>                       | 20.7               | 20.2         | 16.6         |
| <i>of which short-term investments, cash and cash equivalents</i> | 80.5 <sup>2)</sup> | 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  | 145.3              | 146.8        | 141.0        |
| Non-current liabilities   | 38.1               | 38.3         | 43.3         |
| <i>of which post-employment benefits</i>                          | 10.0               | 5.1          | 8.5          |
| <i>of which borrowings</i>  | 23.3               | 27.0         | 30.0         |
| <i>of which other non-current liabilities</i>                     | 4.8                | 6.2          | 4.8          |
| Current liabilities   | 97.0               | 96.8         | 85.5         |
| <i>of which provisions</i>  | 6.0                | 9.4          | 12.0         |
| <i>of which current borrowings</i>                                | 7.8                | 3.8          | 2.1          |
| <i>of which trade payables</i>                                    | 25.3               | 25.0         | 18.9         |
| <i>of which other current liabilities</i>                         | 58.0               | 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.



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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.

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By maintaining a strong cash position, the Company can also maintain an active strategy for strategic mergers and acquisitions.

An important focus area is the monitoring of working capital. Major efforts have been made during the year in order to reduce days sales outstanding and inventory turnover days as well as to increase payable days. The target for payable days was met, while the other two targets were not achieved. The efforts to further reduce working capital will continue in 2012 and the working capital targets are the same as previous years.

In 2011, the dividend was SEK 2.25 per share. The Board of Directors will propose to the Annual General Meeting 2012 a dividend of SEK 2.50 per share. This represents a total dividend of approximately SEK 8.2 billion. The proposal reflects year 2011's earnings and balance sheet structure, as well as coming years' business plans and expected economic development.

**Non-current assets**

**Intellectual property rights, brands and other intangible assets** decreased to SEK 13.1 (16.7) billion due to amortizations.

**Customer financing, current and non-current**, decreased slightly to SEK 4.2 (4.4) billion.

**Current assets**

**Inventory** levels increased during the year by SEK 3.2 billion due to higher sales and increased share of coverage projects. At year end, inventory was SEK 33.1 (29.9) billion. The higher inventory level followed a higher level of work in progress in the regions. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2012.

**Trade receivables:** Days sales outstanding reached 91 (88) days at year-end. This reflects a higher portion of coverage projects and higher sales volumes. The Company's nominal credit 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.

**Equity**

Equity decreased by SEK 1.5 billion to SEK 145.3 (146.8) billion. Net income was SEK 12.6 (11.2) billion and dividends of SEK 7.5 (6.7) billion was paid during the year. The equity ratio was maintained at a healthy level of 52% (52%).

Return on equity increased to 8.5% (7.8%), primarily due to higher sales and lower restructuring charges.

Return on capital employed (ROCE) was 11.3% (9.6%). In 2010, ROCE excluding restructuring charges was 13.6%.

**Non-current liabilities**

**Post-employment benefits** related to defined benefit plans increased to SEK 10.0 (5.1) billion. In 2011 there was a decrease in discount rates, and plan assets yielded lower than expected. Consequently, the Company experienced an increase in the net pension liability and the funded ratio (plan assets as percentage of defined benefit obligations) decreased to 77% (89%).

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**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.

**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.

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In 2011, gross cash decreased by SEK 6.6 billion to SEK 80.5 (87.2) billion. The net income reconciled to cash of SEK 25.2 billion was offset by a change in net operating assets of SEK 15.2 billion and investing activities of SEK 9.9 billion. Dividends to shareholders amounted to SEK 7.5 ( 6.7) billion.

Net cash decreased to SEK 39.5 (51.3) billion.

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**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.

**CAPITAL EXPENDITURES 2007 - 2011**

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

**Cash flow from financing activities**

Cash flow from financing activities was SEK 6.5 billion. Dividends paid were SEK 7.5 ( 6.7) billion and other financing activities net amounted to SEK 1.0 billion.

**Cash conversion**

Cash conversion was 40% (112%), below the target of 70%. Over the years 2008 - 2010, cash conversion was above target. The cash conversion in 2011 was negatively impacted by higher working capital.



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**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.

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

| SEK billion                      | Networks     |                   | Global Services |                   | Multimedia  |                   | Total<br>2011 | Percent<br>change |
|----------------------------------|--------------|-------------------|-----------------|-------------------|-------------|-------------------|---------------|-------------------|
|                                  | 2011         | Percent<br>change | 2011            | Percent<br>change | 2011        | Percent<br>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.



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### **Latin America**

There is a push for mobile broadband in Latin America, driven by consumer demand for 3G services. Smartphone penetration is still low, but is expected to grow as these handsets become more affordable.

Operators show an increasing interest in network performance and Ericsson is taking part in OSS/BSS transformation projects in managed services deals, including network sharing arrangements.

### **Northern Europe and Central Asia**

The Nordics are mature and advanced markets with strong 3G coverage and LTE commercially available in all countries. Nordic operators are increasingly shifting their business models towards network sharing and the outsourcing of network operations.

Deployment of 3G networks started later in the eastern part of the region. Here, operators are focusing on providing coverage and quality in the networks. Mobile broadband is growing rapidly in the region. Many consolidation activities, of both operators and networks, are taking place. In the latter half of the year, network sales slowed, especially in Russia, following strong operator investments in network capacity and coverage.

