ERICSSON LM TELEPHONE CO
Form 20-F
April 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

or

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

or

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

or

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

Commission file number 000 12033

TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant s Name Into English)

Kingdom of Sweden

(Jurisdiction of Incorporation or Organization)

SE-164 83 Stockholm, Sweden

(Address of Principal Executive Offices)

Roland Hagman, Vice President Group Function Financial Control

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

SE-164 83 Stockholm, Sweden

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

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

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

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

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

None

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

None

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

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

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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 x 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.

x 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 x Other ¨

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

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

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

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FORM 20-F 2011 CROSS REFERENCE TABLE

Our Annual Report on Form 20-F consists of the English version of our Swedish Annual Report for 2011, with certain adjustments made to comply with U.S. requirements, together with certain other information required by Form 20-F which is set forth under the heading Supplemental Information. The following cross reference table indicates where information required by Form 20-F may be found in this document.

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LETTER FROM HANS VESTBERG

Dear shareholders,

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

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

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

Prime driver and thought leader

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

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

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

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

Sustainability and Corporate Responsibility

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

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

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

Leading ICT player

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

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

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

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

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

Solid industry fundamentals

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

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

Hans Vestberg

President and CEO

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FINANCIAL RESULTS IN SHORT

NET SALES

SEK 226.9 (203.3) billion, +12%

OPERATING MARGIN[1)]

9.6% (12.0%)

NET INCOME

SEK 12.6 (11.2) billion, +12%

NET CASH[2)]

SEK 39.5 (51.3) billion

CASH AND CASH EQUIVALENTS

SEK 38.7 (30.9) billion

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EPS[3)]

SEK 3.77 (3.46), +9%

DIVIDEND[4)]

SEK 2.50 (2.25), +11%

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

THE MARKET

TELECOM TRENDS

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

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

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

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

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

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

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

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

OUR CUSTOMERS

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

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

OUR BUSINESS

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

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

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JOINT VENTURES

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

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

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

HOW WE STAY AHEAD

PRINCIPLES

We interact with our customers based on the following principles:

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

ASSETS

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

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

Building coverage transforming networks

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

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

Replicating success in services

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

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

GROWTH LEVERS

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

Portfolio momentum: focusing on the areas where we have the most growth potential. These are mobile broadband, managed services and OSS and BSS. We expect the majority of growth to come from portfolio momentum.

Market share gain: building presence in markets that are investing more and where we see technology shifts.

Mergers, acquisitions and partnering: filling portfolio gaps and entering new growth areas, such as connected devices.

OPERATOR PORTFOLIO

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

MOBILE BROADBAND

Increasing user demands

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

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

3G/WCDMA and 4G/LTE

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

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

The RBS 6000 family

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

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

MULTI-STANDARD RBS 6000

GSM, WCDMA, LTE, CDMA

>1,000% more capacity

>20% better radio performance

80% lower energy consumption per subscriber

100% better MTBF*

75% less space needed

Compared to previous generations.

* Mean Time Between Failures

Smart Services Routers

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

Heterogeneous networks (HetNets)

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

MANAGED SERVICES

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

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

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

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

Shared networks and shared capacity

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

Adjacent sectors

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

OPERATIONS AND BUSINESS SUPPORT SYSTEMS

Service differentiation

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

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

Control and monitoring

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

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

Provisioning and charging

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

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

COMMUNICATION SERVICES

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

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

Enhancing user experience

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

HD voice

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

Voice over LTE

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

FIXED BROADBAND AND CONVERGENCE

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

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

Convergence and transformation

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

TELEVISION AND MEDIA MANAGEMENT

TV is going digital and interactive

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

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

High-performance solutions

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

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

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

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

CONSUMER AND BUSINESS APPLICATIONS

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

Interaction and collaboration

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

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

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

2011 HIGHLIGHTS

JANUARY-MARCH

World speed record on a commercial HSPA network is set, at 168Mbps downlink and 24Mbps in the uplink.

Ericsson is selected by Telefónica O2 UK to perform network modernization in the North of the UK.

du in the UAE signs a five-year managed services contract with Ericsson to deliver application development and maintenance for its IT application landscape.

Ericsson, Verizon Wireless and Samsung demonstrate Voice over LTE (VoLTE), a global, interoperable voice solution for LTE mobile broadband networks.

The new Antenna Integrated Radio (AIR) product is launched. It cuts operational costs substantially and ensures a smooth introduction of new technologies and frequency bands.

Ericsson announces a new generation IP networking portfolio. The first product is the Smart Services Router (SSR 8000) family for fixed and mobile broadband.

Akamai and Ericsson announce a strategic alliance, focused on bringing to market mobile cloud acceleration solutions.

APRIL-JUNE

Ericsson announces the acquisition of Telenor Connexion s M2M technology platform, a solution which will drive the market for M2M (machine-to-machine).

Ericsson signs a multi-year agreement with Rogers, Canada to deliver an end-to-end LTE network.

Clearwire in the US selects Ericsson for managed services: network engineering, operations and maintenance for core, transmission and access networks.

Ericsson s first contract in the gaming industry is awarded by Mindark. The IMS solution enables live, high-quality voice communication between players while gaming.

Ericsson announces the acquisition of Telcordia, a global provider of OSS/BSS software and services.

LG U+, the first LTE service provider in Korea, places a contract with Ericsson to build an ultra-high speed LTE network.

JULY-SEPTEMBER

Bharti Airtel signs a five-year managed services agreement with Ericsson to manage and optimize its mobile networks in Africa, as well as a separate two-year network coverage and upgrade contract.

A consortium of technology companies, of which Ericsson is a part, wins the bid for all of Nortel s approximately 6,000 remaining patents and patent applications.

SoftBank Mobile in Japan chooses Ericsson as sole supplier for next-generation packet core network (EPC) based on IP.

Slovak Telekom, part of the Deutsche Telekom Group signs a five-year fixed line managed-services contract with Ericsson for field maintenance and network operations.

MobiFone in Vietnam signs a contract with Ericsson for mobile video optimization, enabling high-quality video.

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Ericsson announces a contract with Taiwan s Chunghwa Telecom to deploy and integrate a new IPTV platform that will deliver multi-screen interactive multimedia services.

Ericsson announces further investment in competence in the global service center in India, providing operators with support and operations of IT services.

EastLink, Canada selects Ericsson to build a mobile broadband network for HSPA+.

OCTOBER-DECEMBER

Augere awards India s first 4G/TD-LTE contract to Ericsson. The agreement includes an end-to-end TD-LTE solution, managed services and network operations.

Ericsson and Open Mobile sign Latin America s first 4G/LTE contract in Puerto Rico. The deal also includes managed services.

Ericsson and Sony announce that Sony will acquire Ericsson s 50% stake in Sony Ericsson.

Bharti Airtel renews and expands its managed services agreement with Ericsson for its operations in India. Under the five-year agreement, Ericsson will operate, maintain and provide services for 2G and 3G in Bharti Airtel s multi-vendor network in India.

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FIVE-YEAR SUMMARY

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

FIVE-YEAR SUMMARY

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

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

1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 242 245.
2) For 2011, as proposed by the Board of Directors.

SHARE INFORMATION

STOCK EXCHANGE TRADING

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

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

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

THE ERICSSON SHARE

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

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CHANGES IN NUMBER OF SHARES AND CAPITAL STOCK 2007 2011

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

SHARE PERFORMANCE INDICATORS

	2011	2010	2009	2008	2007[1)]
Earnings per share, diluted (SEK)[2)]	**3.77**	3.46	1.14	3.52	6.84
Stockholders equity per share, basic, end of period (SEK)[3)]	**44.57**	45.34	43.79	44.21	42.17
P/E ratio	**19**	22	57	17	11
Total shareholder return (%)	**7**	22	15	20	43
Dividend per share (SEK)[4)]	**2.50**	2.25	2.00	1.85	2.50

1) 2007 restated for reverse split 1:5 in 2008.
2) Calculated on average number of shares outstanding, diluted.
3) Calculated on number of shares, end of period.
4) For 2011 as proposed by the Board of Directors.

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

SHARE TREND

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

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OFFER AND LISTING DETAILS

Principal trading market NASDAQ OMX Stockholm share prices

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

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

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Host market NASDAQ New York ADS prices

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

SHARE PRICES ON NASDAQ OMX STOCKHOLM

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

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

SHARE PRICES ON NASDAQ NEW YORK

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

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

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SHARE PRICES ON NASDAQ OMX STOCKHOLM AND NASDAQ NEW YORK

	NASDAQ OMX Stockholm				NASDAQ New York	
	SEK per Class A share		SEK per Class B share		USD per ADS[1]	
Period	**High**	**Low**	**High**	**Low**	**High**	**Low**
Annual high and low						
2007[2]	148.50	73.00	149.50	72.65	21.71	11.12
2008	83.60	40.60	83.70	40.60	14.00	5.49
2009	78.80	55.40	79.60	55.50	10.92	6.60
2010	88.40	65.20	90.45	65.90	12.39	9.40
2011	93.60	59.05	96.65	61.70	15.44	8.83
Quarterly high and low						
2010 First Quarter	78.70	65.20	80.00	65.90	11.33	9.40
2010 Second Quarter	88.40	73.00	90.45	74.15	12.39	9.51
2010 Third Quarter	86.55	69.00	89.35	70.85	12.20	9.62
2010 Fourth Quarter	77.05	66.95	79.95	68.85	11.71	9.96
2011 First Quarter	80.05	70.50	83.00	73.25	13.06	10.99
2011 Second Quarter	93.60	73.00	96.65	75.30	15.44	12.06
2011 Third Quarter	91.80	60.50	93.80	63.15	14.82	9.33
2011 Fourth Quarter	71.50	59.05	72.55	61.70	11.25	8.83
Monthly high and low						
August 2011	78.50	60.80	81.40	63.15	12.75	10.08
September 2011	70.10	60.50	73.30	63.65	11.51	9.33
October 2011	69.95	59.05	72.20	61.70	11.25	8.83
November 2011	71.25	62.00	72.55	64.35	10.88	9.16
December 2011	71.50	65.60	71.85	64.75	10.54	9.27
January 2012	72.00	59.25	71.90	58.15	10.53	8.58
February 2012	68.00	62.10	67.90	61.90	10.39	9.14
March 2012	69.80	62.95	69.95	62.70	10.46	9.15

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

SHAREHOLDERS

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

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

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

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

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THE EXECUTIVE LEADERSHIP TEAM AND BOARD MEMBERS, OWNERSHIP

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

For individual holdings, see Corporate Governance Report.

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

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

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

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

1) Source: Capital Precision.

LETTER FROM LEIF JOHANSSON

Dear shareholders,

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

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

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

Close to the customer

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

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

Divestment of Sony Ericsson

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

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

Strong financial position

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

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

Leif Johansson

Chairman of the Board

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BOARD OF DIRECTORS REPORT

TARGETS AND PERFORMANCE

The non-IFRS financial measures presented herein are not recognized measures of financial performance under IFRS, but rather are measures reported to facilitate analysis by indicating Ericsson s underlying performance excluding impact from restructuring. Non-IFRS measures have limitations as analytical tools and should not be viewed in isolation or as substitutes to the IFRS measures. A reconciliation of non-IFRS measures with the most directly comparable IFRS measures can be found on pages 41 and 242 245.

Ericsson s overall goal is to create shareholder value.

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

Long-term ambitions

Grow faster than the market

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

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

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

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

Best-in-class operating margin

The Company s operating margin before share in JV earnings was 9.6% (12.0%). The 2010 number excludes restructuring charges. In 2010, operating margin was 8.7% before share in JV earnings and including restructuring charges. Based on reported results for 2011, the operating margin remains the highest among the Company s traditional publicly listed telecom competitors.

Growth in JV earnings

Joint ventures earnings decreased to SEK 3.8 (0.7) billion. The figure for 2011 includes restructuring charges of SEK 0.6 billion, while 2010 excludes restructuring charges of SEK 0.5 billion. Ericsson s share in earnings from Sony Ericsson was SEK 1.2 (0.9) billion, including restructuring charges of SEK 0.4 billion in 2011 and excluding restructuring charges of SEK 0.2 billion in 2010. The share in earnings in ST-Ericsson was SEK 2.7 (1.5) billion, including restructuring charges of SEK 0.1 billion in 2011 and excluding restructuring charges of SEK 0.3 billion in 2010.

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

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

Strong cash conversion

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

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

Executive Performance Stock Plan

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

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

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

1. Up to one third of the award will vest if the compound annual growth rate of consolidated net sales is 4 10% from 2010 to 2013.

2. Up to one third of the award will vest if the compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is 5 15% from 2010 to 2013. Base year 2010 is calculated excluding restructuring of SEK 6.8 billion.

3. Up to one third of the award will vest if cash conversion is at or above 70% during each of the years 2011 2013, vesting one ninth of the total award for each year if the target is achieved. The target was not reached in 2011.

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

Working capital targets

Ericsson s working capital targets are described on pages 45 46. The targets remain for 2012.

Other performance indicators

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

Customer satisfaction

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

Employee engagement

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

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

VISION AND MISSION

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

Vision

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

Mission

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

CORE VALUES

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

TRENDS AND DRIVERS

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

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

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

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

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

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

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

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

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

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

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

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

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

STRATEGY

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

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

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

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

Global presence and scale

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

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

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

Technology leadership

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

To keep its technology leadership, Ericsson invested SEK 32.6 billion, including restructuring charges of SEK 0.6 billion, in R&D in 2011. This compares with SEK 29.9 billion in 2010, excluding restructuring charges of SEK 1.7 billion. The Company took a strategic decision to increase R&D spending in 2011 in order to develop its new family of Smart Services Router (SSR 8000) products, TD-LTE and a CDMA unit for the radio base station RBS 6000.

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

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

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

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

Services leadership

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

Employees

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

To attract the best talent
Ericsson is strengthening its employer brand, to ensure fast, effective recruitment processes.

To have the right talent in the right place
The Company is developing a holistic career and competence model to help employees understand available career paths. Ericsson encourages more rotation to allow employees to take on new challenges.

