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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2012

or

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

or

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

Commission file number 000 12033

TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant s Name Into English)

Kingdom of Sweden

(Jurisdiction of Incorporation or Organization)

SE-164 83 Stockholm, Sweden

(Address of Principal Executive Offices)

Roland Hagman, Vice President Group Function Financial Control

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

SE-164 83 Stockholm, Sweden

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

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares (each representing one B share)	**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)	3,043,295,752
A shares (SEK 5.00 nominal value)	261,755,983
C shares (SEK 1.00 nominal value)	0

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

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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FORM 20-F 2012 CROSS REFERENCE TABLE

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

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

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

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

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

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

THIS IS ERICSSON

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

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

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

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

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

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

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

- The networks we manage for operators serve about 950 million subscribers

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

OUR SEGMENTS

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

Networks

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

Global Services

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

Support Solutions

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

Joint venture ST-Ericsson

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

OUR REGIONS

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

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

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

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

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

2012 IN REVIEW

JANUARY

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

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

JANUARY

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

FEBRUARY

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

MARCH

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

APRIL

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

MAY

Ericsson s efficient AIR radio base station is selected by T-Mobile as the first operator in the USA to launch this technology, which enables improvement of existing coverage and quick launch of LTE in 2013. The contract also includes consulting and systems integration and rollout services.

JUNE

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

JULY

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

AUGUST

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

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SEPTEMBER

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

OCTOBER

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

NOVEMBER

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

NOVEMBER

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

DECEMBER

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

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GROUP OVERVIEW

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

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

ST-ERICSSON*

Headed by Didier Lamouche

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

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

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

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

LETTER FROM THE CEO

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

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

DEAR SHAREHOLDERS

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

Executing our strategy

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

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

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

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

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

Performance in 2012

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

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

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

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

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

Financial strength

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

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

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

Sustainability and Corporate Responsibility

Ericsson is strongly committed to sustainability and corporate responsibility.

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

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

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

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

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

Strong long-term drivers

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

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

Hans Vestberg

President and CEO

MARKET TRENDS

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

Market trends 2012

USERS

Higher demand for data capacity due to:

- Smartphone uptake acceleration
- Increasing use of mobile broadband
- Changing lifestyle with mobility and cloud-based services.

OPERATORS

Focus on:

- Superior-performance broadband networks
- Increasing efficiency through transformation and outsourcing
- Creating new value streams from networks.

THE NETWORKED SOCIETY

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

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

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

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

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

CHANGING USER BEHAVIOR

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

Smartphone uptake is accelerating

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

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

Mobile broadband use is increasing

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

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

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

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

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

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

Cloud for availability everywhere

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

CHANGING OPERATOR NEEDS

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

Focus on superior-performance broadband networks

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

Focus on operational efficiency

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

Monetizing data traffic

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

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

OUR COMPETITIVE ASSETS

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

TECHNOLOGY LEADERSHIP

Combining superior performance and thought leadership

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

SERVICES LEADERSHIP

Meeting operator objectives of business efficiency & revenue growth

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

GLOBAL SCALE

Combining global scale advantages with local presence

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

Ericsson s core values

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

OUR PEOPLE

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

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

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

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

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

Attract exceptional talent

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

Rigorous talent planning and development

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

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

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

Leadership

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

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

Diversity

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

STRATEGY AND CUSTOMERS

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

VISION

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

OUR STRATEGY

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

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

Excel in Networks

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

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

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

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

Expand in Global Services

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

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

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

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

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

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Extend in Support Solutions

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

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

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

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

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

Establish leading position in enablers of a networked society

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

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

COMPANY TRANSFORMATION

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

Go-to-market model

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

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

Lean and agile ways of working in R&D

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

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

OUR CUSTOMERS

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

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

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

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

OUR PORTFOLIO

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

MOBILE BROADBAND

In summary

- Evolving networks from 2G/GSM to 3G/WCDMA/HSPA and 4G/LTE
- Helping operators meet demand for higher speed and capacity
- Building heterogeneous networks where capacity demand is high, such as in cities.

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

Network evolution

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

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

Platform strength

Our network infrastructure is built on three main platforms:

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

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

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

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

MANAGED SERVICES

In summary

Networks and business models becoming increasingly complex

Market pressures leading operators to enhance offerings while increasing efficiency

We build and manage networks, allowing operators to focus on strategy and customer attraction and retention.