### **Western and Central Europe**

Modernization of networks accelerated across the region in 2011. Operator focus is on replacing old 2G/3G equipment with modern, more efficient multi-standard radio base stations. Interest in LTE is limited, with certain countries still to allocate spectrum for this.

Penetration of mobile broadband is high, with some operators' smartphone shipments representing more than half of their totals. Data revenues are growing and represent over 40% with some operators. There is also high interest in managed services and network sharing.

### **Mediterranean**

This region has seen an impact from weak economies as well as political unrest in Northern Africa. The uptake of mobile broadband is mixed, with the strongest growth in the south west parts of the region. Here, operators are implementing a range of tiered pricing models.

Mobile data usage is high in the Mediterranean area, due to the low availability of fixed broadband. Most operators' investments are for 3G coverage and in the second half of the year, network modernization projects took off.

### **Middle East**

The Middle East was impacted by political unrest in several countries and by delays in license auctions. As a consequence, some operators have postponed their infrastructure investments and increased their focus on efficiencies.

The region has lower penetration rates, mobile broadband adoption and mobile data usage than the world average. The crucial driver for increasing these parameters is the affordability of smartphones.

Rollouts of LTE have started in some parts of the region.

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### **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.

## **BUSINESS RESULTS SEGMENTS**

### **Networks**

#### **HIGHLIGHTS IN 2011**

Increased market share in mobile network equipment by 6 percentage points to 38% (estimated)

Market share of more than 60% in LTE

Smart Services Router family introduced. Volume deliveries expected in 2012

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**Sales**

Networks sales increased 17% to SEK 132.4 billion, negatively impacted by a strong SEK in 2011. The increase was an effect of continued high sales in mobile broadband-related equipment including packet core, IP routers and microwave-based backhaul. Demand was especially strong in regions China and North East Asia and North America.

The year was characterized by high volumes of mobile broadband equipment and ramp-up of the multi-standard radio base station RBS 6000. The product introduction of the RBS 6000 has been the quickest and most successful in the Company's history. At the end of the year, the first RBS 6000 with CDMA functionality was shipped. The RBS 6000 accounts for close to 100% of all deliveries of GSM/WCDMA/LTE radio base stations. In the fourth quarter, shipping of the IP Edge router, the Smart Services Router SSR 8000 family, and the Antenna Integrated Radio unit (AIR) also commenced.

In 2010, Ericsson acquired Nortel's CDMA business in order to strengthen its position in North America. Ericsson is now established as the leader in this market. CDMA sales increased slightly in 2011. At the end of the year the Company saw the expected decline in CDMA sales and subsequent rapid shift to LTE. The CDMA acquisition has created substantial value for the Company.

In March, the earthquake and tsunami in Japan caused temporary delays in the supply chain, but by the third quarter lead times were back to normal.

**Profitability**

Operating margin decreased to 13% (15%). The margin was negatively impacted by planned R&D investments to accelerate technology leadership. Operating margin in 2010 was 11% including restructuring charges.

**Cost structure**

In the Networks segment, cost of sales is quite large and to a large part variable. To reduce variable cost, the Company works with product rationalization and product substitution. R&D is a significant cost item and for this reason it is important to focus on R&D effectiveness and efficiency. It is essential to ensure global platforms and common components across the whole portfolio. To maximize the outcome of R&D investment, the Company also seeks to give R&D sites clear accountability and the same IS/IT environment.

**The networks business**

Sales to network operators are normally based on multi-year frame agreements after an initial open tender. During the frame agreement, software, equipment, services and spare parts are called off according to price lists.

Prior to the introduction of the multi-standard radio base station RBS 6000, operators could have co-siting, with one supplier for GSM and another for WCDMA. Today, a multi-standard approach means that all technologies are supported by one radio base station. Any supplier has to be equally capable of all technologies. R&D investments and scale are therefore essential for a supplier to stay competitive. The footprint of multi-standard radio access network increases opportunities for additional network business, e.g. backhaul and core networks. Following radio and core footprint is a significant software sales opportunity based on capacity, functionality and new features.

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### **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**

#### **HIGHLIGHTS IN 2011**

More than 2 billion subscribers in networks for which Ericsson provides support

Over 900 million subscriber in networks managed by Ericsson

500 million subscribers in network operation contracts

#### **Sales**

Global Services sales increased 5% to SEK 83.9 (80.1) billion, driven by network rollout, consulting and systems integration.

Professional Services sales were SEK 58.8 billion, up 1% from 2010. Currency adjusted sales of Professional Services increased 7%. The increase is mainly a result of increased sales of consulting and systems integration. Managed Services sales decreased by 1% to SEK 21.0 billion. Currency adjusted sales increased 7%. The growth reflects the 70 (54) signed managed services contracts, of which 32 (26) were extensions or expansions. More than 60% of Professional Services sales were recurring.

Network Rollout sales amounted to SEK 25.1 (21.6) billion, an increase of 16%, driven by high volumes of network modernization.

#### **Profitability**

Global Services operating margin decreased to 7% (11%). The margin was negatively impacted by a loss in Network Rollout.

Operating margin in 2010 was 8% including restructuring charges.

Operating margin for Professional Services amounted to 13% (15%). Operating margin in 2010 was 11% including restructuring charges.

Operating margin for Network Rollout amounted to 8% (1%), due to high activity levels related to network modernization projects in Europe and 3G rollouts in India. Operating margin in 2010 was 0% including restructuring charges.