To ensure high performance at all times
Ericsson has clear goals and objectives and conveys an understanding of how each individual can contribute to reach these goals. Managers and employees alike should give and receive feedback.

To maintain a strong leadership bench
Ericsson has clear processes in place to identify talent. Today s managers have a responsibility to cultivate tomorrow s leaders, and are encouraged to do so.

BUSINESS FOCUS 2011

Portfolio momentum

Meeting demand for mobile broadband

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

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

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

Momentum for managed services

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

Momentum in OSS and BSS

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

Market share gain

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

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

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Acquisitions, partnerships and divestments

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

Monetizing on the patent portfolio

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

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

COMPETITIVE ASSETS

Global presence and scale as assets

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

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

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

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

Technology leadership as an asset

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

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

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

Services leadership as an asset

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

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

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

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

BUSINESS MIX DYNAMICS

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

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

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

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

FINANCIAL RESULTS OF OPERATIONS

ABBREVIATED INCOME STATEMENT WITH RECONCILIATION IFRS NON-IFRS MEASURES

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

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

Sales

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

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

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

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

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

Seasonality

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

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MOST RECENT FIVE-YEAR AVERAGE SEASONALITY

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	21%	8%	4%	27%
Share of annual sales	23%	24%	23%	30%

Financial numbers in this section are reported:

for 2011, including restructuring charges

for 2010, excluding restructuring charges.

Gross margin

Gross margin declined to 35.1% (38.2%) due to higher share of coverage projects, network modernization projects in Europe and 3G rollouts in India. Gross margin in 2010, including restructuring charges, amounted to 36.5%.

Operating expenses

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses amounted to SEK 32.6 (29.9) billion. Spending on R&D as a percentage of sales was 14.4% (14.7%). In 2010, R&D spend including restructuring charges was SEK 31.6 billion or 15.5% of sales. The increase in absolute number is a result of planned higher investments in radio, such as TD-LTE, IP and the acquired LG-Ericsson operations. In 2012, R&D expenses of SEK 29 31 billion is estimated. The estimate includes amortizations/write-downs of intangible assets related to major acquisitions previously made. However, currency effects may cause this to change.

Selling and administrative expenses represented 11.8% of sales compared to 12.4% in 2010. The amount was SEK 26.7 (25.3) billion. In 2010, the amount including restructuring charges was SEK 27.1 billion, representing 13.3% of sales. In the year, there were positive effects from efficiency work along with the strong SEK.

Operating margin before JVs

Operating margin before share in JV earnings decreased to 9.6% (12.0%). However, in 2010, operating margin before share in JV earnings and including restructuring charges amounted to 8.7%.

Share in earnings of JVs

In 2011, Sony Ericsson reported a loss. The loss reflects intense competition, price erosion, restructuring charges and supply chain issues following the earthquake and tsunami in Japan. Ericsson s share in Sony Ericsson s income before tax was SEK 1.2 (0.9) billion. In 2010, Ericsson s share amounted to SEK 0.7 billion including restructuring charges.

ST-Ericsson reported a loss also in 2011. ST-Ericsson is currently in a shift from legacy to new products. Ericsson s share in ST-Ericsson s income before tax, adjusted to IFRS, was SEK 2.7 (1.5) billion. In 2010, the loss amounted to SEK 1.8 billion including restructuring charges.

Operating income

Operating income was SEK 17.9 (23.7) billion. However, in 2010, operating income including restructuring charges amounted to SEK 16.5 billion.

Financial net

The financial net was SEK 0.2 (0.7) billion. The difference is mainly attributable to a higher interest net of SEK 0.8 billion compared to 2010.

Taxes

The tax expense for the year was SEK 5.6 (4.5) billion or 30.6% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographic mix. The tax rate excluding joint ventures and associated companies was 26.4% (25.7%) due to lower tax rates from the loss-making joint ventures.

Net income

Net income increased 12% to SEK 12.6 (11.2) billion driven by higher sales and lower restructuring charges.

Earnings per share, diluted

Earnings per share increased 9% to SEK 3.77 (3.46). The Board of Directors proposes a dividend of SEK 2.50 (2.25). This represents an increase of 11%.

Restructuring charges

Total restructuring charges were SEK 3.2 (6.8) billion, excluding joint ventures. Cash outlays that have been provided for were SEK 3.2 (3.3) billion. At the end of the year, cash outlays of SEK 1.3 billion remain to be made. In 2012, restructuring charges of approximately SEK 4 billion are estimated.

Ericsson s share in Sony Ericsson s restructuring charges amounted to SEK 0.4 (0.2) billion. Ericsson s share in ST-Ericsson s restructuring charges was SEK 0.1 (0.3) billion.

RESEARCH AND DEVELOPMENT PROGRAM

	2011	**2010**	**2009**
Expenses (SEK billion)[1)]	32.6	29.9	27.0
As percent of Net sales	14.4%	14.7%	13.1%
Employees within R&D as of December 31[2)]	22,400	20,800	18,300
Patents[2)]	30,000	27,000	25,000

1) Excluding restructuring charges for 2009 and 2010.
2) The number of employees and patents are approximate.

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET (ABBREVIATED)

December 31, SEK billion	2011	2010	2009
ASSETS			
Non-current assets, total	**81.5**	83.4	87.4
of which intangible assets	***44.0***	*46.8*	*48.2*
of which property, plant and equipment	***10.8***	*9.4*	*9.6*
of which financial assets	***13.7***	*14.5*	*15.3*
of which deferred tax assets	***13.0***	*12.7*	*14.3*
Current assets, total	**198.8**	198.4	182.4
of which inventory	***33.1***	*29.9*	*22.7*
of which trade receivables	***64.5***	*61.1*	*66.4*
of which other receivables/financing	***20.7***	*20.2*	*16.6*
of which short-term investments, cash and cash equivalents	***80.5***[2)]	*87.2*	*76.7*
Total assets	**280.3**	**281.8**	**269.8**
EQUITY AND LIABILITIES			
Equity	***145.3***	146.8	141.0
Non-current liabilities	**38.1**	38.3	43.3
of which post-employment benefits	***10.0***	*5.1*	*8.5*
of which borrowings	***23.3***	*27.0*	*30.0*
of which other non-current liabilities	***4.8***	*6.2*	*4.8*
Current liabilities	**97.0**	96.8	85.5
of which provisions	***6.0***	*9.4*	*12.0*
of which current borrowings	***7.8***	*3.8*	*2.1*
of which trade payables	***25.3***	*25.0*	*18.9*
of which other current liabilities	***58.0***	*58.6*	*52.5*
Total equity and liabilities[1)]	**280.3**	**281.8**	**269.8**

1) Of which interest-bearing liabilities and post-employment benefits SEK 41.0 (35.9) billion.
2) Including loan to ST-Ericsson of SEK 2.8 billion.

Ericsson s strategy is to maintain a strong balance sheet including a sufficiently large cash position to ensure the financial flexibility to operate freely and to capture business opportunities. This has been particularly important during the past years difficult macroeconomic and financial market situation.

By maintaining a strong cash position, the Company can also maintain an active strategy for strategic mergers and acquisitions.

An important focus area is the monitoring of working capital. Major efforts have been made during the year in order to reduce days sales outstanding and inventory turnover days as well as to increase payable days. The target for payable days was met, while the other two targets were not achieved. The efforts to further reduce working capital will continue in 2012 and the working capital targets are the same as previous years.

In 2011, the dividend was SEK 2.25 per share. The Board of Directors will propose to the Annual General Meeting 2012 a dividend of SEK 2.50 per share. This represents a total dividend of approximately SEK 8.2 billion. The proposal reflects year 2011 s earnings and balance sheet structure, as well as coming years business plans and expected economic development.

Non-current assets

Intellectual property rights, brands and other intangible assets decreased to SEK 13.1 (16.7) billion due to amortizations.

Customer financing, current and non-current, decreased slightly to SEK 4.2 (4.4) billion.

Current assets

Inventory levels increased during the year by SEK 3.2 billion due to higher sales and increased share of coverage projects. At year end, inventory was SEK 33.1 (29.9) billion. The higher inventory level followed a higher level of work in progress in the regions. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2012.

Trade receivables: Days sales outstanding reached 91 (88) days at year-end. This reflects a higher portion of coverage projects and higher sales volumes. The Company s nominal credit losses have historically been low and continued to be so in 2011.

Net cash decreased to SEK 39.5 (51.3) billion, mainly due to a negative change in net operating assets, investing and dividend paid to shareholders. Pension liabilities increased due to lower discount rate and this impacted net cash negatively. For a more detailed discussion on changes in cash, see pages 48 49.

Equity

Equity decreased by SEK 1.5 billion to SEK 145.3 (146.8) billion. Net income was SEK 12.6 (11.2) billion and dividends of SEK 7.5 (6.7) billion was paid during the year. The equity ratio was maintained at a healthy level of 52% (52%).

Return on equity increased to 8.5% (7.8%), primarily due to higher sales and lower restructuring charges.

Return on capital employed (ROCE) was 11.3% (9.6%). In 2010, ROCE excluding restructuring charges was 13.6%.

Non-current liabilities

Post-employment benefits related to defined benefit plans increased to SEK 10.0 (5.1) billion. In 2011 there was a decrease in discount rates, and plan assets yielded lower than expected. Consequently, the Company experienced an increase in the net pension liability and the funded ratio (plan assets as percentage of defined benefit obligations) decreased to 77% (89%).

Current liabilities

Provisions declined to SEK 6.0 (9.4) billion. SEK 1.3 (3.2) billion were related to restructuring. The cash outlays of provisions were SEK 6.0 (7.2) billion. The lower amount of provisions is mainly due to lower restructuring. In addition, the business mix with more coverage projects as well as good performance in both hardware and software for new products introduced decreased the need for warranty provisions. There is also an effect of improved project management as well as geographical mix. Provisions will fluctuate over time, depending on business mix, market mix and technology shifts.

Payable days was unchanged at 62 (62) days. The target of payable days of above 60 days was met.

Non-current borrowings decreased to SEK 23.3 (27.0) billion. No major changes were made in the debt maturity profile during 2011. Debt of SEK 3.4 billion is maturing in 2012 and SEK 5.4 billion in 2013. The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.

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

SEK billion	2011	2010	2009
Net income	**12.6**	11.2	4.1
Income reconciled to cash	**25.2**	23.7	21.0
Changes in operating net assets	**15.2**	2.9	3.5
Cash flow from operating activities	**10.0**	26.6	24.5
Adjusted operating cash flow[1)]	**13.2**	29.8	28.7
Cash flow from investing activities	**4.5**	12.5	37.5
of which capital expenditures, sales of PP&E, product development	***6.1***	*5.2*	*4.9*
of which acquisitions/divestments, net	***3.1***	*2.8*	*18.1*
of which short-term investments for cash management purposes and other investing activities	***13.8***	*4.5*	*14.5*
Cash flow before financing activities	**14.5**	14.0	13.0
Cash flow from financing activities	**6.5**	5.7	1.7
Cash conversion (Cash flow from operating activities divided by income reconciled to cash)	**40%**	112%	117%
Gross cash (Cash, cash equivalents and short-term investments)	**80.5**[2)]	87.2	76.7
Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)	**39.5**	51.3	36.1

1) Cash flow from operations excl. restructuring cash outlays that have been provided for.
2) Including loan to ST-Ericsson of SEK 2.8 billion.

In 2011, gross cash decreased by SEK 6.6 billion to SEK 80.5 (87.2) billion. The net income reconciled to cash of SEK 25.2 billion was offset by a change in net operating assets of SEK 15.2 billion and investing activities of SEK 9.9 billion. Dividends to shareholders amounted to SEK 7.5 (6.7) billion.

Net cash decreased to SEK 39.5 (51.3) billion.

Cash flow from operating activities

The adjusted operating cash flow was negatively impacted by higher working capital.

During 2011, cash flow was negatively impacted by a significant increase in working capital as a result of higher sales and more projects.

Cash flow from investing activities

Cash outlays for regular investing activities increased to SEK 6.1 (5.2) billion.

Acquisitions and divestments during the year were net SEK 3.1 (2.8) billion, with the major items Nortel s GDNT operation in China and Nortel s Multi-Service Switch business (MSS). The Nortel patent portfolio was acquired in partnership with other industry players.

Cash flow for short-term investments for cash management purposes and other investing activities was net SEK 13.8 (4.5) billion, mainly attributable to changes between short-term investments and cash and cash equivalents.

Capital expenditures

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

The Board of Directors reviews the Company s investment plans and proposals.

The Company has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2012.

We believe that the Company s property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2011, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

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CAPITAL EXPENDITURES 2007 2011

SEK billion	2011	2010	2009	2008	2007
Capital expenditures	**5.0**	3.7	4.0	4.1	4.3
of which in Sweden	***1.7***	*1.4*	*1.3*	*1.6*	*1.3*
as percent of net sales	**2.2%**	1.8%	1.9%	2.0%	2.3%

Cash flow from financing activities

Cash flow from financing activities was SEK 6.5 billion. Dividends paid were SEK 7.5 (6.7) billion and other financing activities net amounted to SEK 1.0 billion.

Cash conversion

Cash conversion was 40% (112%), below the target of 70%. Over the years 2008 2010, cash conversion was above target. The cash conversion in 2011 was negatively impacted by higher working capital.

Restricted cash

Cash balances in certain countries with restrictions on transfers of funds to the Parent Company as cash dividends, loans or advances amounted to SEK 13.9 (10.8) billion.

In this context all countries with currency restrictions are included. In most cases the currency is nonconvertible and flow of funds in a foreign currency requires approval by a central bank or similar. Out of the total amount, China, India, Korea, Brazil and Indonesia are the top five countries accounting for SEK 9.6 billion.

BUSINESS RESULTS REGIONS

SALES PER REGION AND SEGMENT 2011 AND 2010

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

* Other includes sales of e.g. mobile broadband modules, cables, power modules as well as licensing and IPR. Mobile broadband modules are sold directly by business unit Networks to PC/netbook manufacturers. A central IPR unit manages sales of licenses to equipment vendors or others who wish to use Ericsson s patented technology. TV solutions are sold both through other equipment vendors as resellers and directly by business unit Multimedia to cable TV operators.