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

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

The world s largest managed services provider

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

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

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

Expanding the scope

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

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

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

OPERATIONS AND BUSINESS SUPPORT SYSTEMS (OSS AND BSS)

In summary

- We provide systems used for managing services, revenues and subscriber relationships
- We help operators manage and monetize the increasing amount of data traffic
- We help operators manage increasingly complex networks.

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

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

- Customer experience, where understanding, acting and responding to changes in the way customers experience and use services helps meet their expectations
- Business innovation, being able to adapt to and adopt different approaches
- Business efficiency, consolidating systems and simplifying processes to manage the total cost of ownership.

Our OSS and BSS solutions have led change and created value through four generations of telecoms evolution. They are based on deep and broad experience in the business, and are now significantly strengthened by our acquisition of Telcordia. Solutions include:

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

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

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

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

This is OSS and BSS

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

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

COMMUNICATION SERVICES

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

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

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

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

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

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

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

FIXED BROADBAND AND CONVERGENCE

Our IP-based converged networks provide low-cost and high-performance services.

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

TV AND MEDIA MANAGEMENT

A broad suite of standard-based products for digital TV, HDTV, video on demand, IPTV, mobile TV and content management.

TV is going digital and interactive. In the converging media landscape, broadcast and broadband are coming together. The worldwide digital TV market is growing rapidly.

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

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

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

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

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

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REGIONAL DEVELOPMENT

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

LATIN AMERICA

Net sales: SEK 22.0 billion (+0%)

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

NORTH AMERICA

Net sales: SEK 56.7 billion (+16%)

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

NORTHERN EUROPE AND CENTRAL ASIA

Net sales: SEK 11.3 billion (25%)

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

WESTERN AND CENTRAL EUROPE

Net sales: SEK 17.5 billion (8%)

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

MEDITERRANEAN

Net sales: SEK 23.3 billion (2%)

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

MIDDLE EAST

Net sales: SEK 15.6 billion (+1%)

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

SUB-SAHARAN AFRICA

Net sales: SEK 11.3 billion (+12%)

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

INDIA

Net sales: SEK 6.5 billion (34%)

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

NORTH EAST ASIA

Net sales: SEK 36.2 billion (5%)

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

SOUTH EAST ASIA AND OCEANIA

Net sales: SEK 15.1 billion (+9%)

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

OTHER

Net sales: SEK 12.3 billion (+15%)

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

OUR PERFORMANCE

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

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

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

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

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

SUSTAINABILITY

Sustainability is about the triple bottom line :

- Social equity; communication is a basic human need and should be available to everyone
- Environmental performance; minimizing environmental impact and creating a low-carbon society
- Economic prosperity; contributions to social and economic development.

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

Reducing environmental impact

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

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

One aspect of our sustainability strategy is the role broadband can play in helping to offset global CO_2 emissions.

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

Technology for Good

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

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

CORPORATE RESPONSIBILITY

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

Conducting business responsibly

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

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

Suppliers must comply with our Code of Conduct.

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

FIVE-YEAR SUMMARY

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

Five-year summary

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

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

1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 262 266.
2) For 2012, as proposed by the Board of Directors.

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LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS

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

A year of strategy execution

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

Board discussions

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

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

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

Strong financial position

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

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

Importance of corporate governance

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

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

Leif Johansson

Chairman of the Board of Directors

BOARD OF DIRECTORS REPORT

TRENDS AND DRIVERS

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

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

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

- Smartphone subscriptions, as a percentage of total subscriptions
- Mobile broadband subscriptions, as a percentage of total mobile subscriptions
- Average data traffic and peaks in traffic.

Mobile subscriptions and smartphones

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

Subscriptions

billion	**2012**	**2018 Forecast**
Mobile subscriptions	**~6.3**	~9
Mobile broadband subscriptions	**~1.5**	~6.5

Ericsson estimate

Mobile broadband subscriptions and population coverage

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

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

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

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

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

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

Data traffic

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

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

Average mobile data traffic

	2012	**2018 Forecast**
Monthly data traffic per PC	**3 GB**	11 GB
Monthly data traffic per tablet	**0.6 GB**	2.7 GB
Monthly data traffic per smartphone	**0.45 GB**	1.9 GB

Ericsson estimate

BUSINESS IN 2012

Strong year for services

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

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

High share of coverage projects

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

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

Network modernization in Europe

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

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

Acquisitions, partnerships and divestments

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

- Completion of the acquisition of Telcordia
- Completion of the divestment of the 50% stake in Sony Ericsson Mobile Communication AB to Sony in February. The divestment was effective on January 1, 2012
- Increased ownership in Ericsson-LG, now holding 75%
- Acquisition of Canadian telecom-grade Wi-Fi company BelAir Networks
- Acquisition of Technicolor s broadcast services division
- Divestment of EDA 1500 GPON portfolio to Calix, Inc.
- Acquisition of Canadian ConcepStWave in the OSS and BSS domain

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

Fair return on R&D investment

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

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

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

Cash generation

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

Cost and efficiency

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

TARGETS AND PERFORMANCE

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

- Sales growth faster than the market
- Best-in-class operating margin
- Growth in joint ventures earnings
- Strong cash conversion.