#### **Cost structure**

In the services segment, almost all cost resides in cost of sales and the majority of the cost is related to employee costs. A few years ago, the cost of sales base was to a higher degree variable. With the increasing share of managed services, the portion of fixed costs has increased, which makes it important to find scale by winning more deals in the same geographical area. Another measure to keep cost down is to establish a one-to-many delivery model. The development of global tools, methods and processes are also crucial in order to secure efficiencies and knowledge sharing.



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In managed services, Ericsson often insources employees from the customer. In the transition period, restructuring costs are taken, e.g. for replacement of IS/IT systems and migration of employees into new systems and premises. In the transformation phase, following the transition, synergies are carried through.

### **The services business**

Ericsson's offering covers all areas within an operator's operational scope. The Company's service offering includes consulting, systems integration, managed services, network deployment and integration, education and support services. Ericsson provides services for both mobile and fixed telecom networks as well as for IT and broadcast networks and in some cases for adjacent industries such as the utilities industry. Most often operators turn to Ericsson for support in a certain part of their operations. Contracts for managed services and customer support are typically for five to seven years. Payments with regularity provide a lower rate of working capital. Consulting and systems integration contracts are shorter and paid after fulfillment of contract.

In managed services deals the contracts are normally split into fixed and variables, where the variables are a smaller part. The invoicing is based on fulfillment of certain key performance indicators and projects. When an operator explores the possibility of a managed services deal, the financial strength of the supplier is a prerequisite.

Network rollout includes coverage and modernization projects with a large part of third-party sourcing, making it a lower-margin business.

The Company rolls out its own equipment, but also has high multi-vendor skills in all other parts of the services business.

### **Competitors**

Competition in services includes the traditional telecommunication equipment suppliers. The Company also competes with companies such as Accenture, HP, IBM, Oracle, Tata Consultancy Services and Tech Mahindra. Among the competition is also a large number of smaller but specialized companies operating on a local or regional basis.

## **Multimedia (CHANGED NAME TO SUPPORT SOLUTIONS IN 2012)**

### **HIGHLIGHTS IN 2011**

13 new contracts signed for mobile broadband charging

World's largest IPTV upgrade in Taiwan

11 new customers for convergent charging and billing

### **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.





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### **Cost structure**

In the multimedia segment, cost of sales is low and the majority is variable, due to the fact that third party hardware is used, on which the Company implements its software. Multimedia is a software business with a high degree of fixed R&D cost for software development.

### **The OSS and BSS business**

The OSS/BSS business is divided into two different sales types:

#### *Transformation sales*

Simplification and consolidation of processes, operations, systems and platforms. Key components are software solutions, consulting and systems integration. Typically these projects last for 18-36 months. The software part represents 25-40% of the contract value and the rest is consulting and systems integration.

#### *Product sales*

Product sales is mainly expansions and upgrades, e.g. upgrading from Ericsson Charging System version 4 to 5. Key components are software solutions and systems integration. Typically these projects last for 1-12 months. The software part represents 70-90% of the contract value and the rest is systems integration.

### **Telcordia acquisition**

In 2011, Ericsson announced the acquisition of Telcordia, a global leader in the development of software and services for OSS/BSS. The price was USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. The acquisition is expected to be accretive to Ericsson's earnings per share within twelve months. Telcordia has approximately 2,600 employees. During its last fiscal year, ended January 31, 2011, Telcordia generated revenues of USD 739 million. Telcordia's revenues will be split between segments Multimedia and Global Services according to portfolio mix. With the acquisition, Ericsson aspires to a leading position in the OSS and BSS market.

### **Competitors**

In the multimedia segment, Ericsson competes in rather fragmented markets with many local players. Competitors vary depending on the solution being offered. In the OSS and BSS market, they include many of the traditional telecommunication equipment suppliers as well as IT suppliers, such as Amdocs, Comverse and Oracle. Competition in the TV business includes Harmonic and Thompson.

### **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.

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.

**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.

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Our Articles of Association do not stipulate anything regarding:

a director's power to vote on a proposal, arrangement, or contract in which the director is materially interested

our directors' power to vote for compensation to themselves

our directors' borrowing powers

retirements rules for our directors or

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 6,000,000,000 nor more than SEK 24,000,000,000, 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 16,525,258,678 and the Company has in total issued 3,305,051,735 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.

**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.

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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

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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.

A shareholder may attend and vote at the meeting in person or by proxy. For companies whose shares are registered in a central securities depository 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

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the register as a nominee (including the depository 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 depository 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).

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.

**Purchase of Own Shares**

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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

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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, 2012, the Company held an aggregate of 84,798,095 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 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.



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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.

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.

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**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 or currencies, traders in securities 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.

**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

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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 USD value of the dividend payment based on the exchange rate in effect on the date of receipt (or constructive receipt) by you, in the case of Class B shares or by the depository, 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 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.

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

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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 2012. 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. In addition, any gain you recognize upon the sale or other disposition of the ADSs or Class B shares will be treated as ordinary income and any loss will be treated as ordinary loss, 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 will generally be required to make an annual return on IRS Form 8621.

**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 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,



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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 disposition of ADSs or Class B shares.

**DEPOSITARY FEES AND CHARGES****FEES AND CHARGES PAYABLE BY ADS HOLDERS**

|    | <b>Service</b>  | <b>Rate</b>  | <b>By whom paid</b>               |
|----|---|--|-----------------------------------|
| 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 33,128.79 associated with the administration of the Program.