Regional development

The regions are the Company s primary sales channels. Ericsson reports ten regions, mirroring the internal geographical organization.

North America

North America is the world s most developed region in terms of smartphone penetration and mobile data usage. Operators are continuing the implementation of tiered pricing to capitalize on changing user behavior. Half of the net additions of subscriptions in the second half of 2011 came from connected devices or machine to machine communication. Through the year multiple LTE network buildouts have been initiated and launched in both the US and Canada, and Ericsson is a leading supplier to these projects.

The networks business developed slower in the second half of 2011 after a period of high operator investments in network capacity. Operators focus on cash flow management and operator consolidation also had a negative impact. This was to a large degree offset by a positive uptake in services and multimedia.

Latin America

There is a push for mobile broadband in Latin America, driven by consumer demand for 3G services. Smartphone penetration is still low, but is expected to grow as these handsets become more affordable.

Operators show an increasing interest in network performance and Ericsson is taking part in OSS/BSS transformation projects in managed services deals, including network sharing arrangements.

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Northern Europe and Central Asia

The Nordics are mature and advanced markets with strong 3G coverage and LTE commercially available in all countries. Nordic operators are increasingly shifting their business models towards network sharing and the outsourcing of network operations.

Deployment of 3G networks started later in the eastern part of the region. Here, operators are focusing on providing coverage and quality in the networks. Mobile broadband is growing rapidly in the region. Many consolidation activities, of both operators and networks, are taking place. In the latter half of the year, network sales slowed, especially in Russia, following strong operator investments in network capacity and coverage.

Western and Central Europe

Modernization of networks accelerated across the region in 2011. Operator focus is on replacing old 2G/3G equipment with modern, more efficient multi-standard radio base stations. Interest in LTE is limited, with certain countries still to allocate spectrum for this.

Penetration of mobile broadband is high, with some operators smartphone shipments representing more than half of their totals. Data revenues are growing and represent over 40% with some operators. There is also high interest in managed services and network sharing.

Mediterranean

This region has seen an impact from weak economies as well as political unrest in Northern Africa. The uptake of mobile broadband is mixed, with the strongest growth in the south west parts of the region. Here, operators are implementing a range of tiered pricing models.

Mobile data usage is high in the Mediterranean area, due to the low availability of fixed broadband. Most operators investments are for 3G coverage and in the second half of the year, network modernization projects took off.

Middle East

The Middle East was impacted by political unrest in several countries and by delays in license auctions. As a consequence, some operators have postponed their infrastructure investments and increased their focus on efficiencies.

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The region has lower penetration rates, mobile broadband adoption and mobile data usage than the world average. The crucial driver for increasing these parameters is the affordability of smartphones.

Rollouts of LTE have started in some parts of the region.

Sub-Saharan Africa

Mobile penetration continues to increase rapidly in Africa. Operator focus is still on 2G coverage and capacity buildouts, although some operators are building 3G coverage.

With smartphones in the region set to become cheaper, operators are focusing on creating efficiency in their networks to allow them to capitalize on future uptake.

Inflation and competition are also driving operators need for increased efficiency. This leads them to focus on power consumption reductions and managed services solutions. There is also a need for operators to harmonize policy frameworks to increase data take-up.

India

Initial 3G rollouts reached a temporary peak in 2011. The Indian market is fragmented and in the near future a telecom policy reform is expected which might make operator consolidation easier.

Besides the need for affordable smartphones, availability of dual SIM card phones is a key component in driving mobile data uptake. The Indian market is highly competitive, which drives operator interest in managed services and network sharing.

China and North East Asia

China s operators have focused on building 2G capacity with GPRS/EDGE to meet the increase in mobile data traffic from smartphones. In 2011, large scale trials for TD-LTE took place with China Mobile.

In Korea and Japan, 3G capacity and LTE coverage rollouts are ongoing, driven by high smartphone penetration, mobile broadband adoption and mobile data usage. In Korea, three LTE networks are live, and Ericsson is a supplier to all of them.

South East Asia and Oceania

Parts of this region, such as Australia and Singapore, have high penetration rates, adoption and usage. In these areas, LTE is also starting to emerge. Indonesia is moving towards 3G, however take-up is hampered by the affordability of devices. 3G auctions are yet to take place in some markets. Coverage projects, where old equipment is replaced with new, are underway across most markets, as operators build for data growth and seek operating cost efficiencies. The decline in network sales is due to reduced 2G business in Vietnam. The services business declined due to a concluded managed services contract in Australia.

BUSINESS RESULTS SEGMENTS

Networks

Sales

Networks sales increased 17% to SEK 132.4 billion, negatively impacted by a strong SEK in 2011. The increase was an effect of continued high sales in mobile broadband-related equipment including packet core, IP routers and microwave-based backhaul. Demand was especially strong in regions China and North East Asia and North America.

The year was characterized by high volumes of mobile broadband equipment and ramp-up of the multi-standard radio base station RBS 6000. The product introduction of the RBS 6000 has been the quickest and most successful in the Company s history. At the end of the year, the first RBS 6000 with CDMA functionality was shipped. The RBS 6000 accounts for close to 100% of all deliveries of GSM/WCDMA/LTE radio base stations. In the fourth quarter, shipping of the IP Edge router, the Smart Services Router SSR 8000 family, and the Antenna Integrated Radio unit (AIR) also commenced.

In 2010, Ericsson acquired Nortel s CDMA business in order to strengthen its position in North America. Ericsson is now established as the leader in this market. CDMA sales increased slightly in 2011. At the end of the year the Company saw the expected decline in CDMA sales and subsequent rapid shift to LTE. The CDMA acquisition has created substantial value for the Company.

In March, the earthquake and tsunami in Japan caused temporary delays in the supply chain, but by the third quarter lead times were back to normal.

Profitability

Operating margin decreased to 13% (15%). The margin was negatively impacted by planned R&D investments to accelerate technology leadership. Operating margin in 2010 was 11% including restructuring charges.

Cost structure

In the Networks segment, cost of sales is quite large and to a large part variable. To reduce variable cost, the Company works with product rationalization and product substitution. R&D is a significant cost item and for this reason it is important to focus on R&D effectiveness and efficiency. It is essential to ensure global platforms and common components across the whole portfolio. To maximize the outcome of R&D investment, the Company also seeks to give R&D sites clear accountability and the same IS/IT environment.

The networks business

Sales to network operators are normally based on multi-year frame agreements after an initial open tender. During the frame agreement, software, equipment, services and spare parts are called off according to price lists.

Prior to the introduction of the multi-standard radio base station RBS 6000, operators could have co-siting, with one supplier for GSM and another for WCDMA. Today, a multi-standard approach means that all technologies are supported by one radio base station. Any supplier has to be equally capable of all technologies. R&D investments and scale are therefore essential for a supplier to stay competitive. The footprint of multi-standard radio access network increases opportunities for additional network business, e.g. backhaul and core networks. Following radio and core footprint is a significant software sales opportunity based on capacity, functionality and new features.

Competitors

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

Global Services

Sales

Global Services sales increased 5% to SEK 83.9 (80.1) billion, driven by network rollout, consulting and systems integration.

Professional Services sales were SEK 58.8 billion, up 1% from 2010. Currency adjusted sales of Professional Services increased 7%. The increase is mainly a result of increased sales of consulting and systems integration. Managed Services sales decreased by 1% to SEK 21.0 billion. Currency adjusted sales increased 7%. The growth reflects the 70 (54) signed managed services contracts, of which 32 (26) were extensions or expansions. More than 60% of Professional Services sales were recurring.

Network Rollout sales amounted to SEK 25.1 (21.6) billion, an increase of 16%, driven by high volumes of network modernization.

Profitability

Global Services operating margin decreased to 7% (11%). The margin was negatively impacted by a loss in Network Rollout.

Operating margin in 2010 was 8% including restructuring charges.

Operating margin for Professional Services amounted to 13% (15%). Operating margin in 2010 was 11% including restructuring charges.

Operating margin for Network Rollout amounted to 8% (1%), due to high activity levels related to network modernization projects in Europe and 3G rollouts in India. Operating margin in 2010 was 0% including restructuring charges.

Cost structure

In the services segment, almost all cost resides in cost of sales and the majority of the cost is related to employee costs. A few years ago, the cost of sales base was to a higher degree variable. With the increasing share of managed services, the portion of fixed costs has increased, which makes it important to find scale by winning more deals in the same geographical area. Another measure to keep cost down is to establish a one-to-many delivery model. The development of global tools, methods and processes are also crucial in order to secure efficiencies and knowledge sharing.

In managed services, Ericsson often insources employees from the customer. In the transition period, restructuring costs are taken, e.g. for replacement of IS/IT systems and migration of employees into new systems and premises. In the transformation phase, following the transition, synergies are carried through.

The services business

Ericsson s offering covers all areas within an operator s operational scope. The Company s service offering includes consulting, systems integration, managed services, network deployment and integration, education and support services. Ericsson provides services for both mobile and fixed telecom networks as well as for IT and broadcast networks and in some cases for adjacent industries such as the utilities industry. Most often operators turn to Ericsson for support in a certain part of their operations. Contracts for managed services and customer support are typically for five to seven years. Payments with regularity provide a lower rate of working capital. Consulting and systems integration contracts are shorter and paid after fulfillment of contract.

In managed services deals the contracts are normally split into fixed and variables, where the variables are a smaller part. The invoicing is based on fulfillment of certain key performance indicators and projects. When an operator explores the possibility of a managed services deal, the financial strength of the supplier is a prerequisite.

Network rollout includes coverage and modernization projects with a large part of third-party sourcing, making it a lower-margin business.

The Company rolls out its own equipment, but also has high multi-vendor skills in all other parts of the services business.

Competitors

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

Multimedia

Sales

Multimedia sales increased 1% to SEK 10.6 (10.5) billion, negatively impacted by political unrest in the Middle East and weak development in India.

Profitability

Operating margin was 5% (4%). Restructuring charges had no material impact on profitability.

Cost structure

In the multimedia segment, cost of sales is low and the majority is variable, due to the fact that third party hardware is used, on which the Company implements its software. Multimedia is a software business with a high degree of fixed R&D cost for software development.

The OSS and BSS business

The OSS/BSS business is divided into two different sales types:

Transformation sales

Simplification and consolidation of processes, operations, systems and platforms. Key components are software solutions, consulting and systems integration. Typically these projects last for 18 36 months. The software part represents 25 40% of the contract value and the rest is consulting and systems integration.

Product sales

Product sales is mainly expansions and upgrades, e.g. upgrading from Ericsson Charging System version 4 to 5. Key components are software solutions and systems integration. Typically these projects last for 1 12 months. The software part represents 70 90% of the contract value and the rest is systems integration.

Telcordia acquisition

In 2011, Ericsson announced the acquisition of Telcordia, a global leader in the development of software and services for OSS/BSS. The price was USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. The acquisition is expected to be accretive to Ericsson s earnings per share within twelve months. Telcordia has approximately 2,600 employees. During its last fiscal year, ended January 31, 2011, Telcordia generated revenues of USD 739 million. Telcordia s revenues will be split between segments Multimedia and Global Services according to portfolio mix. With the acquisition, Ericsson aspires to a leading position in the OSS and BSS market.

Competitors

In the multimedia segment, Ericsson competes in rather fragmented markets with many local players. Competitors vary depending on the solution being offered. In the OSS and BSS market, they include many of the traditional telecommunication equipment suppliers as well as IT suppliers, such as Amdocs, Comverse and Oracle. Competition in the TV business includes Harmonic and Thompson.

Sony Ericsson

Sony Ericsson is a 50/50 joint venture between Sony Corporation and Ericsson, established in 2001. Sony Ericsson is accounted for according to the equity method. In October 2011, it was announced that Sony Corporation would acquire Ericsson s 50% share in Sony Ericsson. As part of the deal, Sony and Ericsson will also enter into a broad IP cross-licensing agreement and create a wireless connectivity initiative to drive connectivity across multiple platforms. The transaction is a logical strategic step that makes it possible for Ericsson to focus on enabling connectivity for all devices.

Sony Ericsson will become a wholly-owned subsidiary of Sony and integrated into Sony s broad platform of network-connected consumer electronics products. The agreed cash consideration for the transaction is a EUR 1.05 billion cash payment.

Sony Ericsson s units shipped in 2011 decreased by 20% to 34.4 (43.1) million while the average selling price increased by 4% to EUR 152 (146). Sales decreased by 17% to EUR 5.2 (6.3) billion.

In 2011, Sony Ericsson had a market share of 10% in the smartphone market, measured in units, and 10% measured in value.

Gross margin decreased during the year to 28% (29%) attributed to product and geographic mix. Income before taxes, including restructuring charges, was EUR 0.24 (0.15) billion. Income decreased during the year due to declining gross margin and increased operating expenses. The result includes restructuring charges of EUR 93 million. Ericsson s share in Sony Ericsson s income before taxes was SEK 1.2 (0.7) billion.

Sony Ericsson s primary competitors include Apple, HTC, LG, Motorola, Nokia, RIM and Samsung.

ST-Ericsson

ST-Ericsson is a 50/50 joint venture between STMicroelectronics and Ericsson, established in February, 2009. ST-Ericsson is accounted for according to the equity method.

At the end of 2011, ST-Ericsson was still in a shift from legacy to new products. Though its path to success is challenging, ST-Ericsson is, when entering 2012, continuing to focus on securing the successful execution and delivery of its new products to customers while lowering its break-even point.

The changes in the business environment at a large customer during 2011 reduced demand for legacy products and delayed the ramp-up of new products with that customer. In the light of the business environment at the end of 2011, ST-Ericsson s CEO is reviewing the company s strategic plan and financial prospects. Ericsson, together with its partner STMicroelectronics, is firmly committed to supporting ST-Ericsson in the transition to turn-over to sustainable profitability and cash generation. As a result of the strategic review, Ericsson may consider additional actions to solidify and accelerate ST-Ericsson s path to profitability. In such an event, or in case of a significant worsening of business prospects, the value of ST-Ericsson for Ericsson could decrease to a value significantly lower than the current carrying amount of ST-Ericsson on Ericsson s books and Ericsson might be required to take an impairment charge.

