ERICSSON LM TELEPHONE CO
Form 20-F
March 30, 2011
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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, 2010

or

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

or

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

Commission file number 000 12033

TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant s Name into English)

Kingdom of Sweden

(Jurisdiction of Incorporation or Organization)

SE-164 83 Stockholm, Sweden

(Address of Principal Executive Offices)

Roland Hagman, Vice President Group Function Financial Control

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

SE-164 83 Stockholm, Sweden

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

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

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

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

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

None

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

None

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

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

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

US GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

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

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

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FORM 20-F 2010 CROSS REFERENCE TABLE

Our Annual Report on Form 20-F consists of the English version of our Swedish Annual Report for 2010, with certain adjustments made to comply with U.S. requirements, together with certain other information required by Form 20-F which is set forth under the heading Supplemental Information. The following cross reference table indicates where information required by Form 20-F may be found in this document.

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19 Exhibits

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Exhibit 11	Our Code of Business Ethics and Conduct is included on our web site at www.ericsson.com/bg/res/thecompany/docs/corporate-responsibility/2009/cobe/cobe_english.pdf	
Exhibit 12	302 Certifications	
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LETTER FROM HANS VESTBERG

LONG-TERM GROWTH AND PROFITABILITY ARE ERICSSON S CHARACTERISTICS

FINANCIAL RESULTS IN SHORT

NET SALES	**NET CASH**
SEK 203.3 (206.5) billion	SEK 51.3 (36.1) billion
OPERATING MARGIN*	**EARNINGS PER SHARE**
12% (12%)	SEK 3.46 (1.14)
NET INCOME	
SEK 11.2 (4.1) billion	

Dear shareholders,

In 2010, Group sales decreased 2 percent to SEK 203.3 billion. Our operating margin, before JV s and excluding restructuring charges, was flat at 12 percent. Net income increased 172 percent to SEK 11.2 billion, mainly due to improvements in earnings in our joint venture Sony Ericsson and less restructuring charges.

In the first half of 2010, we were still impacted by the economic slowdown in the world. In the latter part of the year, sales of mobile broadband took off, especially in North America and Japan. This was driven by a strong increase in mobile data traffic.

During the year, we struggled with the industry-wide component shortage. While the supply of components has now normalized we are still not fully meeting the increased demand on certain mobile broadband products due to the increased customer demand.

We have four Group targets that should secure increased shareholder value: grow faster than the market, deliver best-in-class margins, cash conversion of more than 70 percent and improved earnings in our JVs.

Early market data indicates that we kept our market shares in our network and services businesses. We delivered the industry s best-in-class margins and achieved a cash conversion of 112 percent. The fourth target, growth in JV earnings, was partly reached thanks to better performance in Sony Ericsson.

2010 was the year when mobile broadband took off. The number of mobile subscriptions increased by more than 60 percent to about 600 million and the number is forecasted to almost double and hit 1 billion this year.

Once you are connected, you want connectivity 24/7, wherever you are.

This will become a reality for more and more people since we will see more smartphones in the market, and also more affordable ones. Embedded mobile broadband modules will become standard in laptops and other devices. To meet this consumer demand, network speed, capacity and quality are prerequisites.

In the networked society, everything that benefits from a connection will be connected. We have spoken about how 50 billion devices will be networked by 2020. We are already today enabling the networked society: from the concept of building future networks in demanding urban settings, to our networks which recently attained speeds of 168 Mbps on HSPA to our business in TV and media, and our services, which help manage and integrate the complex networks that are behind the networked society.

* Excluding restructuring charges and share in earnings of JVs

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Of course our joint ventures bring devices into the picture, and we are finding that this is getting more and more personal for consumers. No longer is the device only a tool for them; it is part of themselves that they want to have alongside them during their daily lives.

Finally, I would like to sincerely thank all our highly dedicated and skilled employees for their efforts in 2010. In 2011, we will focus even more on understanding and meeting our customer demand, ultimately seeking increased value for our shareholders. Continued long-term growth and profitability are Ericsson s characteristics, along with a healthy financial position.

Hans Vestberg

President and CEO

OUR BUSINESS

Communication technology is positively changing the way we work and live. As a leading provider of communications infrastructure, services and multimedia solutions, Ericsson strives to enable this change. We constantly innovate to empower people, business and society.

Network infrastructure provides the fundamentals for people to communicate. Today, more than 40 percent of the world s mobile traffic passes through networks provided by Ericsson. The networks we support for operators serve more than 2 billion subscriptions.

We are also a global leader in telecom services, which accounts for close to 40 percent of our revenues.