**CORPORATE GOVERNANCE REQUIREMENTS**

The Ericsson Board of Directors is subject to, and applies, a variety of independence requirements. However, it can rely on exemptions from certain U.S. requirements, including those that are different from Swedish Law.

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Independence requirements on the board of directors:

A majority of the members of the board of directors must be independent in accordance with the NASDAQ rules. Ericsson relies on an exemption for employee representative directors from NASDAQ's independence requirements.

Independence requirements on the audit committee:

All members of the audit committee must be independent in accordance with the SEC and the NASDAQ rules. The SEC rules include a specific exemption from these independence requirements for audit committee members who are non-executive employee representatives. The Company does not consider that reliance on this exemption adversely affects the ability of the Audit Committee to act independently or satisfy other SEC requirements.

In addition, foreign private issuers such as Ericsson may follow home-country practice in lieu of certain NASDAQ corporate governance requirements.

Below is a list of practices followed by Ericsson that differ from certain corporate governance requirements under the NASDAQ Marketplace Rules:

Employee representatives to be elected to the Board of Directors and serve on Committees (including the Audit and the Remuneration Committees) 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 and the Remuneration Committees) in accordance with Swedish laws concerning attendance and decision making processes

No minimum quorum requirements for shareholder meetings, except under certain circumstances.

**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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**DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRA)**

Ericsson has conducted business in Iran/Persia since the late nineteenth century, opened an office in Iran in 1973 and later established a local subsidiary in the country. Ericsson strongly believes in enabling communication for all and believes that access to communications can enable the right to health, education and freedom of expression. Ericsson's business activities in Iran principally involve the sale of telecommunications infrastructure related products and services, including support, installation and maintenance services. Ericsson's exports from the European Union (the EU) to Iran are performed under export licenses from the Swedish Agency for Non-Proliferation and Export Controls. The EU sanctions towards Iran grant an exemption for the supply of certain telecommunications equipment and software based on which these export licenses are granted. While we seek to obtain information regarding the ownership of our customers in Iran, it is sometimes difficult to determine ownership and control with certainty, particularly with respect to the government.

During 2012, Ericsson sold telecommunications infrastructure related products and services in Iran to MTN Irancell and to Mobile Communication Company of Iran (MCCI), telecommunications companies operating in Iran. During 2012, our gross revenue related to sales to MTN Irancell and MCCI in Iran was approximately SEK 1,149 million. Ericsson does not normally allocate net profit on a country-by-country or activity-by-activity basis, other than as set forth in Ericsson's consolidated financial statements prepared in accordance with IFRS as issued by the IASB. However, Ericsson has estimated that its net profit from such sales, after internal cost allocation was less than SEK 50 million during 2012. We anticipate that the sales of telecommunications infrastructure related products to MTN Irancell and MCCI in Iran will be phased out during 2013 and that our business activities in Iran after 2013 will consist of the provision of services under existing contracts or with respect to equipment already delivered by Ericsson (which services may include repair and replacements of products) and collection of software license related revenues under existing agreements.

Further, Ericsson is party to agreements entered into prior to 2012 with Telecommunications Company of Iran, an affiliate of MCCI, Zaeim Electronic Industries Company and TAKTA (reseller). No sales were made by Ericsson under these contracts during 2012 and we do not anticipate that any sales will be made during 2013.

In some instances, we have had to arrange performance bonds or similar financial guarantees to secure our performance of obligations under the commercial agreements we have entered into relating to our business in Iran. In such instances, we usually engage our banks outside Iran, who in turn engage local banks in the country. These local banks include Tejarat Bank, Melli Bank and Saderat Bank. Although some bonds and guarantees involving these banks are still in place, no new performance bonds or similar guarantees with respect to our business activities in Iran were issued during 2012, nor were payments made to beneficiaries under any such existing bond or guarantee.

During 2012 Ericsson's Iranian subsidiary maintained accounts with Bank Mellat and Tejarat Bank. Deposits with those banks generated less than SEK 20 million of interest income during 2012. Those accounts were closed during 2012. Some payments made to our local subsidiary and payments required to be made by our local subsidiary to suppliers involve banks controlled by the government of Iran, such as Bank Mellat, Tejarat Bank, Bank Melli, Saderat Bank, Keshavarzi Bank, Eghtesad Novin Bank, Refah Bank and Bank Sepah. We also received payments from customers to Ericsson's accounts outside Iran.

During 2012, Ericsson purchased telecommunication infrastructure related materials and services from Havafaza Industry Organization (SATAF). Ericsson stopped purchasing from them during 2012.

Due to its operations in Iran, and having staff permanently in the country, Ericsson obtains and requires services and has other dealings incidental to its local activities including paying taxes and salaries and obtaining rentals, electricity, water and telecommunications services, office and similar supplies and customs related services from Iranian companies who may be owned or controlled by the government of Iran.

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**INVESTMENTS**

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2012. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External Reporting, SE-164 83 Stockholm, Sweden.