Sales in 2011 declined 28% to USD 1.7 (2.3) billion. The operating loss for the year, adjusted for restructuring costs, was USD 0.7 (0.4) billion. ST-Ericsson reports in US-GAAP. Ericsson s share in ST-Ericsson s income before taxes, adjusted to IFRS, was SEK 2.7 (1.8) billion. Adjustments for IFRS compliance mainly consist of capitalization of R&D expenses for hardware development. The Company s net financial position was USD 798 (82) million at year-end. At the end of the year, ST-Ericsson had utilized USD 800 million of a short-term credit facility granted on a 50/50 basis by the parent companies.

In December 2011, a new President and CEO of ST-Ericsson was appointed.

ST-Ericsson s major competitor is Qualcomm. The market is growing in complexity as several new operating systems for handsets and other devices have been launched, e.g. Google s Android, Microsoft s Windows phone and Samsung s Bada.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

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

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

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

Responsible business practices

Since 2000, Ericsson has actively supported the UN Global Compact, and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. The Ericsson Group Management System includes policies and directives that cover responsible business practices, such as the Code of Business Ethics, Code of Conduct (CoC), anti-corruption and environmental management. It is reinforced by training, workshops and monitoring, including a global assessment program run by an external assurance provider where CR criteria represent some 20% of areas assessed.

Supply chain

Suppliers must comply with Ericsson s CoC. Approximately 170 employees, covering all regions, are trained as supplier CoC auditors. The Company performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made. Training for suppliers is available in 13 languages. To effectively address the issue of conflict minerals, Ericsson participates in the Global e-Sustainability Initiative (GeSI) work on conflict minerals, and takes other active measures in its sourcing and product management processes.

Reducing environmental impact

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

Product take-back and recycling

Ericsson Ecology Management is a program to take responsibility for products at the end of their life and is offered to all customers globally free of charge, not only in markets where legislated.

During 2011, Ericsson worked actively to help build up e-waste capabilities in Africa, through a public private partnership in Ghana. This was done with the Raw Materials Group and the Ghana Environmental Protection Agency and was financed by the Nordic Development Fund. The goal is to establish local recycling capabilities and transform the current informal e-waste recycling yards into a formal business. This will help to reduce negative environmental and health impacts while also alleviating poverty.

Radio waves and health

Ericsson provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Ericsson has co-sponsored over 90 studies related to electromagnetic fields, radio waves and health since 1996. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

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

Climate change

ICT represents about 2% of global CO_2 emissions, but can potentially offset a significant portion of the remaining 98% from other industries. Ericsson takes active measures to ensure that its own carbon footprint intensity will be continuously reduced. A five year target which aims to reduce the carbon emission intensities by 40% was set in 2008. The target comprises two focus areas: Ericsson s own activities and the life-cycle impacts of products in operation (see graph).

A 6% reduction in direct emission intensity from own activities was achieved during 2011. Despite delivering higher volumes, Ericsson still achieved the target of 70% surface transport by weight. Business travel is roughly the same per employee.

A 3% reduction was achieved in indirect emission intensity from products in operation. While the reduction was lower this year compared to last, Ericsson is well on track to meet its five year target.

Ericsson has increased 3G/4G energy efficiency by 85% over the last decade, while continuing to meet the bandwidth demands of the networked society, and without increasing energy consumption per subscriber.

Ericsson s sustainability strategy focuses on the role broadband can play in helping to offset global CO_2 emissions, 70% of which are attributed to cities. Ericsson works on sustainable city solutions and is engaged in global climate policy. Ericsson s CEO leads the Climate Change Working Group of the Broadband Commission. Ericsson also co-chairs the Policy Group in GeSI, and helped launch its Low Carbon Cities benchmark.

Meeting the UN Millennium Development Goals

Mobile connectivity fuels economic growth, which is vital for billions of people living at the base of the economic pyramid. Ericsson is committed to using its technology and competence to help achieve the Millennium Development Goals (MDGs). Ericsson launched the Technology for Good program in 2011. It focuses on applying the Company s expertise, global presence and scale to find market-based solutions that empower people, business and society to help shape a more sustainable world.

Connect to Learn

In 2011, Ericsson and its partners, The Earth Institute at Columbia University and Millennium Promise, celebrated one year of progress for Connect To Learn, a global initiative focused on improving quality of and access to secondary education. Some 5,000 students now have access to education in schools throughout Millennium Villages and cities in Africa. An innovative cloud computing solution, PC as a Service, dramatically reduces the cost of access. The initiative has been extended to Latin America.

Ericsson Response

Ericsson Response is a global Ericsson employee volunteer initiative which rapidly deploys communication solutions and provides telecommunications experts to assist disaster relief operations. Ericsson Response partners with many UN and humanitarian organizations. In 2011, Ericsson Response missions included the One UN initiative in Tanzania, in collaboration with the World Food Programme. A partnership with operator SingTel was also announced to provide emergency communications services to support disaster relief efforts in South and Southeast Asia through Ericsson Response.

Reporting according to GRI 3.0

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

CORPORATE GOVERNANCE

In accordance with the Annual Accounts Act (1995:1554 Chapter 6, Section 6 and 8), a separate Corporate Governance Report, including an Internal Control section, has been prepared.

Continued compliance with the Swedish Corporate Governance Code

Ericsson applies the Swedish Corporate Governance Code and is committed to complying with best-practice corporate governance standards on a global level wherever possible. This includes continued compliance with the corporate governance provisions expressed by the Code, without deviations.

An ethical business

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

Board of Directors 2011/2012

The Annual General Meeting on April 13, 2011, elected Leif Johansson new Chairman of the Board, replacing Michael Treschow. Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Carl-Henric Svanberg, Hans Vestberg and Michelangelo Volpi were re-elected and Jacob Wallenberg was elected new member of the Board. Pehr Claesson, Jan Hedlund and Karin Åberg were appointed employee representatives with Kristina Davidsson, Karin Lennartsson and Roger Svensson as deputies.

Management

Hans Vestberg is President and CEO of the Group since January 1, 2010. The President and CEO is supported by the Group management, consisting of the Executive Leadership Team (ELT). The ELT, in addition to the President and CEO, consists of heads of Group functions, heads of business units and two of the heads of Ericsson s regions. Up until December 21, 2011, the Chief Brand Officer was part of ELT.

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

Remuneration

Fees to the members of the Board of Directors and the remuneration to Group management (the Executive Leadership Team, ELT), as well as the 2011 guidelines for remuneration to Group management, are reported in Notes to the Consolidated Financial Statements Note C28, Information Regarding Members of the Board of Directors, the Group management and Employees .

As of December 31, 2011, there were no loans outstanding from and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management.

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

The Board of Directors proposes that the current guidelines for remuneration to the Group management (ELT) remain unchanged for the period up to the 2013 Annual General Meeting.

Details of how Ericsson delivers on these guidelines and policy, including information on previously decided long-term variable remuneration that has not yet become due for payment, can be found in Note C28, Information regarding Members of the Board of Directors, the Group management and Employees .

RISK MANAGEMENT

Risks are broadly categorized into operational and financial risks. Ericsson s risk management is based on the following principles, which apply universally across all business activities and risk types:

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

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

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

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

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

LEGAL AND TAX PROCEEDINGS

Together with most of the mobile communications industry, Ericsson was sued in two class action lawsuits in the US in which plaintiffs alleged that adverse health effects could be associated with mobile phone usage. The

cases were pending in federal court in Pennsylvania and the Superior Court of the District of Columbia. In the Pennsylvania case, the federal district court dismissed the plaintiffs claims as preempted by federal law. The Third Circuit Court of Appeals subsequently affirmed this ruling, and in October 2011, the Supreme Court declined to consider the case. The plaintiff has no further right of appeal, and as a result, the Pennsylvania case is officially closed.

In the District of Columbia case, the plaintiff dismissed Ericsson from the case with prejudice in February 2011 shortly after an opinion by the D.C. Court of Appeals made it clear that the plaintiff did not have standing to sue Ericsson under the D.C. consumer protection statute.

In January 2011, a US company SynQor filed a patent infringement lawsuit against Ericsson Inc. alleging that Ericsson infringes five US patents related to bus converters. In February 2011, SynQor filed a motion for preliminary injunction seeking to prevent Ericsson from manufacturing, using, selling, and offering for sale in the US and/or importing into the US certain unregulated and semi-regulated bus converters and any Ericsson products that contain those bus converters. In May 2011, Ericsson and SynQor entered into a confidential settlement agreement that resulted in mutual releases and a dismissal with prejudice of all claims asserted by the parties against each other in the litigation.

In May 2011, Ericsson settled a US patent infringement lawsuit brought by an Australian company, QPSX Developments PTY Ltd. The lawsuit had been pending since April 2007 and involved Asynchronous Transfer Mode (ATM) technology. Ericsson considers this matter closed.

In July 2011, a US company TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent (ALU), the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) for purported federal antitrust violations. The complaint alleges that Ericsson, Qualcomm and ALU illegally conspired to block the adoption of TruePosition s proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. In October 2011, the defendants filed motions to dismiss the case.

The Swedish fiscal authorities disallowed deductions for sales commission payments via external service companies to sales agents in certain countries. The decision covering the fiscal year 1999 was appealed. In December 2006, the County Administrative Court in Stockholm rendered a judgment in favor of the fiscal authorities. The Administrative Court of Appeal in Stockholm affirmed the County Administrative Court s judgment. The judgment was appealed to the Administrative Supreme Court. In February 2011 the Administrative Supreme Court revoked the County Administrative Court s judgment and ruled in Ericsson s favor, thus allowing deductions for sales commission payments.

SOURCING AND SUPPLY

Ericsson s hardware, accounting for approximately 40% of total sales, largely consists of electronics, such as circuit boards, radio frequency (RF) modules and antennas. For manufacturing, the Company purchases customized and standardized components and services from several global providers as well as from local and regional suppliers. Certain types of components, such as power modules and cables, are produced in-house.

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority is in low-cost countries. Production of radio base stations is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into units such as complete radio base stations and mobile switching centers. Final assembly and testing are concentrated to a few sites. Ericsson has 17 manufacturing sites in Brazil, China, Estonia, Italy, India and Sweden.

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

Where possible, Ericsson relies on alternative supply sources and seeks to avoid single source supply situations.

A need to switch to an alternative supplier may require allocation of additional resources to ensure that technical standards and other requirements are met. This process could take some time to complete.

Variations in market prices for raw materials generally have a limited effect on total cost of goods sold.

MATERIAL CONTRACTS

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

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

PARENT COMPANY

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

The Parent Company has 6 (6) branch offices. In total, the Group has 70 (68) branch and representative offices.

Financial information

Income after financial items was SEK 4.4 (7.8) billion. The Parent Company had no sales in 2011 or 2010 to subsidiaries, while 31% (45%) of total purchases of goods and services were from such companies.

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

- Increased current and non-current receivables from subsidiaries of SEK 2.7 billion
- Decreased other current receivables of SEK 1.7 billion
- Decreased cash, cash equivalents and short-term investments of SEK 14.5 billion
- Decreased current and non-current liabilities to subsidiaries of SEK 7.8 billion
- Increased other current liabilities of SEK 2.4 billion.

At year end, cash, cash equivalents and short-term investments amounted to SEK 56.1 (70.6) billion.

Share information

As per December 31, 2011, the total number of shares in issue was 3,273,351,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,011,595,752 Class B shares, each carrying one tenth of one vote. The two largest shareholders at year end were Investor and Industrivärden holding 21.48% and 14.34% respectively of the voting rights in the Parent Company.

Both classes of shares have the same rights of participation in the net assets and earnings.

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 10,242,012 treasury shares were sold or distributed to employees in 2011. The quotient value of these shares was SEK 51.2 million, representing less than 1% of capital stock, and compensation received amounted to SEK 122.9 million. The holding of treasury stock at December 31, 2011 was 62,846,503 Class B shares. The quotient value of these shares is SEK 314.2 million, representing 1.9% of capital stock, and the related acquisition cost amounts to SEK 535.0 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 2.50 (2.25) per share be paid to shareholders duly registered on the record date May 8, 2012, and that the Parent Company shall retain the remaining part of non-restricted equity.

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

Amount to be paid to the shareholders	SEK 8,183,379,338
Amount to be retained by the Parent Company	SEK 32,536,021,737
Total non-restricted equity of the Parent Company	SEK 40,719,401,075

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company s and the Group s need for financial resources as well as the Parent Company s and the Group s liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 52% (52%) and a net cash amount of SEK 39.5 (51.3) billion.

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

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

POST-CLOSING EVENTS

On January 12, 2012, Ericsson announced the closing of the acquisition of all the shares in Telcordia, a global leader in the development of software and services for OSS/BSS, for USD 1.15 billion in an all cash transaction, on a cash and debt-free basis. Balances to facilitate a Purchase Price Allocation have not yet been established. Approximately 2,600 skilled employees have joined Ericsson. This acquisition consolidates Ericsson s position as a leading player in the operations support systems and business support systems (OSS/BSS) market with a key position in service fulfillment, assurance, network optimization and real-time charging.

On January 14, 2012, as per the trust s funding requirements, the Company made an employer contribution payment of SEK 900 million to the Swedish pension trust fund.

On January 20, 2012, Ulf Ewaldsson was appointed Senior Vice President, Chief Technology Officer, Head of Group function Technology and Portfolio Management, effective as of February 1.

In February 2012, Airvana Networks Solutions Inc., a State of Delaware, US corporation (Airvana), filed a complaint against Ericsson Inc. and Ericsson AB in the Supreme Court of the State of New York, US, alleging that Ericsson has violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Airvana is seeking damages of USD 330 million and to enjoin Ericsson from developing, deploying or commercializing Ericsson products allegedly based on Airvana s proprietary technology.

On February 16, 2012, Ericsson announced that the Company, on February 15, 2012, completed the divestment of its 50% stake in Sony Ericsson Mobile Communications AB. The divestment was originally jointly announced by Sony Corporation and Ericsson on October 27, 2011. The deal includes a broad IP cross-licensing agreement. Sony Ericsson is now a wholly-owned subsidiary of Sony. The agreed cash consideration for the transaction is EUR 1.05 billion.