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

Long-term ambitions

Grow faster than the market

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

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

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

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

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

Best-in-class operating margin

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

Growth in JV earnings

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

Cash conversion

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

Other performance indicators

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

Customer satisfaction

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

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

Employee engagement

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

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

Executive Performance Stock Plan

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

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

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

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

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

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

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

Working capital targets

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

FINANCIAL RESULTS OF OPERATIONS

ABBREVIATED INCOME STATEMENT

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

Sales

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

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

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

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

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

Seasonality

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

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Most recent five-year average seasonality

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	21%	7%	2%	26%
Share of annual sales	23%	24%	24%	30%

Gross margin

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

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

Operating expenses

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

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

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

Research and development

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

1) The number of employees and patents are approximate.

Operating margin before JVs

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

Share in earnings of JVs

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

Other Operating income and expenses

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

Financial net

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

Taxes

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

Net income

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

Earnings per share, diluted

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

Restructuring charges

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

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET (ABBREVIATED)

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

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

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

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

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

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

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Non-current assets

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

Current assets

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

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

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

Equity

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

Non-current liabilities

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

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

- Issue of a USD-denominated 1 billion ten-year bond in order to refinance debt maturing in 2012 to 2014
- Repurchase of EUR 441 million related to the 2013 and 2014 EMTN bonds in order to reduce gross debt and optimize net interest
- Repayment of two SEK-denominated bonds with a total of SEK 3.5 billion at maturity
- Taken up a loan with the Nordic Investment Bank of EUR 0.15 billion (or the equivalent in USD). The loan is divided into two equal tranches with seven-year and nine-year maturities respectively.
- Signed loan agreement with the European Investment Bank of EUR 0.5 billion (or the equivalent in USD) with an option for disbursement until April 2014. The loan will mature seven years after disbursement
- The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.

Current liabilities

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

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

Off-balance sheet arrangements

There are currently no material off-balance sheet arrangements that have, or would be reasonably likely to have, a current or anticipated effect on the Company s financial condition, revenues, expenses, result of operations, liquidity, capital expenditures or capital resources.

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CASH FLOW

Cash flow (abbreviated) January 1 December 31

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

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

Cash conversion

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

Cash flow from operating activities

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

Cash flow from investing activities

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

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

Capital expenditures

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

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

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

Capital expenditures 2008 2012

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

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Cash flow from financing activities

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

Cash held in countries with exchange controls

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

Gross cash and net cash

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

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BUSINESS RESULTS REGIONS

Sales per region and segment 2012 and percent change from 2011

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

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

BUSINESS RESULTS SEGMENTS

Networks

Sales

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

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

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

Profitability

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

Business in 2012

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

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

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

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

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

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

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

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

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

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

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

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

Competitors

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

Global Services

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

Sales

Sales were SEK 97.0 (83.9) billion.

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

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

Profitability

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

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

Business in 2012

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

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

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

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

Competitors

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

Support Solutions

Sales

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

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

Profitability

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

Business in 2012

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

Ericsson has a leading position in both OSS and BSS.

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

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

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

Competitors

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

The JV ST-Ericsson

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

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

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

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

Business and financial performance in 2012

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

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

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

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

The JV Sony Ericsson

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

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

CORPORATE GOVERNANCE

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

Continued compliance with the Swedish Corporate Governance Code

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

High ethical standards

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

Board of Directors 2012/2013

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

Management

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

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

Remuneration

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

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

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

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

Guidelines for remuneration to Group Management:

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

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

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

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

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

MATERIAL CONTRACTS

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

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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SOURCING AND SUPPLY

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

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

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

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

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

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

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

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

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

Responsible business practices

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

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

Human rights

In 2012, the Company updated its Code of Business Ethics to reflect the ongoing commitment to respect human rights, and the UN Guiding Principles on Business and Human Rights. Ericsson has worked actively to strengthen its internal governance processes including the Sales Compliance Board, which also considers potential negative human rights impacts in its decisions. The Company joined the Shift Business Learning Program to support human rights risk analysis capabilities.