**SHARES OWNED DIRECTLY BY THE PARENT COMPANY**

| Type                        | Company                                 | Reg. No.    | Domicile        | Percentage of ownership | Par value in local currency, million | Carrying value, SEK million |
|-----------------------------|---|-------------|-----------------|-------------------------|--------------------------------------|-----------------------------|
| <b>Subsidiary companies</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)                          |             |                 |                         |                                      | 1,742                       |
| I                           | Ericsson Austria GmbH                   |             | Austria         | 100                     | 4                                    | 65                          |
| I                           | Ericsson Danmark A/S                    |             | Denmark         | 100                     | 90                                   | 216                         |
| I                           | Oy LM Ericsson Ab                       |             | Finland         | 100                     | 13                                   | 196                         |
| II                          | Ericsson Participations France SAS      |             | France          | 100                     | 26                                   | 524                         |
| I                           | Ericsson Germany GmbH                   |             | Germany         | 100                     |                                      | 4,232                       |
| I                           | Ericsson Hungary Ltd.                   |             | Hungary         | 100                     | 1,301                                | 120                         |
| II                          | LM Ericsson Holdings Ltd.               |             | Ireland         | 100                     | 2                                    | 15                          |
| I                           | Ericsson Telecomunicazioni S.p.A.       |             | Italy           | 100                     | 44                                   | 5,857                       |
| II                          | Ericsson Holding International B.V.     |             | The Netherlands | 100                     | 222                                  | 3,200                       |
| I                           | Ericsson A/S                            |             | Norway          | 100                     | 75                                   | 114                         |
| II                          | Ericsson Television AS                  |             | Norway          | 100                     | 161                                  | 1,788                       |
| I                           | Ericsson Corporatia AO                  |             | Russia          | 100                     | 5                                    | 5                           |
| I                           | Ericsson España                         |             | Spain           | 100                     | 43                                   | 170                         |
| I                           | Ericsson AG                             |             | Switzerland     | 100                     |                                      |                             |
| II                          | Ericsson Holding Ltd.                   |             | United Kingdom  | 100                     | 328                                  | 4,094                       |
|                             | Other (Europe, excluding Sweden)        |             |                 |                         |                                      | 275                         |
| II                          | Ericsson Holding II Inc.                |             | United States   | 100                     | 2,830                                | 29,006                      |
| I                           | Cía Ericsson S.A.C.I.                   |             | Argentina       | 95 <sup>1)</sup>        | 41                                   | 178                         |
| I                           | Ericsson Canada Inc.                    |             | Canada          | 100                     |                                      | 51                          |
| I                           | Bel-Air Networks                        |             | Canada          | 100                     |                                      | 170                         |
| I                           | Ericsson Telecom S.A. de C.V.           |             | Mexico          | 100                     | n/a                                  | 1,050                       |
|                             | Other (United States, Latin America)    |             |                 |                         |                                      | 67                          |
| II                          | Teleric Pty Ltd.                        |             | Australia       | 100                     | 20                                   | 100                         |
| I                           | Ericsson Ltd.                           |             | China           | 100                     | 2                                    | 2                           |
| I                           | Ericsson (China) Company Ltd.           |             | China           | 100                     | 65                                   | 475                         |
| I                           | Ericsson India Private Ltd.             |             | India           | 100                     | 725                                  | 147                         |
| I                           | Ericsson India Global Services PVT. Ltd |             | India           | 100                     | 389                                  | 64                          |
| I                           | LG-Ericsson Ltd.                        |             | Korea           | 75                      | 150                                  | 3,285                       |
| I                           | Ericsson (Malaysia) Sdn. Bhd.           |             | Malaysia        | 70                      | 2                                    | 4                           |
| I                           | Ericsson Telecommunications Pte. Ltd.   |             | Singapore       | 100                     | 2                                    | 1                           |
| I                           | Ericsson South Africa PTY. Ltd          |             | South Africa    | 100                     |                                      | 108                         |
| I                           | Ericsson Taiwan Ltd.                    |             | Taiwan          | 80                      | 240                                  | 20                          |

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|   |   |             |                  |     |        |
|---|---|-------------|------------------|-----|--------|
| I   | Ericsson (Thailand) Ltd.                | Thailand    | 49 <sup>2)</sup> | 90  | 17     |
|   | Other countries (the rest of the world) |             |                  |     | 215    |
|   | <b>Total</b>                            |             |                  |     | 80,839 |
| <b><u>Joint ventures and associated companies</u></b> |   |             |                  |     |        |
| II  | ST-Ericsson SA                          | Switzerland | 50               | 137 |        |
| III   | ST-Ericsson AT SA                       | Switzerland | 51               |     |        |
| I   | Rockstar Consortium Group               | Canada      | 21               | 1   | 7      |
| I   | Ericsson Nikola Tesla d.d.              | Croatia     | 49               | 65  | 330    |
|   | <b>Total</b>                            |             |                  |     | 337    |

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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><u>Subsidiary companies</u></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 Telekomunikasyon A.S.                         |             | Turkey          | 100                     |
| I                                  | Ericsson Ltd.  |             | United Kingdom  | 100                     |
| I                                  | Ericsson Inc.  |             | United States   | 100                     |
| I                                  | Ericsson IP Infrastructure Inc.                        |             | United States   | 100                     |
| I                                  | Drutt Corporation Inc.                                 |             | United States   | 100                     |
| I                                  | Optimi Corporation                                     |             | United States   | 100                     |
| I                                  | Redback Networks Inc.                                  |             | United States   | 100                     |
| I                                  | Telcordia Technologies Inc.                            |             | United States   | 100                     |
| I                                  | Ericsson 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.

**RECONCILIATIONS TO IFRS**

This section includes a reconciliation of certain non-IFRS financial measures to the most directly comparable IFRS financial measures. The presentation of non-IFRS financial measures has limitations as analytical tools and should not be considered in isolation or as a substitute for our related financial measures prepared in accordance with IFRS.