The divestment has resulted in a gain of approximately SEK 7.5 billion, to be recognized in the first quarter of 2012 and reported under Other operating income and expenses.

BOARD ASSURANCE

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group s financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company s financial position and results of operations.

The Board of Directors Report for the Ericsson Group and the Parent Company provides a fair view of the development of the Group s and the Parent Company s operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm February 24, 2012

Telefonaktiebolaget LM Ericsson (publ)

Org. no. 556016-0680

Sverker Martin-Löf **Deputy Chairman**	Leif Johansson **Chairman**	Jacob Wallenberg **Deputy Chairman**
Roxanne S. Austin **Member of the Board**	Sir Peter L. Bonfield **Member of the Board**	Börje Ekholm **Member of the Board**
Ulf J. Johansson **Member of the Board**	Nancy McKinstry **Member of the Board**	Anders Nyrén **Member of the Board**
Carl-Henric Svanberg **Member of the Board**	Hans Vestberg **President, CEO and member of the Board**	Michelangelo Volpi **Member of the Board**
Pehr Claesson **Member of the Board**	Jan Hedlund **Member of the Board**	Karin Åberg **Member of the Board**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ)

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

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

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

Stockholm, April 4, 2012

By:	/s/ PricewaterhouseCoopers
Name:	PricewaterhouseCoopers AB

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CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED INCOME STATEMENT

January December, SEK million	Notes	2011	2010	2009
Net sales	C3, C4	**226,921**	203,348	206,477
Cost of sales		**147,200**	129,094	136,278
Gross income		**79,721**	74,254	70,199
Gross margin (%)		**35.1%**	36.5%	34.0%
Research and development expenses		**32,638**	31,558	33,055
Selling and administrative expenses		**26,683**	27,072	26,908
Operating expenses		**59,321**	58,630	59,963
Other operating income and expenses	C6	**1,278**	2,003	3,082
Operating income before shares in earnings of joint ventures and associated companies		**21,678**	17,627	13,318
Operating margin before shares in earnings of joint ventures and associated companies (%)		**9.6%**	8.7%	6.5%
Share in earnings of joint ventures and associated companies	C12	**3,778**	1,172	7,400
Operating income		**17,900**	16,455	5,918
Financial income	C7	**2,882**	1,047	1,874
Financial expenses	C7	**2,661**	1,719	1,549
Income after financial items		**18,121**	15,783	6,243
Taxes	C8	**5,552**	4,548	2,116
Net income		**12,569**	11,235	4,127
Net income attributable to:				
Stockholders of the Parent Company		**12,194**	11,146	3,672
Non-controlling interest		**375**	89	455
Other information				
Average number of shares, basic (million)	C9	**3,206**	3,197	3,190
Earnings per share attributable to stockholders of the Parent Company, basic (SEK)[1)]	C9	**3.80**	3.49	1.15
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK)[1)]	C9	**3.77**	3.46	1.14

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January December, SEK million	Notes	2011	2010	2009
Net income		**12,569**	11,235	4,127
Other comprehensive income				
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions	C16	**6,963**	3,892	633
Revaluation of other investments in shares and participations				
Fair value remeasurement	C16		7	2
Cash Flow hedges				
Gains/losses arising during the period	C16	**996**	966	665
Reclassification adjustments for gains/losses included in profit or loss	C16	**2,028**	238	3,850
Adjustments for amounts transferred to initial carrying amount of hedged items	C16		136	1,029
Changes in cumulative translation adjustments	C16	**964**	3,259	1,067
Share of other comprehensive income of joint ventures and associated companies	C16	**262**	434	259
Tax on items relating to components of Other comprehensive income	C16	**2,158**	1,120	1,040
Total other comprehensive income		**7,063**	322	485
Total comprehensive income		**5,506**	10,913	4,612
Total Comprehensive Income attributable to:				
Stockholders of the Parent Company		**5,081**	10,814	4,211
Non-controlling interest		**425**	99	401

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CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2011	2010
ASSETS			
Non-current assets			
Intangible assets	C10		
Capitalized development expenses		**3,523**	3,010
Goodwill		**27,438**	27,151
Intellectual property rights, brands and other intangible assets		**13,083**	16,658
Property, plant and equipment	C11, C26, C27	**10,788**	9,434
Financial assets			
Equity in joint ventures and associated companies	C12	**5,965**	9,803
Other investments in shares and participations	C12	**2,199**	219
Customer finance, non-current	C12	**1,400**	1,281
Other financial assets, non-current	C12	**4,117**	3,079
Deferred tax assets	C8	**13,020**	12,737
		81,533	83,372
Current assets			
Inventories	C13	**33,070**	29,897
Trade receivables	C14	**64,522**	61,127
Customer finance, current	C14	**2,845**	3,123
Other current receivables	C15	**17,837**	17,146
Short-term investments	C20	**41,866**	56,286
Cash and cash equivalents	C25	**38,676**	30,864
		198,816	198,443
TOTAL ASSETS		**280,349**	281,815
EQUITY AND LIABILITIES			
Equity			
Stockholders equity	C16	**143,105**	145,106
Non-controlling interest in equity of subsidiaries	C16	**2,165**	1,679
		145,270	146,785
Non-current liabilities			
Post-employment benefits	C17	**10,016**	5,092
Provisions, non-current	C18	**280**	353
Deferred tax liabilities	C8	**2,250**	2,571
Borrowings, non-current	C19, C20	**23,256**	26,955
Other non-current liabilities		**2,248**	3,296
		38,050	38,267
Current liabilities			
Provisions, current	C18	**5,985**	9,391
Borrowings, current	C19, C20	**7,765**	3,808
Trade payables	C22	**25,309**	24,959
Other current liabilities	C21	**57,970**	58,605

	97,029	96,763
TOTAL EQUITY AND LIABILITIES[1)]	**280,349**	281,815

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

January December, SEK million	Notes	2011	2010	2009
Operating activities				
Net income		**12,569**	11,235	4,127
Adjustments to reconcile net income to cash	C25	**12,613**	12,490	16,856
		25,182	23,725	20,983
Changes in operating net assets				
Inventories		**3,243**	7,917	5,207
Customer finance, current and non-current		**74**	2,125	598
Trade receivables		**1,700**	4,406	7,668
Trade payables		**1,648**	5,964	3,522
Provisions and post-employment benefits		**5,695**	2,739	2,950
Other operating assets and liabilities, net		**2,988**	5,269	3,508
		15,200	2,858	3,493
Cash flow from operating activities		**9,982**	26,583	24,476
Investing activities				
Investments in property, plant and equipment	C11	**4,994**	3,686	4,006
Sales of property, plant and equipment		**386**	124	534
Acquisitions of subsidiaries and other operations	C25, C26	**3,181**	3,286	19,321
Divestments of subsidiaries and other operations	C25, C26	**53**	454	1,239
Product development	C10	**1,515**	1,644	1,443
Other investing activities		**900**	1,487	2,606
Short-term investments		**14,692**	3,016	17,071
Cash flow from investing activities		**4,541**	12,541	37,462
Cash flow before financing activities		**14,523**	14,042	12,986
Financing activities				
Proceeds from issuance of borrowings		**2,076**	2,580	14,153
Repayment of borrowings		**1,259**	1,449	9,804
Sale of own stock and options exercised		**92**	51	69
Dividends paid		**7,455**	6,677	6,318
Other financing activities		**52**	175	199
Cash flow from financing activities		**6,494**	5,670	1,701
Effect of exchange rate changes on cash		**217**	306	328
Net change in cash		**7,812**	8,066	15,015
Cash and cash equivalents, beginning of period		**30,864**	22,798	37,813
Cash and cash equivalents, end of period	C25	**38,676**	30,864	22,798

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Capital stock	Additional paid in capital	Retained earnings	Stockholders equity	Non-controlling interest (NCI)	Total equity
January 1, 2011		16,367	24,731	104,008	145,106	1,679	146,785
Total comprehensive income	C16			5,081	5,081	425	5,506
Transactions with owners							
Sale of own shares				92	92		92
Stock Purchase Plans				413	413		413
Dividends paid				7,207	7,207	248	7,455
Transactions with non-controlling interest				380	380	309	71
December 31, 2011		**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**
January 1, 2010		16,367	24,731	98,772	139,870	1,157	141,027
Total comprehensive income	C16			10,814	10,814	99	10,913
Transactions with owners							
Sale of own shares				52	52		52
Stock Purchase Plans				762	762		762
Dividends paid				6,391	6,391	286	6,677
Transactions with non-controlling interest						708	708
December 31, 2010		**16,367**	**24,731**	**104,008**	**145,106**	**1,679**	**146,785**
January 1, 2009		16,232	24,731	99,860	140,823	1,261	142,084
Total comprehensive income	C16			4,211	4,211	401	4,612
Transactions with owners							
Stock issue		135			135		135
Sale of own shares				75	75		75
Repurchase of own shares				135	135		135
Stock Purchase and Stock Option Plans				658	658		658
Dividends paid				5,897	5,897	421	6,318
Transactions with non-controlling interest						84	84
December 31, 2009		**16,367**	**24,731**	**98,772**	**139,870**	**1,157**	**141,027**

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C1 SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

The consolidated financial statements for the year ended December 31, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 Additional rules for Group Accounting , related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2011, the Company has applied IFRS as issued by the IASB (IFRS effective as per December 31, 2011) and without any early application. There is no difference between IFRS effective as per December 31, 2011, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS.

The financial statements were approved by the Board of Directors on February 24, 2012. The balance sheets and income statements are subject to approval by the annual meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2011:

- Improvements to IFRSs (Issued by the IASB in May 2010).

- Amendment to IFRIC 14, IAS 19 The limit on a defined benefit assets, minimum funding requirements and their interaction . Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognized as an asset rather than an expense.

- IFRIC 19, Extinguishing financial liabilities with equity instruments . Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares or other equity instruments to settle the financial liability fully or partially.

- IAS 24, Related party disclosures (revised 2009). Amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities.

- Amendment to IAS 32, Financial instruments: Presentation Classification of rights issues . Amended to allow rights, options or warrants to acquire a fixed number of the entity s own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

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

For information on New standards and interpretations not yet adopted please see page 90.

Basis of presentation

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

Basis of consolidation

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

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

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

Business combinations

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

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

Non-controlling interest

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

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

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

Joint ventures and associated companies

Both joint ventures and associated companies are accounted for in accordance with the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor s share of the profit or loss of the investee after the date of acquisition. JVs are ownership interests where a joint influence is obtained through agreement.

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

Ericsson s share of income before taxes is reported in item Share in earnings of joint ventures and associated companies , included in Operating Income. This is due to that these interests are held for operating rather than investing or financial purposes. Ericsson s share of income taxes related to joint ventures and associated companies is reported under the line item Taxes in the income statement.

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

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

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

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

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

Foreign currency remeasurement and translation

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

Transactions and balances

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

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

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

Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates
- All resulting net exchange differences are recognized as a separate component of OCI.

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

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

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

Statement of cash flows

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

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

Revenue recognition

Background

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

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

Accounting treatment

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

- The product or service has been delivered
- The revenue amount is fixed or determinable
- Customer has received and activation has been made of separately sold software
- Collection is reasonably assured.

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

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

- Delivery-type contracts. These contracts relate to delivery, installation, integration of products and providing of related services, normally under multiple elements contracts. Under multiple elements contracts the accounting is based on that the revenue recognition criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Multimedia have contracts that relate to this type of contracts.
- Contracts for services. Relate to multi-year service contracts such as support and managed service contracts and other types of recurring services. Revenue is recognized when the services have been provided, generally pro rata over the contract period. Global Services has contracts that relate to this type of contracts.
- Contracts generating license fees from third parties for the use of the Company s technology or intellectual property rights, not being a part of another product. Revenue is normally recognized based on sales of products sold to the customer/licensee. Networks and Multimedia have contracts that relate to this type of contracts.

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

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

Earnings per share

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

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

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

Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

Impairment

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

An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

Financial Liabilities

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

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

Borrowings

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

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

Trade payables

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

Derivatives at fair value through profit or loss

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

Derivative financial instruments and hedging activities

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

a) **Fair value hedge:** a hedge of the fair value of recognized liabilities

b) **Cash flow hedge:** a hedge of a particular risk associated with a highly probable forecast transaction; or

c) **Net investment hedge:** a hedge of a net investment in a foreign operation.

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note C20, Financial Risk Management and Financial Instruments . Movements in the hedging reserve in OCI are shown in Note C16, Equity and Other Comprehensive Income .

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

Fair value hedges

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

Cash flow hedges

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

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

Net investment hedges

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

Financial guarantees

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

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

- The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method.

The best estimate of the net expenditure comprises future fees and cash flows from subrogation rights.

Inventories

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

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

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

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

Intangible assets

Intangible assets other than goodwill

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

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economical feasibility has been established until the product is available for sale or use. These capitalized expenses are mainly generated internally and include direct labor and directly attributable overhead. Amortization of capitalized development expenses begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development expenses directly related to orders from customers are accounted for as a part of Cost of sales. Other research and development expenses are charged to income as incurred.

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

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

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

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

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

Goodwill

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

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

Additional disclosure is required in relation to goodwill impairment testing, see Note C2, Critical Accounting Estimates and Judgments , below and in Note C10, Intangible Assets .

Property, plant and equipment

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

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

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

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

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

Leasing

Leasing when the company is the lessee

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

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

Leasing when the company is the lessor

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

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

Income taxes

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

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

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

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

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

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

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

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

Post-employment benefits

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

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

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

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

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

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

Share-based compensation to employees and the Board of Directors

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

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

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

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

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

Compensation to employees

Stock purchase plans

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the Ericsson share at the employee s investment date. The fair value is based upon the share price at investment date, adjusted for the fact that no dividends will be received on matching shares prior to matching and other features that are non-vesting conditions. The employee pays a price equal to the share price at investment

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date for the investment shares. The investment date is considered as the grant date. In the balance sheet, the corresponding amounts are accounted for as equity. Vesting conditions are non-market based and affect the number of shares that Ericsson will match. Other features of a share-based payment are non-vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services. In the period when an employee takes a refund of previously made contributions (and stops making further contributions) all remaining compensation expense is recognized. Non-vesting conditions would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. When calculating the compensation costs for shares under performance-based matching programs, the Company at each reporting date assesses the probability that the performance targets are met. Compensation expenses are based on estimates of the number of shares that will match at the end of the vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, estimated amounts for such social security charges are expensed and accrued.