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

Supply chain

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

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

Reducing environmental impact

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

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

- A 22% reduction in direct emission intensity from own activities was achieved during 2012, including facilities energy use, product transportation and business travel. This was achieved by
  - reducing absolute emissions from business travel by 16%
  - reducing absolute emissions from product transportation by 12%
  - decreasing facility energy consumption by approximately 3%. while related emissions increased by 13%
- A 16% reduction in indirect emission intensity from life-cycle impacts of products in operation was achieved in 2012.

Product take-back and recycling

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

Radio waves and health

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

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

Climate change

Information and Communication Technology (ICT) represents about 2% of global CO_2 emissions, but can potentially offset 16% of the remaining 98% from other industries, according to GeSI s SMARTer2020 report. The report also shows that the abatement potential of ICT is over seven times its own emissions. Ericsson takes measures to ensure that its own carbon footprint intensity is continuously reduced.

Ericsson s sustainability strategy includes focus on the role broadband can play in helping to offset global CO_2 emissions, 70% of which are attributed to cities, according to UN-Habitat. Ericsson works on sustainable city solutions and is engaged in global climate policy. Ericsson s President and CEO Hans Vestberg leads the Climate Change Working Group of the Broadband Commission for Digital Development which launched the report The Broadband Bridge: Linking ICT with climate action for a low-carbon economy.

Technology for Good

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

Reporting according to GRI 3.0

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

LEGAL PROCEEDINGS

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

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

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

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

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

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

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

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

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

PARENT COMPANY

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

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

Financial information

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

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

- Write-down of original investment in ST-Ericsson of SEK 8.6 billion. This write-down does not have any impact on Group level. Another write-down was made including the short-term credit facility to ST-Ericsson of SEK 5.0 billion. and a provision of SEK 3.3 billion relating to the strategic options at hand for ST-Ericsson assets. The total write-downs and provision related to ST-Ericsson amount to SEK 17.0 billion.
- Increased current and non-current receivables from subsidiaries of SEK 7.2 billion.
- Increased other current receivables of SEK 1.7 billion
- Increased cash, cash equivalents and short-term investments of SEK 1.3 billion
- Increased current and non-current liabilities to subsidiaries of SEK 8.7 billion
- Decreased other current liabilities of SEK 1.1 billion.

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

Share information

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

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

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

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

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

Proposed disposition of earnings

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

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

Amount to be paid to the shareholders	SEK 9,088,892,271
Amount to be retained by the Parent Company	SEK 16,535,096,753
Total non-restricted equity of the Parent Company	SEK 25,623,989,024

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company s and the Group s need for financial resources as well as the Parent Company s and the Group s liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 50% (52%) and a net cash amount of SEK 38.5 (39.5) billion

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

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

POST-CLOSING EVENTS

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

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

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

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

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

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

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

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

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

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

BOARD ASSURANCE

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, which can be found herein, under Management s Report on Internal Control over Financial Reporting . Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

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

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

Stockholm, April 8, 2013

By: /s/ PricewaterhouseCoopers
Name: PricewaterhouseCoopers AB

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

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

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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CONSOLIDATED BALANCE SHEET

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

	97,404	97,029
Total equity and liabilities[1)]	**274,996**	280,349

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Capital stock	Additional paid in capital	Retained earnings	Stockholders equity	Non-controlling interest (NCI)	Total equity
January 1, 2012		16,367	24,731	102,007	143,105	2,165	145,270
Total comprehensive income	C16			1,716	1,716	114	1,830
Transactions with owners							
Stock issue		159			159		159
Sale/Repurchase of own shares				93	93		93
Stock Purchase Plans				405	405		405
Dividends paid				8,033	8,033	599	8,632
Transactions with non-controlling interest				376	376	80	456
December 31, 2012		**16,526**	**24,731**	**95,626**	**136,883**	**1,600**	**138,483**
January 1, 2011		16,367	24,731	104,008	145,106	1,679	146,785
Total comprehensive income	C16			5,081	5,081	425	5,506
Transactions with owners							
Sale of own shares				92	92		92
Stock Purchase Plans				413	413		413
Dividends paid				7,207	7,207	248	7,455
Transactions with non-controlling interest				380	380	309	71
December 31, 2011		**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**
January 1, 2010		16,367	24,731	98,772	139,870	1,157	141,027
Total comprehensive income	C16			10,814	10,814	99	10,913
Transactions with owners							
Sale of own shares				52	52		52
Stock Purchase Plans				762	762		762
Dividends paid				6,391	6,391	286	6,677
Transactions with non-controlling interest						708	708
December 31, 2010		**16,367**	**24,731**	**104,008**	**145,106**	**1,679**	**146,785**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C1 SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

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

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

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

- Amendment to IAS 12, income taxes: deferred tax: recovery of underlying assets
- Amendments to IFRS 7, Financial instruments Disclosures: Transfers of Financial Assets.