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We present non-IFRS financial measures to enhance an investor's evaluation of our ongoing operating results, to aid in forecasting future periods and to facilitate meaningful comparison of our results between periods. Our management uses these non-IFRS financial measures to, among other things, evaluate our ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of certain performance-based compensation.

The non-IFRS financial measures presented in this report may differ from similarly-titled measures used by other companies.

**ERICSSON EXPENSES**

| SEK billion                            | IFRS  |       | Restructuring Charges |      | Non-IFRS |       |
|--|-------|-------|-----------------------|------|----------|-------|
|  | 2011  | 2010  | 2011                  | 2010 | 2011     | 2010  |
| Selling and administrative expenses    | 26.7  | 27.1  | 1.4                   | 1.8  | 25.3     | 25.3  |
| R&D expenses                           | 32.6  | 31.6  | 0.6                   | 1.7  | 32.1     | 29.9  |
| Net sales                              | 226.9 | 203.3 |                       |      | 226.9    | 203.3 |
| R&D expenses as a percent of net sales | 14.4% | 15.5% |                       |      | 14.1%    | 14.7% |

**ERICSSON EBITA MARGIN (INCLUDING RESTRUCTURING)**

| SEK billion  | 2012  | 2011  | 2010  | 2009  |
|--|-------|-------|-------|-------|
| Net income   | 5.9   | 12.6  | 11.2  | 4.1   |
| Interest   | 0.3   | 0.2   | 0.7   | 0.3   |
| Tax  | 4.2   | 5.6   | 4.5   | 2.1   |
| Amortization and write-downs of acquired intangibles | 4.6   | 4.5   | 5.9   | 7.8   |
| EBITA  | 15.0  | 22.4  | 22.4  | 13.8  |
| Net sales  | 227.8 | 226.9 | 203.3 | 206.5 |
| EBITA margin (%)                                     | 6.6%  | 9.9%  | 11.0% | 6.7%  |

**ADJUSTED OPERATING CASH FLOWS**

| SEK billion                   | 2011 | 2010 |
|-------------------------------|------|------|
| Operating cash flow           | 10.0 | 26.6 |
| Restructuring cash outlays    | 3.2  | 3.3  |
| Adjusted operating cash flows | 13.2 | 29.8 |

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**SEGMENT NET SALES, OPERATING INCOME AND OPERATING MARGIN**

| SEK billion   | 2011  | 2010  |
|---|-------|-------|
| <b>Net sales</b>                                    |       |       |
| Networks  | 132.4 | 112.7 |
| Global Services                                     | 83.9  | 80.1  |
| Support solutions                                   | 10.6  | 10.5  |
| <b>Operating income</b>                             |       |       |
| Networks  | 17.3  | 12.5  |
| Global Services                                     | 5.5   | 6.5   |
| Support solutions                                   | 0.5   | 0.6   |
| <b>Operating margin</b>                             |       |       |
| Networks  | 13%   | 11%   |
| Global Services                                     | 7%    | 8%    |
| Support solutions                                   | 5%    | 6%    |
| <b>Restructuring charges</b>                        |       |       |
| Networks  | 1.6   | 3.9   |
| Global Services                                     | 1.4   | 2.7   |
| Support solutions                                   | 0.1   | 0.2   |
| <b>Operating income excl. restructuring charges</b> |       |       |
| Networks  | 18.9  | 16.4  |
| Global Services                                     | 6.9   | 9.2   |
| Support solutions                                   | 0.4   | 0.4   |
| <b>Operating margin excl. restructuring charges</b> |       |       |
| Networks  | 14%   | 15%   |
| Global Services                                     | 8%    | 11%   |
| Support solutions                                   | 3%    | 4%    |

In 2012, for all above items except EBITA margin, non-IFRS financial measures were not used.

**CAPITAL EMPLOYED**

|   | 2012    | 2011    | 2010    | 2009    | 2008    |
|---|---------|---------|---------|---------|---------|
| Total assets                                    | 274,996 | 280,349 | 281,815 | 269,809 | 285,684 |
| Non-interest-bearing provisions and liabilities |         |         |         |         |         |
| Provisions, non-current                         | 211     | 280     | 353     | 461     | 311     |
| Deferred tax liabilities                        | 3,120   | 2,250   | 2,571   | 2,270   | 2,738   |
| Other non-current liabilities                   | 2,377   | 2,248   | 3,296   | 2,035   | 1,622   |
| Provisions, current                             | 8,427   | 5,985   | 9,391   | 11,970  | 14,039  |
| Trade payables                                  | 23,100  | 25,309  | 24,959  | 18,864  | 23,504  |
| Other current liabilities                       | 61,108  | 57,970  | 58,605  | 52,529  | 61,032  |

|                         |                |         |         |         |         |
|-------------------------|----------------|---------|---------|---------|---------|
| <b>Capital employed</b> | <b>176,653</b> | 186,307 | 182,640 | 181,680 | 182,439 |
|-------------------------|----------------|---------|---------|---------|---------|



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**RETURN ON CAPITAL EMPLOYED**

|  | 2012        | 2011    | 2010    | 2009    | 2008    |
|--|-------------|---------|---------|---------|---------|
| Operating income                               | 10,458      | 17,900  | 16,455  | 5,918   | 16,252  |
| Financial income                               | 1,708       | 2,882   | 1,047   | 1,874   | 3,458   |
| Average capital employed <sup>1)</sup>         |             |         |         |         |         |
| Capital employed at January 1                  | 186,307     | 182,640 | 181,680 | 182,439 | 168,456 |
| Capital employed at December 31                | 176,653     | 186,307 | 182,640 | 181,680 | 182,439 |
| Average capital employed                       | 181,480     | 184,474 | 182,160 | 182,060 | 175,448 |
| <b>Return on capital employed<sup>2)</sup></b> | <b>6.7%</b> | 11.3%   | 9.6%    | 4.3%    | 11.3%   |