Compensation to the board of directors

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

Segment reporting

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

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

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

New standards and interpretations not yet adopted

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements.

Below is a list of standards/interpretations that have been issued, except for amendments related to IFRS 1, First time adoption of International Financial Reporting Standards and are effective for the periods starting as from January 1, 2012.

Amendment to IAS 12, Income taxes , on deferred tax.

IAS 12, Income taxes , currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, Investment property . This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

As a result of the amendments, SIC 21, Income taxes recovery of revalued non-depreciable assets , will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Amendments to IFRS 7, Financial instruments: Disclosures on derecognition , This amendment will promote transparency in the reporting of transfer transactions and improve users understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity s financial position, particularly those involving securitization of financial assets. Earlier application subject to EU endorsement is permitted.

These amendments effective as from January 1, 2012, are not expected to have a significant impact on the Company s financial result or position.

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

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

Amendment to IAS 19, Employee benefits , These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Company implemented the immediate recognition of remeasurements in the other comprehensive income in 2006, and therefore the transition to the revised IAS19 applicable starting January 1, 2013 will not have a significant effect on the present obligation. The main issues to address will be the implementation of the net interest cost/gain, which integrates the interest cost and expected return on assets to be based on a common discount rate. The Company will also need to address the taxes to be incorporated into the defined benefit obligation and plan assets, as well as the additional disclosure requirements on financial and demographic assumptions, sensitivity analysis, duration and multi-employer plans.

IFRS 9, Financial instruments , IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

IFRS 10, Consolidated financial statements , Builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statement of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is estimated to have a limited impact on the Company. However, the accounting treatment in relation to any new future business or customer contract models might be impacted by IFRS 10.

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

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

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

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

IAS 28 (revised 2011), Associates and joint ventures , IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. (see IFRS 10).

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

IFRS 9 is applicable as from January 1, 2015. The EU has not endorsed IAS 12, IFRS 9, 10, 11, 12 or 13, IAS 19, IAS 27 (rev), IAS 28 (rev) or IAS 1 (amended).

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements and application of accounting standards often involve management s judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected.

Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

The information in this note is grouped as per:

Key sources of estimation uncertainty.

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

Revenue recognition

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

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Trade and customer finance receivables

Key sources of estimation uncertainty

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2011, were SEK 1.0 (1.1) billion or 1.4% (1.6%) of gross trade and customer finance receivables.

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

Inventory valuation

Key sources of estimation uncertainty

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2011, amounted to SEK 3.3 (3.1) billion or 9% (10%) of gross inventory.

Investments in joint ventures and associated companies

Key sources of estimation uncertainty

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

At December 31, 2011, the amount of joint ventures and associated companies amounted to SEK 6.0 (9.8) billion.

Assets held for sale

Judgments made in relation to accounting policies applied

Whether an asset is held for sale requires management s judgments. If an asset is held for sale it must also be evaluated as from which date.

On February 15, 2012 the sale of Sony Ericsson Mobile to Sony was closed. The sale was announced on October 27, 2011. This investment was accounted for under the equity method. Under this method the Company s share of the profit or loss of an investee is recognized by the Company. It has been determined that the use of the quarterly financial statements issued by Sony Ericsson Mobile results in the most relevant and reliable share of the profit or losses of the investee.

Subsequent to the date of the announcement Sony Ericsson Mobile issued financial statements as of Dec 31, 2011. Consequently, the equity method has been applied for the full year, including the period subsequent to the announcement. The Company s share of the losses of Sony Ericsson Mobile for the 12 months period ended

December 31, 2011 amounts to SEK 1.1 billion. This has resulted in a carrying value of the investment amounting to SEK 1.4 billion as of December 31, 2011. The divestment has resulted in a gain of approximately SEK 7.5 billion, to be recognized in the first quarter of 2012 and reported under Other operating income and expenses.

Deferred taxes

Key sources of estimation uncertainty

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

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

At December 31, 2011, the value of deferred tax assets amounted to SEK 13.0 (12.7) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

Accounting for income-, value added- and other taxes

Key sources of estimation uncertainty

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

Acquired intellectual property rights and other intangible assets, including goodwill

Key sources of estimation uncertainty

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

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

At December 31, 2011, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 40.5 (43.8) billion, including goodwill of SEK 27.4 (27.2) billion. An impairment charge of SEK 0.0 (0.9) billion was recognized as a part of the restructuring program. Under this program decisions were taken to phase out certain products. The impairment charge relates to balances for these products. The Company has also recognized goodwill in ST-Ericsson of SEK 1.3 (1.3) billion, as disclosed in Note C12, Financial Assets, Non-Current .

Judgments made in relation to accounting policies applied

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

Provisions

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2011, amounted to SEK 1.8 (2.5) billion.

Provisions other than warranty provisions

Key sources of estimation uncertainty

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2011, provisions other than warranty commitments amounted to SEK 4.4 (7.3) billion. For further detailed information, see Note C18, Provisions .

Judgments made in relation to accounting policies applied

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

Contingent liabilities

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies

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

Pension and other post-employment benefits

Key sources of estimation uncertainty

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company s pension plans. Expected returns on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2011, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 36.4 (28.7) billion and fair value of plan assets to SEK 28.0 (25.4) billion. For more information on estimates and assumptions, see Note C17, Post-Employment Benefits .

Financial instruments, hedge accounting and foreign exchange risks

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

For further information regarding risks in financial instruments, see Note C20, Financial Risk Management and Financial Instruments .

C3 SEGMENT INFORMATION

Operating segments

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

- Networks
- Global Services
- Multimedia
- Sony Ericsson

ST-Ericsson

Networks delivers products and solutions for mobile and fixed broadband access, core networks, and transmission. The offering includes:

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

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Fixed access solutions for both fiber and copper, such as GPON and xDSL, increasing customers ability to modernize fixed networks to enable IP-based services with high bandwidth.

IP core network solutions (switching, routing and control) include softswitches, IP infrastructure for edge and core routing, IP Multimedia Subsystem (IMS) and media gateways.

Transmission/backhaul: microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks.

Operations Support Systems (OSS), supporting operators management of existing networks as well as introduction of new network architectures, technologies and services. OSS includes tools for configuration, performance monitoring, security management, inventory management and software upgrades.

Global Services delivers managed services, consulting and systems integration, customer support and network rollout services. The offering includes:

Managed services, comprising solutions for network design and planning, network operations (the management of day-to-day operations of customer networks), field operations and site maintenance, network sharing solutions as well as shared solutions such as hosting of platforms and applications.

Consulting and Systems integration: technology and operational consulting, integration of multi-vendor equipment, design and integration of new solutions and handling of technology change and transformation programs, learning services and optimization services ensuring the best possible user experience. Industry-specific solutions for vertical industries are also included.

Product-related Services: network rollout services, customer support and network optimization services (optimization for performance and energy).

Multimedia provides enablers and applications for operators. The offering includes:

Operations Support Systems: provisioning, device management and mediation solutions.

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

TV solutions: a suite of open, standards-based products that provide high-quality digital TV including IPTV, HDTV and interactive TV applications: the offering includes a complete IPTV network infrastructure solution optimized for multi-stream HD-IPTV: video compression, on-demand solutions, content management systems, advertising and interactive TV applications for operators, service providers, advertisers and content providers.

Consumer and business applications: solutions include service exposure, messaging, social media connectivity and location-based services. Enterprise market solutions include converged business communication solutions such as the Ericsson Business Communication Suite (BCS).

M-Commerce solutions: including brokering solutions that facilitate payment and distribution of content, and Ericsson Money Services for end-to-end mobile financial services.

Sony Ericsson, the joint venture delivers innovative and feature-rich mobile phones and accessories. In October 2011, Ericsson announced the divestment to Sony Corporation of its share in the 50/50 joint venture.

ST-Ericsson, the joint venture develops semiconductors and wireless platforms for GSM, EDGE, WCDMA, HSPA, TD-SCDMA and LTE to handset manufacturers, as well as to mobile operators and other device manufacturers.

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

Unallocated

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

Regions

The Regions are the Company s primary sales channel. The Company operates worldwide and reports its operations divided into ten regions.

Other includes sales of for example embedded modules, cables, power modules as well as licensing and IPR.

North America

Latin America

Northern Europe & Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

China & North East Asia

South East Asia & Oceania

Other

Major customers

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company s total revenues for the years 2011, 2010 or 2009.

We derive most of the sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of approximately 400, mainly network operators, the 10 largest customers account for 44% (46%) of net sales. The largest customer accounted for approximately 7% (8%) of sales in 2011. For more information, see Risk Factors, Market, Technology and Business Risks .

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Operating segments

2011	Networks	Global Services	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations[1)]	Group
Segment sales	131,596	83,854	10,629	46,866	9,232	282,177		56,098	226,079
Inter-segment sales	799	30	13	126	1,461	2,429		1,587	842
Net sales	**132,395**	**83,884**	**10,642**	**46,992**	**10,693**	**284,606**		**57,685**	**226,921**
Operating income	**17,295**	**5,544**	**504**	**1,854**	**5,461**	**15,020**	**501**	**3,381**	**17,900**
Operating margin (%)	13%	7%	5%	4%	51%	5%			8%
Financial income									2,882
Financial expenses									2,661
Income after financial items									**18,121**
Taxes									5,552
Net income									**12,569**
Other segment items									
Share in earnings of joint ventures and associated companies	87	28	4	1,199	2,730	3,810	32		3,778
Amortization	4,192	481	792	1	867	6,333		868	5,465
Depreciation	2,783	532	184	647	823	4,969		1,470	3,499
Impairment losses	50	23	12		283	368		283	85
Reversals of impairment losses	12		1			13			13
Restructuring expenses	1,600	1,363	143	838	280	4,224	78	1,118	3,184
Gains/losses from divestments	6					6	164		158

1) All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

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Operating segments

2010	Networks	Global Services	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations[1]	Group
Segment sales	111,459	80,117	10,504	60,118	13,116	275,314		73,234	202,080
Inter-segment sales	1,249	6	13	60	3,403	4,731		3,463	1,268
Net sales	**112,708**	**80,123**	**10,517**	**60,178**	**16,519**	**280,045**		**76,697**	**203,348**
Operating income	**12,481**	**6,513**	**643**	**1,523**	**3,527**	**16,347**	**805**	**913**	**16,455**
Operating margin (%)	11%	8%	6%	3%	21%	6%			8%
Financial income									1,047
Financial expenses									1,719
Income after financial items									**15,783**
Taxes									4,548
Net income									**11,235**
Other segment items									
Share in earnings of joint ventures and associated companies	64	17	2	664	1,763	1,182	10		1,172
Amortization	4,554	303	806	25	930	6,618		955	5,663
Depreciation	2,600	555	144	731	1,022	5,052		1,753	3,299
Impairment losses	675	276	52		61	1,064		61	1,003
Reversals of impairment losses	9	2	1			12			12
Restructuring expenses	3,915	2,675	207	402	536	7,735	17	938	6,814
Gains/losses from divestments	154	53	92			299	59		358

1) All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

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Operating segments

2009	Networks[1)]	Global Services[1)]	Multimedia	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations[2)]	Group
Segment sales	113,339	79,038	12,996	71,984	13,535	290,892		85,519	205,373
Inter-segment sales	746	82	276	164	5,731	6,999		5,895	1,104
Net sales	**114,085**	**79,120**	**13,272**	**72,148**	**19,266**	**297,891**		**91,414**	**206,477**
Operating income	**7,598[3)]**	**6,271[4)]**	**655**	**10,820**	**2,615**	**1,089**	**855**	**5,684**	**5,918**
Operating margin (%)	7%	8%	5%	15%	14%	0%			3%
Financial income									1,874
Financial expenses									1,549
Income after financial items									**6,243**
Taxes									2,116
Net income									**4,127**
Other segment items									
Share in earnings of joint ventures and associated companies	37	33	1	5,693	1,762	7,386	14		7,400
Amortization	2,673	574	910	165	828	5,150		941	4,209
Depreciation	2,768	627	155	1,124	997	5,671		2,121	3,550
Impairment losses	4,333[3)]		80		46	4,459		46	4,413
Reversals of impairment losses	38	9	2			49			49
Restructuring expenses	8,358[3)]	2,434	385	1,754	890	13,821	82	2,644	11,259
Gains/losses from divestments	10	777[4)]	41		47	875	32		843

1) Amounts for 2009 have been restated to be consistent with the segment allocation method applied as from 2010.
2) All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.
3) Including impairment losses related to restructuring activities of SEK 4.3 billion.
4) In Q2 2009, the TEMS business was divested, resulting in a capital gain of SEK 0.8 billion.

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Regions

	Net sales			Non-current assets[3]		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
North America	**48,785**	49,473	23,912	**6,296**	7,251	8,359
Of which the United States	***46,519***	*46,104*	*21,538*	***6,020***	*6,977*	*8,100*
Latin America	**21,982**	17,882	20,025	**2,268**	1,998	2,066
Northern Europe & Central Asia[1)2)]	**15,225**	12,171	11,981	**41,008**	42,112	44,091
Western & Central Europe[2)]	**19,030**	19,868	22,459	**5,097**	8,629	11,713
Mediterranean	**23,807**	22,628	25,161	**1,395**	1,523	1,352
Middle East	**15,461**	15,099	18,250	**42**	84	115
Sub-Saharan Africa	**10,163**	9,194	15,341	**79**	51	49
India	**9,762**	8,626	15,262	**355**	262	225
China & North East Asia	**38,209**	25,965	25,960	**3,939**	3,795	988
Of which China	***17,546***	*14,633*	*18,455*	***1,496***	*1,013*	*903*
South East Asia & Oceania	**13,870**	14,902	20,849	**318**	351	417
Other[1)2)]	**10,627**	7,540	7,277			
Total	**226,921**	**203,348**	**206,477**	**60,797**	**66,056**	**69,375**
1) Of which Sweden	***3,882***	*4,237*	*4,096*	***40,415***	*41,683*	*43,574*
2) Of which EU	***43,960***	*43,707*	*49,313*	***44,786***	*46,563*	*49,158*

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

For employee information, see Note C28, Information Regarding Members of the Board of Directors, the Group Management and Employees .