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

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

Basis of presentation

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

Basis of consolidation

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

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

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

Business combinations

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

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

Non-controlling interest

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

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

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

Joint ventures and associated companies

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

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

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

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

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

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

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

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

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

Foreign currency remeasurement and translation

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

Transactions and balances

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

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

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

Group companies

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

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

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

All resulting net exchange differences are recognized as a separate component of OCI.

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

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

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

Statement of cash flows

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

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

Revenue recognition

Background

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

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

Accounting treatment

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

The product or service has been delivered

The revenue amount is fixed or determinable

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

Collection is reasonably assured.

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

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

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

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

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

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

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

Earnings per share

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

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

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

Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

Impairment

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

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

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

Financial Liabilities

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

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

Borrowings

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

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

Trade payables

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

Derivatives at fair value through profit or loss

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

Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

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

Net investment hedges

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

Financial guarantees

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

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

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

Inventories

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

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

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

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

Intangible assets

Intangible assets other than goodwill

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

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

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

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

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

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

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

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

Goodwill

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

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

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

Property, plant and equipment

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

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

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

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

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

Leasing

Leasing when the Company is the lessee

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

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

Leasing when the Company is the lessor

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

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

Income taxes

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

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

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

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

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

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

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

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

Post-employment benefits

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

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

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

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

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

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

Share-based compensation to employees and the Board of Directors

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

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

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

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

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

Compensation to employees

Stock purchase plans

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

Compensation to the Board of Directors

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

Segment reporting

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

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

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

New standards and interpretations not yet adopted

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

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

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

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

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

Amendment to IAS 19, Employee benefits

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

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

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

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

IFRS 10, Consolidated financial statements

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

IFRS 11, Joint arrangements

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

IFRS 12, Disclosures of interests in other entities

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

IFRS 13, Fair value measurement

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

IAS 27 (revised 2011), Separate financial statements

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

IAS 28 (revised 2011), Associates and joint ventures

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

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

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

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

IFRS 9, Financial instruments

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

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

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

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The information in this note is grouped as per:

- Key sources of estimation uncertainty
- Judgments management has made in the process of applying the Company s accounting policies.

Revenue recognition

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

Trade and customer finance receivables

Key sources of estimation uncertainty

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

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

Inventory valuation

Key sources of estimation uncertainty

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

Investments in joint ventures and associated companies

Key sources of estimation uncertainty

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

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

Deferred taxes

Key sources of estimation uncertainty

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

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

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

Accounting for income-, value added- and other taxes

Key sources of estimation uncertainty

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

Acquired intellectual property rights and other intangible assets, including goodwill

Key sources of estimation uncertainty

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

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

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

Judgments made in relation to accounting policies applied

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

Provisions

Warranty provisions

Key sources of estimation uncertainty

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

Provisions other than warranty provisions

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

Contingent liabilities

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies

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

Pension and other post-employment benefits

Key sources of estimation uncertainty

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

Financial instruments, hedge accounting and foreign exchange risks

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

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

C3 SEGMENT INFORMATION

Operating segments

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

- Networks
- Global Services
- Support Solutions
- ST-Ericsson

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

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

- Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs. The RBS 6000 supports all major standardized mobile technologies
- IP and transport solutions based on the SSR 8000 family of products as well as transmission/backhaul including microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks
- Switching and IMS solutions, based on Ericsson Blade Server platform, for core networks
- Operations Support Systems (OSS), supporting operators management of existing networks and introduction of new technologies and services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unallocated

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

Regions

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

North America

Latin America

Northern Europe & Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

North East Asia

South East Asia & Oceania

Other.

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

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

Major customers

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

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

Marketing channels

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

- Customer engagement with a consultative approach
- Selective focus on events and experience centers for customer experience and interaction
- Continuous dialogue with customers and target audiences through social and other digital media (including virtual events)
- Activation of the open social and digital media landscape to strengthen message reach and impact
- Execution of solutions-driven programs, aligned globally and regionally.

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Operating segments

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

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

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

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Operating segments

2011	Networks	Global Services	Support Solutions	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.

Operating segments

2010	Networks	Global Services	Support Solutions	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			