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**

|                              | 2012          | 2011   | 2010   | 2009   | 2008   |
|------------------------------|---------------|--------|--------|--------|--------|
| Cash and cash equivalents    | 44,682        | 38,676 | 30,864 | 22,798 | 37,813 |
| Short term investments       | 32,026        | 41,866 | 56,286 | 53,926 | 37,192 |
| <b>Gross cash</b>            | <b>76,708</b> | 80,542 | 87,150 | 76,724 | 75,005 |
| Post-employment benefits     | 9,503         | 10,016 | 5,092  | 8,533  | 9,873  |
| Interest-bearing liabilities |               |        |        |        |        |
| Borrowings non-current       | 23,898        | 23,256 | 26,955 | 29,996 | 24,939 |
| Borrowings current           | 4,769         | 7,765  | 3,808  | 2,124  | 5,542  |
| <b>Net cash</b>              | <b>38,538</b> | 39,505 | 51,295 | 36,071 | 34,651 |

**RETURN ON EQUITY**

|   | 2012        | 2011    | 2010    | 2009    | 2008    |
|---|-------------|---------|---------|---------|---------|
| Net income attributable to stockholders of the Parent Company | 5,775       | 12,194  | 11,146  | 3,672   | 11,273  |
| Average stockholders' equity <sup>1)</sup>                    |             |         |         |         |         |
| Stockholders' equity at January 1                             | 143,105     | 145,106 | 139,870 | 140,823 | 134,112 |
| Stockholders' equity at December 31                           | 136,883     | 143,105 | 145,106 | 139,870 | 140,823 |
| Average stockholders' equity                                  | 139,994     | 144,106 | 142,488 | 140,347 | 137,468 |
| <b>Return on equity<sup>2)</sup></b>                          | <b>4.1%</b> | 8.5%    | 7.8%    | 2.6%    | 8.2%    |

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

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

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WORKING CAPITAL

|   | 2012           | 2011    | 2010    | 2009    | 2008    |
|---|----------------|---------|---------|---------|---------|
| Current assets  | <b>193,254</b> | 198,816 | 198,443 | 182,442 | 198,525 |
| Current non-interest-bearing provisions and liabilities |                |         |         |         |         |
| Provisions, current                                     | <b>8,427</b>   | 5,985   | 9,391   | 11,970  | 14,039  |
| Trade payables  | <b>23,100</b>  | 25,309  | 24,959  | 18,864  | 23,504  |
| Other current liabilities                               | <b>61,108</b>  | 57,970  | 58,605  | 52,529  | 61,032  |
| <b>Working capital<sup>1)</sup></b>                     | <b>100,619</b> | 109,552 | 105,488 | 99,079  | 99,951  |

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

CASH CONVERSION

|   |   | 2012          | 2011   | 2010   |
|---|---|---------------|--------|--------|
| Cash flow from operating activities         | A | <b>22,031</b> | 9,982  | 26,583 |
| Net income                                  | B | <b>5,938</b>  | 12,569 | 11,235 |
| Adjustments to reconcile net income to cash | C | <b>13,077</b> | 12,613 | 12,490 |
| Cash conversion = A/(B+C)                   |   | <b>116%</b>   | 40%    | 112%   |

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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.

**Backhaul**

Transmission between radio base stations and the core network.

**BSS**

Business support systems

**CaGR**

Compound Annual Growth Rate.

**Capex**

Capital expenditure.

**CDMA**

(Code Division Multiple Access) A radio technology on which the cdmaOne (2G) and CDMA2000 (3G) mobile communication standards are both based.

**CLOUD**

When data and applications reside in the network.

**Edge**

A mobile standard, developed as an enhancement of GSM. Enables the transmission of data at speeds up to 250 kbps. (Evolved EDGE up to 1 Mbps)

**GDP**

(Gross Domestic Product) The total annual cost of all finished goods and services produced within a country.

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**GPON**

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

**GSM**

(Global System for Mobile Communications) A first digital generation mobile system.

**HSPA**

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

**ICT**

Information and Communication Technology.

**IMS**

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

**IP**

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

**IPR**

Intellectual Property Rights

**IPTV**

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

**JV**

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

**LTE**

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

**Managed services**

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

**Mobile broadband**

Wireless high-speed internet access using the HSPA, LTE and CDMA2000EV-DO technologies.



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**OSS**

Operations support systems

**Penetration**

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

**PETAbyte**

Million gigabytes.

**RAN**

Radio Access Network.

**TD-SCDMA**

(Time Division Synchronous Code Division Multiple Access), an alternative to WCDMA used in China.

**WCDMA**

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

**xDSL**

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

The terms Ericsson , the Company , the Group , us , we , and our all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries.

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**FINANCIAL TERMINOLOGY**

**Capital employed**

Total assets less non-interest-bearing provisions and liabilities. (which includes: provisions, non-current; deferred tax liabilities; other non-current liabilities; provisions, current; trade payables; other current liabilities).

**Capital turnover**

Net sales divided by average capital employed.