C4 NET SALES

Net sales

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

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C5 EXPENSES BY NATURE

Expenses by nature

	2011	2010	2009
Goods and services	**142,221**	130,725	124,627
Employee remuneration	**58,905**	57,183	54,877
Amortization and depreciation	**8,964**	8,962	7,759
Impairments and obsolescence allowances, net of reversals	**1,363**	966	5,637
Financial expenses	**2,661**	1,719	1,549
Taxes	**5,552**	4,548	2,116
Expenses incurred	**219,666**	204,103	196,565
Inventory changes[1)]	**3,417**	8,465	4,784
Additions to Capitalized development	**1,515**	1,647	1,443
Expenses charged to the Income Statement	**214,734**	193,991	199,906

1) The inventory changes are based on changes of gross inventory values prior to obsolescence allowances.

Total restructuring charges in 2011 were SEK 3.2 (6.8) b.

Restructuring charges are included in the expenses presented above.

Restructuring charges by function

	2011	2010	2009
Cost of sales	**1,231**	3,354	4,180
R&D expenses	**561**	1,682	6,045
Selling and administrative expenses	**1,392**	1,778	1,034
Total restructuring charges	**3,184**	6,814	11,259

C6 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

	2011	2010	2009
Gains on sales of intangible assets and PP&E	**65**	301	193
Losses on sales of intangible assets and PP&E	**64**	422	126
Gains on sales of investments and operations	**210**	577	962
Losses on sales of investments and operations	**52**	219	119

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

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C7 FINANCIAL INCOME AND EXPENSES

Financial income and expenses

	2011		2010		2009	
	Financial income	Financial expenses	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest on financial assets	**1,940**		811		1,287	
Of which on financial assets at fair value through profit or loss	***1,381***		*304*		*814*	
Contractual interest on financial liabilities		**1,706**		1,315		1,616
Net gain/loss on:						
Instruments at fair value through profit or loss[1)]	**1,062**	**591**	295	206	635	155
Of which included in fair value hedge relationships		***175***		*151*		*155*
Loans and receivables	**132**		68		53	
Liabilities at amortized cost		**105**		4		2
Other financial income and expenses	**12**	**259**	9	194	5	86
Total	**2,882**	**2,661**	1,047	1,719	1,874	1,549

1) Excluding net gain from operating assets and liabilities, SEK 51 million (net gain of SEK 1,528 million in 2010, net gain of SEK 2,247 million in 2009), reported as Cost of Sales.

C8 TAXES

The Company s tax expense for 2011 was SEK 5,552 (4,548) million or 30.6% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographical mix. The effective tax rate excluding joint ventures and associated companies was 26.4% (25.7%) mainly due to lower statutory tax rates for the joint ventures and that they reported losses.

Income taxes recognized in the income statement

	2011	2010	2009
Current income taxes for the year	**4,642**	4,635	4,605
Current income taxes related to prior years	**283**	35	441
Deferred tax income/expense ( )	**1,433**	307	661
Sub total	***5,792***	*4,363*	*3,503*
Share of taxes in joint ventures and associated companies	**240**	185	1,387
Tax expense	**5,552**	4,548	2,116

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A reconciliation between reported tax expense for the year and the theoretical tax expense that would arise when applying statutory tax rate in Sweden, 26.3%, on the consolidated income before taxes, is shown in the table below.

Reconciliation of swedish income tax rate with effective tax rate

	2011	2010	2009
Expected tax expense at Swedish tax rate 26.3%	**4,767**	4,150	1,643
Effect of foreign tax rates	**1,126**	405	812
Of which joint ventures and associated companies	***754***	*467*	*550*
Current income taxes related to prior years	**283**	35	441
Recognition/remeasurement of tax loss carry-forwards	**224**	257	8
Recognition/remeasurement of deductible temporary differences	**81**	172	267
Tax effect of non-deductible expenses	**768**	830	1,155
Tax effect of non-taxable income	**521**	880	630
Tax effect of changes in tax rates		77	148
Tax expense	**5,552**	4,548	2,116
Effective tax rate	***30.6%***	*28.8%*	*33.9%*

Deferred tax balances

Deferred tax assets and liabilities are derived from the balance sheet items as shown in the table below.

Tax effects of temporary differences and tax loss carry-forwards

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

Changes in deferred taxes, net

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

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

Tax effects reported directly in Other Comprehensive Income amount to SEK 2,158 (1,120) million, of which actuarial gains and losses related to pensions SEK 1,809 (836) million, cash flow hedges SEK 350 (183) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK 1 (101) million.

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

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly Sweden and Germany. Of the total SEK 3,258 million recognized deferred tax assets related to tax loss carry-forwards, SEK 2,218 million relates to Sweden with indefinite periods of utilization. Due to the Company s strong current financial position and taxable income during 2011, Ericsson has been able to utilize part of its tax loss carry-forwards during the year and in addition to this been able to recognize part of earlier not recognized loss carry-forwards. The assessment is that Ericsson will be able to generate sufficient income in the coming years to also utilize the remaining part of the recognized amounts.

Investments in subsidiaries

Due to losses in certain subsidiaries, the book value of certain investments in those subsidiaries are less than the tax value of these investments. Since deferred tax assets have been reported with respect also to losses in these companies, and due to the uncertainty as to which deductions can be realized in the future, no additional deferred tax assets are reported.

Tax loss carry-forwards

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

As of December 31, 2011, the recognized tax loss carry-forwards amounted to SEK 12,657 (13,030) million. The tax value of these tax loss carry-forwards is reported as an asset.

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

Tax loss carry-forwards year of expiration

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

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

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In addition to the table above there are loss carry-forwards of SEK 7,375 million at a tax value of SEK 1,502 million that have not been recognized due to judgments of the possibility to be used against future taxable profits in the respective jurisdictions. These loss carry-forwards have an expiration date in excess of five years.

C9 EARNINGS PER SHARE

Earnings per share 2009 2011

	2011	2010	2009
Basic			
Net income attributable to stockholders of the Parent Company (SEK million)	**12,194**	11,146	3,672
Average number of shares outstanding, basic (millions)	**3,206**	3,197	3,190
Earnings per share, basic (SEK)	**3.80**	3.49	1.15
Diluted			
Net income attributable to stockholders of the Parent Company (SEK million)	**12,194**	11,146	3,672
Average number of shares outstanding, basic (millions)	**3,206**	3,197	3,190
Dilutive effect for stock purchase plans	**27**	29	22
Average number of shares outstanding, diluted (millions)	**3,233**	3,226	3,212
Earnings per share, diluted (SEK)	**3.77**	3.46	1.14

C10 INTANGIBLE ASSETS

Intangible assets 2011

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trademarks and other intangible assets		
	For internal use							
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Cost								
Opening balance	6,610	2,213	1,478	**10,301**	**27,151**	13,582	25,330	**38,912**
Acquisitions/capitalization	1,515			**1,515**		237	354	**591**
Balances regarding acquired businesses[1)]					**260**	382		**382**
Sales/disposals					**2**	20	20	**40**
Translation difference					**46**	7	25	**32**
Closing balance	**8,125**	**2,213**	**1,478**	**11,816**	**27,455**	**14,188**	**25,689**	**39,877**
Accumulated amortization								
Opening balance	2,526	1,775	1,184	**5,485**		3,937	13,103	**17,040**
Amortization	661	200	134	**995**		1,538	2,932	**4,470**
Sales/disposals					**1**	15	13	**28**
Translation difference						42	56	**98**

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

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

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Intangible assets 2010

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

1) For more information on acquired businesses, see Note C26, Business Combinations .
2) The write-down (impairment charge) of SEK 0.9 billion is a consequence of the restructuring program decision to phase out certain products.

The goodwill is allocated to the operating segments Networks SEK 16.7 (16.5) billion, Global Services SEK 4.1 (4.1) billion and Multimedia SEK 6.6 (6.6) billion.

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

Sales growth

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

Development of working capital and capital expenditure requirements.

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The assumptions regarding industry specific market drivers and market growth are approved by group management and each operating segment s management. These assumptions are based on industry sources as input to the projections made within the Company for the development 2012 2016 for key industry parameters:

The number of global mobile subscriptions is estimated to grow from around 6.8 billion by the end of 2012 to around 8.4 billion by the end of 2016. Of these, almost 5 billion will be a mobile broadband subscriptions. Some hundred millions of these mobile broadband subscriptions (approximately 600 million 2016) will use mobile PC/ tablets, but the vast majority, around 4.1 billion, will use mobile phones to access the internet.

Fixed broadband subscriptions will grow from around 600 million by the end of 2012 to around 740 million in 2016. Fixed broadband includes Fiber, Cable and xDSL

Mobile traffic volume is estimated to increase (around 10 times 2011 2016, around 6 times 2012 2016), while the fixed Internet traffic is estimated to increase (around 4 times 2011 2016, around 3 times 2012 2016), however from a much larger base.

Mobile PC includes USB dongles and embedded modules for CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA and can also be used for fixed applications. Mobile Broadband includes CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA. It includes handsets, USB dongles and embedded modules. The vast majority is handsets.

The demand for multimedia solutions is driven by the opportunities for new types of service offerings enabled by IP technology and high-speed broadband. There is strong IPTV subscriber growth, rapid growth in digital viewing and on-demand services. The development and build out of Mobile Broadband networks and increasing number of mobile broadband subscriptions drives growth in service introduction and traffic. This puts high demand on implementation and systems integration services as well as charging and payment systems. The Business Support Systems growth is driven by introduction of new services, new business models and price plans.

The demand for professional services is also driven by an increasing business and technology complexity. Therefore, operators review their business models and look for vendor partners that can take on a broader responsibility, including outsourcing of network operations.

The assumptions are also based upon information gathered in the Company s long-term strategy process, including assessments of new technology, the Company s competitive position and new types of business and customers, driven by the continued integration of telecom, data and media industries.

The impairment testing is based on specific estimates for the first five years and with a reduction of nominal annual growth rate to an average GDP growth of 3% (3%) per year thereafter. The impairment tests for goodwill did not result in any impairment.

A number of sensitivity tests have been made, for example applying lower levels of revenue and operating income. Also when applying these estimates no goodwill impairment is indicated.

An after-tax discount rate of 8% (8%) has for all cash generating units been applied for the discounting of projected after-tax cash flows. The assumptions for 2010 are disclosed in Note C10, Intangible Assets in the Annual Report of 2010.

The Company s discounting is based on after-tax future cash flows and after-tax discount rates. This discounting is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

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In Note C1, Significant Accounting Policies , and Note C2, Critical Accounting Estimates and Judgments , further disclosures are given regarding goodwill impairment testing.

C11 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2011

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,238	5,004	18,576	814	**28,632**
Additions	265	400	1,910	2,419	**4,994**
Balances regarding divested/acquired businesses	146	37	75		**258**
Sales/disposals	147	354	952	524	**1,977**
Reclassifications	142	169	1,116	1,427	
Translation difference	3	21	62	20	**66**
Closing balance	**4,641**	**5,235**	**20,663**	**1,302**	**31,841**
Accumulated depreciation					
Opening balance	1,869	3,377	13,695		**18,941**
Depreciation	415	571	2,513		**3,499**
Balances regarding divested businesses			1		**1**
Sales/disposals	74	435	1,085		**1,594**
Reclassifications	36	4	32		
Translation difference	9	32	60		**101**
Closing balance	**2,165**	**3,485**	**15,094**		**20,744**
Accumulated impairment losses					
Opening balance	43	95	119		**257**
Impairment losses		48	12		**60**
Reversals of impairment losses			13		**13**
Sales/disposals			1		**1**
Translation difference		5	1		**6**
Closing balance	**43**	**148**	**118**		**309**
Net carrying value	**2,433**	**1,602**	**5,451**	**1,302**	**10,788**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2011, amounted to SEK 226 (303) million.

The reversal of impairment losses have been reported under Cost of sales.

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Property, plant and equipment 2010

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
Cost					
Opening balance	4,217	5,298	18,087	578	**28,180**
Additions	283	411	1,480	1,512	**3,686**
Balances regarding divested/acquired businesses	14	4	473	5	**486**
Sales/disposals	102	543	1,449	148	**2,242**
Reclassifications	87	190	817	1,094	
Translation difference	261	356	832	29	**1,478**
Closing balance	**4,238**	**5,004**	**18,576**	**814**	**28,632**
Accumulated depreciation					
Opening balance	1,692	3,557	13,058		**18,307**
Depreciation	361	629	2,309		**3,299**
Balances regarding divested businesses	2	3	297		**302**
Sales/disposals	60	553	1,384		**1,997**
Reclassifications	4	9	13		
Translation difference	122	250	598		**970**
Closing balance	**1,869**	**3,377**	**13,695**		**18,941**
Accumulated impairment losses					
Opening balance	45	91	131		**267**
Impairment losses		6	3		**9**
Reversals of impairment losses			12		**12**
Sales/disposals					
Translation difference	2	2	3		**7**
Closing balance	**43**	**95**	**119**		**257**
Net carrying value	**2,326**	**1,532**	**4,762**	**814**	**9,434**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2010, amounted to SEK 303 (236) million.

The reversal of impairment losses have been reported under Cost of sales.