**Cash conversion**

Cash flow from operating activities divided by the sum of net income and adjustments to reconcile net income to cash, expressed as percent.

**Cash dividends per share**

Dividends paid divided by average number of shares, basic.

**Compound annual growth rate (CAGR)**

The year-over-year growth rate over a specified period of time.

**Days sales outstanding (DSO)**

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

**Earnings per share (EPS)**

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

**EBITA margin**

Earnings before interest, taxes, amortization and write-downs of acquired intangibles (intellectual property rights, trademarks and other intangible assets, see Note C10 Intangible assets ) as a percentage of net sales.

**EPS (non-IFRS)**

EPS, diluted, excluding amortizations and write-down of acquired intangible assets and including restructuring charges.

**Equity ratio**

Equity, expressed as a percentage of total assets.

**Gross cash**



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 cost of sales divided by the average inventories for the year (net of advances from customers).

**Net cash**

Cash and cash equivalents plus short-term investments less interest-bearing liabilities (which include: borrowings, non-current and borrowings, current) and post-employment benefits.

**P/E ratio**

The P/E ratio is calculated as the price of a Class B share at last day of trading divided by Earnings per share, basic.

**Payable days**

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

**Payment readiness**

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

**Return on capital employed**

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

**Return on equity**

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

**Stockholders' equity per share**

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

**Total shareholder return (TSR)**

The increase or decrease in Class B share price during the period, adjusted for dividends paid, expressed as a percentage of the share price at the start of the period.

**Trade receivables turnover**

Net sales divided by average trade receivables.

**Value at risk (VaR)**

A statistical method that expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time.

**Working capital**

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

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**EXCHANGE RATES**

Exchange rates used in the consolidation

|                | January<br>2012 | December<br>2011 |
|----------------|-----------------|------------------|
| <b>SEK/EUR</b> |                 |                  |
| Average rate   | 8.70            | 9.02             |
| Closing rate   | 8.58            | 8.92             |
| <b>SEK/USD</b> |                 |                  |
| Average rate   | 6.73            | 6.48             |
| Closing rate   | 6.51            | 6.90             |

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**SHAREHOLDER INFORMATION**

**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

**IN THE UNITED STATES:**

Ericsson's Transfer Agent Citibank:

Citibank Shareholder Services

**Registered holders:** +1 877 881 59 69

**Interested investors:** +1 781 575 45 55

**Email:** citibank@shareholders-online.com

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

**Ordering a hard copy of the Annual Report:** +1 888 301 2504

Telefonaktiebolaget LM Ericsson's shareholders are invited to participate in the Annual General Meeting to be held on Tuesday, April 9, 2013, at 3 p.m. at Kistamässan, Arne Beurlings Torg 5, Kista, Stockholm, Sweden.

**Registration and notice of attendance**

Shareholders who wish to attend the Annual General Meeting must:

Be recorded in the share register kept by Euroclear Sweden AB (the Swedish Securities Registry) on Wednesday, April 3, 2013, and

Give notice of attendance to the Company at the latest on Wednesday, April 3, 2013. Notice of attendance can be given by telephone: +46 8 402 90 54 on weekdays between 10 a.m. and 4 p.m., or on Ericsson's website.

Notice of attendance may also be given in writing to:

Telefonaktiebolaget LM Ericsson

General Meeting of Shareholders

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Box 7835, SE-103 98 Stockholm, Sweden

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

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

### **Shares registered in the name of a nominee**

In addition to giving notice of attendance, shareholders having their shares registered in the name of a nominee, must request the nominee to temporarily enter the shareholder into the share register as per Wednesday, April 3, 2013, in order to be entitled to attend the meeting. The shareholders should inform the nominee to that effect well before that day.

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### **Proxy**

Shareholders represented by proxy shall issue and submit to the Company a power of attorney for the representative. A power of attorney issued by a legal entity must be accompanied by a copy of the entity's certificate of registration, or if no such certificate exist, a corresponding document of authority. Such documents must not be older than one year unless the power of attorney explicitly provides that it is valid for a longer period, up to a maximum of five years. In order to facilitate the registration at the Annual General Meeting, the power of attorney in original, certificates of registration and other documents of authority should be sent to the Company in advance to the address above for receipt by Monday, April 8, 2013. Forms of power of attorney in Swedish and English are available on Ericsson's website.

### **Dividend**

The Board of Directors has decided to propose the Annual General Meeting to resolve on a dividend of SEK 2.75 per share for the year 2012 and that Friday, April 12, 2013 will be the record date for dividend.

### **Financial information from Ericsson**

|  |                    |                      |
|--|--------------------|----------------------|
| Interim reports 2013:                              | Q1, April 24, 2013 | Q3, October 24, 2013 |
|  | Q2, July 18, 2013  | Q4, January 30, 2014 |
| Annual Report 2013: March, 2014                    |                    |                      |
| 2012 Form 20-F for the US market: March-April 2013 |                    |                      |

### **WHERE YOU CAN FIND OUT MORE**

Information about Ericsson and its development is available on our website.

Annual and interim reports and other relevant shareholder information can be found on our website.

### **Ericsson headquarters**

Torshamnsgatan 23

Kista, Stockholm, Sweden

### **Registered office**

Telefonaktiebolaget LM Ericsson

SE 164 83 Stockholm, Sweden

### **Investor relations**

For questions on the Company,

please contact Investor Relations:

Telephone: +46 10 719 00 00

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



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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 8, 2013

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

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