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C12 FINANCIAL ASSETS, NON-CURRENT

Equity in joint ventures and associated companies

	Joint ventures 2011	Joint ventures 2010	Associated companies 2011	Associated companies 2010	Total 2011	Total 2010
Opening balance	**8,648**	10,317	**1,155**	1,261	**9,803**	11,578
Share in earnings	**3,929**	1,099	**151**	73	**3,778**	1,172
Taxes	**241**	181	**1**	4	**240**	185
Translation difference	**126**	391	**66**	47	**60**	438
Change in hedge reserve	**4**	22			**4**	22
Pensions	**175**	20			**175**	20
Dividends			**177**	119	**177**	119
Contributions to joint ventures and associated companies			**109**	138	**109**	138
Reclassification			**1**	1	**1**	1
Closing balance	**4,663[1)]**	8,648[1)]	**1,302[2)]**	1,155[2)]	**5,965**	9,803

1) Including goodwill for ST-Ericsson of SEK 1.3 (1.3) billion.

2) Goodwill, net, amounts to SEK 13.5 (16.0) million.

Ericsson s share of assets, liabilities and income in joint venture sony ericsson mobile communications AB

	2011	2010	2009
Non-current assets	**5,040**	3,622	4,003
Current assets	**8,745**	9,904	12,790
Non-current liabilities	**285**	592	130
Current liabilities	**12,172**	10,533	14,675
Net assets	**1,328**	2,401	1,988
Net sales	**23,496**	30,089	36,074
Income after financial items	**1,095**	705	5,540
Income taxes	**85**	231	1,252
Net income	**1,010**	474	4,288
Net income attributable to:			
Stockholders of the Parent Company	**1,114**	433	4,441
Non-controlling interest	**104**	41	153
Assets pledged as collateral	**1**		182
Contingent liabilities	**37**	16	17

Ericsson s share of assets, liabilities and income in associated company Ericsson Nikola Tesla D.D.[1]

	2011	2010	2009
Non-current assets	**113**	92	311
Current assets	**574**	749	754
Non-current liabilities	**1**	2	3
Current liabilities	**197**	209	240
Net assets	**489**	630	822
Net sales	**693**	784	994
Income after financial items	**13**	17	90
Income taxes	**3**	1	1
Net income	**16**	16	91
Net income attributable to:			
Stockholders of the Parent Company	**16**	16	91
Non-controlling interest			
Assets pledged as collateral	**4**	4	5
Contingent liabilities	**80**	43	151

1) Ericsson s share is 49.07%.

All three companies apply IFRS in the reporting to Ericsson as issued by IASB.

Ericsson s share of assets, liabilities and income in joint venture ST-Ericsson

	2011	2010	2009
Non-current assets	**6,855**	6,673	7,238
Current assets	**1,514**	2,249	3,856
Non-current liabilities	**397**	214	129
Current liabilities	**4,695**	2,519	2,691
Net assets	**3,277**	6,189	8,274
Net sales	**5,346**	8,260	9,633
Income after financial items	**2,730**	1,762	1,762
Income taxes	**156**	50	136
Net income	**2,574**	1,712	1,626
Net income attributable to:			
Stockholders of the Parent Company	**2,574**	1,713	1,626
Non-controlling interest		1	
Assets pledged as collateral	**3**	3	

Contingent liabilities	6

Other financial assets, non-current

	Other investments in shares and participations		Customer finance, non-current		Derivatives, non-current		Other financial assets, non-current	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Cost								
Opening balance	**1,607**	1,660	**1,474**	1,232		843	**4,382**	3,197
Additions	**1,930**	114	**1,875**	3,562			**422**	683
Business combinations		33						
Disposals/repayments/deductions	**68**		**1,699**	3,322			**97**	35
Change in value in funded pension plans[1)]							**42**	726
Revaluation					816	843		
Translation difference	**107**	134	**11**	2			**116**	189
Closing balance	**3,576**	1,607	**1,661**	1,474	**816**		**4,633**	4,382
Accumulated impairment losses/allowances								
Opening balance	**1,388**	1,404	**193**	402			**1,303**	1,463
Impairment losses/allowance	**54**	75	**91**	2			**47**	7
Disposals/repayments/deductions	**63**	26	**19**	206				
Translation difference	**2**	117	**4**	1			**18**	167
Closing balance	**1,377**	1,388	**261**	193			**1,332**	1,303
Net carrying value	**2,199**	219	**1,400**	1,281	**816**		**3,301**	3,079

1) This amount includes asset ceiling. For further information, see Note C17, Post-employment benefits .

C13 INVENTORIES

Inventories

	2011	**2010**
Raw materials, components, consumables and manufacturing work in progress	**8,772**	8,509
Finished products and goods for resale	**13,525**	11,894
Contract work in progress	**10,773**	9,494
Inventories, net	**33,070**	29,897

Contract work in progress includes amounts related to delivery-type contracts, service contracts and construction-type contracts with ongoing work in progress.

Reported amounts are net of obsolescence allowances of SEK 3,343 (3,090) million.

The increase in inventories during 2011 is related to increased sales and increased share of coverage projects.

Movements in obsolescence allowances

	2011	2010	2009
Opening balance	**3,090**	2,961	3,493
Additions, net	**918**	250	562
Utilization	**683**	165	1,297
Translation difference	**18**	46	2
Balances regarding acquired/divested businesses		90	201
Closing balance	**3,343**	3,090	2,961

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

C14 TRADE RECEIVABLES AND CUSTOMER FINANCE

Trade receivables and customer finance

	2011	2010
Trade receivables excluding associated companies and joint ventures	**64,740**	61,609
Allowances for impairment	**567**	766
Trade receivables, net	**64,173**	60,843
Trade receivables related to associated companies and joint ventures	**349**	284
Trade receivables, total	**64,522**	61,127
Customer finance	**4,671**	4,725
Allowances for impairment	**426**	321
Customer finance, net	**4,245**	4,404
Of which short term	***2,845***	*3,123*
Credit commitments for customer finance	**8,569**	3,282

Days Sales Outstanding (DSO) were 91 (88) in December 2011.

Movements in allowances for impairment

	Trade receivables			Customer finance		
	2011	2010	2009	2011	2010	2009
Opening balance	**766**	924	1,471	**321**	772	326
Additions	**198**	282	388	**162**	25	595
Utilization	**266**	285	583	**31**	87	67
Reversal of excess amounts	**43**	169	312	**27**	359	37

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

Aging analysis as per December 31

	Trade receivables excluding associated companies and joint ventures	Allowances for impairment of receivables	Customer finance	Allowances for impairment of customer finance
2011				
Neither impaired nor past due	56,480		3,369	
Impaired, not past due	184	16	763	176
Past due in less than 90 days	4,126		238	
Past due in 90 days or more	1,072		45	
Past due in less than 90 days and impaired	850	50	41	35
Past due in 90 days or more and impaired	2,028	501	215	215
Total	**64,740**	**567**	**4,671**	**426**
2010				
Neither impaired nor past due	54,510		3,804	
Impaired, not past due	52	16	528	75
Past due in less than 90 days	2,227		62	
Past due in 90 days or more	1,500		85	
Past due in less than 90 days and impaired	418	90	18	18
Past due in 90 days or more and impaired	2,902	660	228	228
Total	**61,609**	**766**	**4,725**	**321**

Credit risk

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk (see Note C20, Financial Risk Management and Financial Instruments).

Credit risk in trade receivables

Credit risk in trade receivables is governed by a policy applicable for all legal entities in the Company. The purpose of the policy is to:

- Avoid credit losses through establishing internal standard credit approval routines in all the Company s legal entities
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers

Ensure efficient credit management within the Company and thereby improve Days Sales Outstanding and Cash Flow Ensure payment terms are commercially justifiable

Define escalation path and approval process for payment terms and customer credit limits.

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The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to the Company are mitigated.

Trade receivables amounted to SEK 64,740 (61,609) million as of December 31, 2011. Provisions for expected losses are regularly assessed and amounted to SEK 567 (766) million as of December 31, 2011. The Company s nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of the Company s sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represent 30% (29%) of the total trade receivables.

Customer finance credit risk

All major commitments to finance customers are made only after the approval by the Finance Committee of the Board of Directors according to the established credit approval process.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating of each transaction (for political and commercial risk). The credit risk analysis is made by using an assessment tool, where the political risk rating is identical to the rating used by all Export Credit Agencies within the OECD. The commercial risk is assessed by analyzing a large number of parameters, which may affect the level of the future commercial credit risk exposure. The output from the assessment tool for the credit rating also include an internal pricing of the risk. This is expressed as a risk margin per annum over funding cost. The reference pricing for political and commercial risk, on which the tool is based, is reviewed using information from Export Credit Agencies and prevailing pricing in the bank loan market for structured financed deals. The objective is that the internally set risk margin shall reflect the assessed risk and that the pricing is as close as possible to the current market pricing. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

Risk provisions related to customer finance risk exposures are only made upon events which occur after the financing arrangement has become effective and which are expected to have a significant adverse impact on the borrower s ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. a borrower s deteriorated creditworthiness.

As of December 31, 2011, the Company s total outstanding exposure related to customer finance was SEK 4,671 (4,725) million. As of December 31, 2011, the Company also had unutilized customer finance commitments of SEK 8,569 (3,282) million. During 2011 the Company transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred is SEK 194 (3,808) million, the amount of the assets that the Company continues to recognize is SEK 10 (190) million, and the carrying amount of the associated liabilities is SEK 0 (190) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2011, there were a total of 80 (74) customer finance arrangements originated by or guaranteed by the Company. The five largest facilities represented 41% (44%) of the total credit exposure.

Total outstanding customer finance exposure per region as of December 31

Percent	2011	2010
North America	**1**	2
Latin America	**4**	9
Northern Europe & Central Asia	**8**	3
Western & Central Europe	**1**	1
Mediterranean	**11**	5
Middle East	**24**	30
Sub-Saharan Africa	**29**	36
India	**14**	
China & North East Asia	**7**	13
South East Asia and Oceania	**1**	1
Other		
Total	**100**	100

The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net negative impact of SEK 114 million compared to a positive impact of SEK 331 million in 2010. Credit losses amounted to SEK 62 (87) million.

Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests.

If available, third-party risk coverage is as a rule arranged. Third-party risk coverage means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk transfer under a sub participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover. A credit risk cover from a third party may also be issued by an insurance company. During 2011, the Company has not taken possession of any collateral it holds as security or called on any other credit enhancement.

Information about guarantees related to customer finance is included in Note C24, Contingent Liabilities , and information about leasing is included in Note C27, Leasing .

The table below summarizes the Company s outstanding customer finance as of December 31, 2011 and 2010.

Outstanding customer finance

	2011	2010
Total customer finance	**4,671**	4,725
Accrued interest	**68**	69
Less third-party risk coverage	**480**	1,409
Ericsson s risk exposure	**4,259**	3,385

C15 OTHER CURRENT RECEIVABLES

Other current receivables

	2011	2010
Prepaid expenses	**2,056**	2,369
Accrued revenues	**2,486**	1,850
Advance payments to suppliers	**1,697**	881
Derivatives with a positive value[1)]	**2,003**	3,042
Taxes	**5,633**	5,439
Other	**3,962**	3,565
Total	**17,837**	17,146

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

C16 EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2011

Capital stock at December 31, 2011, consisted of the following:

CAPITAL STOCK

Parent Company	Number of shares	Capital stock (SEK million)
Class A shares	261,755,983	1,309
Class B shares	3,011,595,752	15,058
Total	**3,273,351,735**	**16,367**

The capital stock of the Parent Company is divided into two classes: Class A shares (quota value SEK 5.00) and Class B shares (quota value SEK 5.00). Both classes have the same rights of participation in the net assets and earnings. Class A shares, however, are entitled to one vote per share while Class B shares are entitled to one tenth of one vote per share.

At December 31, 2011, the total number of treasury shares was 62,846,503 (73,088,516 in 2010 and 78,978,533 in 2009) Class B shares. Ericsson did not repurchase shares in 2011 in relation to the Stock Purchase Plan.

Reconciliation of number of shares

	Number of shares	Capital stock (SEK million
Number of shares Jan 1, 2011	3,273,351,735	16,367

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

For further information about number of shares, see chapter Share Information.

Dividend proposal

The Board of Directors will propose to the Annual General Meeting 2012 a dividend of SEK 2.50 per share (SEK 2.25 in 2011 and SEK 2.00 in 2010).

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Additional paid in capital

Relates to payments made by owners and includes share premiums paid.

Retained earnings

Retained earnings, including net income for the year, comprise the earned profits of the Parent Company and its share of net income in subsidiaries, joint ventures and associated companies. Retained earnings are comprised of:

Remeasurements related to post-employment benefits

Actuarial gains and losses resulting from experience-based events and changes in actuarial assumptions, fluctuations of the effect of the asset ceiling, and adjustments related to the Swedish special payroll taxes.

Revaluation of other investments in shares and participations

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

Cash flow hedges

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation adjustments

The cumulative translation adjustments comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and changes regarding revaluation of excess value in local currency as well as from the translation of liabilities that hedge the Company s net investment in foreign subsidiaries.

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Equity and other comprehensive income 2011

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

1) SEK 1,663 million is recognized in Net Sales, SEK 742 million is recognized in Cost of Sales and SEK 376 million is recognized in R&D expenses.
2) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 46 million (SEK 1,480 million in 2010, SEK 1,015 million in 2009), gain/loss from hedging activities of foreign entities, SEK 9 million (SEK 385 in 2010, SEK 586 million in 2009), and realized gain/losses net from sold/liquidated companies SEK 192 million (SEK 140 million in 2010, SEK 10 million in 2009).
3) For further disclosures, see Note C8, Taxes .
4) Deferred tax on gains/losses on hedges on investments in foreign entities and post-employment benefits.

5) Dividends paid per share amounted to SEK 2.25 (SEK 2.00 in 2010 and SEK 1.85 in 2009).

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Equity and other comprehensive income 2010

2010	Capital stock	Additional paid in capital	Retained earnings	Stock holders equity	Non-controlling interest (NCI)	Total equity
January 1, 2010	16,367	24,731	98,772	**139,870**	1,157	**141,027**
Net income						
Group			12,503	**12,503**	89	**12,592**
Joint ventures and associated companies			1,357	**1,357**		**1,357**
Other comprehensive income						
Remeasurements related to post-employment benefits						
Group			3,892	**3,892**		**3,892**
Joint ventures and associated companies			27			