Currently, we serve approximately 400 customers, most of whom are network operators. Our ten largest customers account for 46 percent of our net sales.

New customers include TV and media companies as well as utility companies.

Our total addressable market was estimated at approximately USD 200 billion in 2009 (excluding joint ventures markets).

To best reflect our business, we report five business segments, two of which are the joint ventures Sony Ericsson and ST-Ericsson.

ERICSSON

NETWORKS

Segment Networks develops and delivers mobile and fixed infrastructure equipment and related software. We pioneered 2G/GSM and 3G/WCDMA mobile technologies. We now provide 4G/LTE as the evolution of mobile broadband and toward all-IP environments. Our portfolio also includes CDMA solutions as well as xDSL, fiber and microwave transmission.

MULTIMEDIA

Segment Multimedia develops and delivers software-based solutions for real-time & on-demand TV, consumer & business applications and Business Support Systems (BSS) for telecom operators. Revenue management, i.e. software based solutions for charging and billing, is part of BSS.

GLOBAL SERVICES

With more than 45,000 services professionals globally, we have robust local capabilities with global expertise in managed services, consulting, systems integration, customer support and network rollout. We manage complex projects with advanced IS/IT competence and multi-vendor experience.

JOINT VENTURES

SONY ERICSSON

Sony Ericsson offers mobile phones, accessories, content and applications. Sony Ericsson is a 50/50 joint venture with Sony Corporation.

ST-ERICSSON

ST-Ericsson offers wireless platforms and semiconductors for leading handset manufacturers. ST-Ericsson is a 50/50 joint venture with STMicroelectronics.

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OUR SOLUTIONS

We are shifting our focus toward a more solutions-oriented sales process. During the year, we therefore organized our portfolio into seven solution areas to better address customer needs. Here we describe our solutions, the business drivers and the market trends.

MOBILE BROADBAND

User trends

1. Smartphones change behavior

2. Soaring video usage

3. Demand for 24/7 internet connectivity

24/7 connectivity to the internet is becoming an essential part of modern life. During the year, we met increased demand for mobile broadband infrastructure and services. The accelerated demand was fuelled by smartphones and notebooks, coupled with sharply rising usage of video services (like YouTube). Mobile data traffic more than doubled in 2010 and is expected to double annually over the coming three years.

Expansion opportunities

Today, we are doing for broadband what we did for voice 20 years ago making it mobile and affordable for the vast majority of people. Mobile subscriptions worldwide have reached approximately 5.3 billion of which approximately ten percent are now on mobile broadband. We estimate the number of mobile broadband subscriptions to reach almost 5 billion in 2016, the vast majority being for smartphones.

Our broadband solutions not only include equipment but also business advice, systems integration and roll-out service for fast implementation of cost-effective solutions.

Meeting the need for speed

To accommodate the massive growth in data traffic, operators are turning to us to boost capacity and speed in their networks. Networks are continuously being upgraded as the number of data users and data volume transported increase. All Ericsson-supplied commercial WCDMA networks have now been upgraded to HSPA. Four of our customers have launched 4G/LTE networks in 2010, covering 140 million people, 60 percent of whom are served by Ericsson LTE equipment.

On the devices side, notebooks and other electronic devices are equipped with our latest 3G/HSPA broadband modules, delivering speeds of up to 21 Mbps.

Operators implement tiered pricing

When mobile broadband was introduced, many operators offered flat rates and unlimited usage to encourage fast uptake of service. A challenge for operators today is to secure user experience and increase revenue from mobile broadband. The answer is differentiated service offerings. Tiered pricing and innovative business models are becoming more common. The user can thus select and pay for a subscription with a certain service level. Voice still represents the main source of revenue for operators. Data traffic accounts for approximately 30 percent of total revenues on average and will represent the majority of future growth.

Ramp up of our RBS 6000

The multi-standard radio base station, RBS 6000, can run 2G/GSM, 3G/WCDMA and 4G/LTE technologies in the same unit, using different frequency spectrum bands. The RBS 6000 takes up 25 percent less space and reduces power consumption by up to 65 percent compared to previous-generation RBSs. This is a significant saving as operators may spend up to 50 percent of operating expenses on power. Many operators are therefore looking to modernize their radio networks with the RBS 6000. Modernization projects often involve a high degree of consulting, systems integration and network rollout.

Core networks may also need capacity upgrades to accommodate increasing data traffic and speed. Our 4G/LTE core network, the Evolved Packet Core, is an all-IP network, supporting both mobile and fixed access. Our 2G and 3G packet core networks require only a software upgrade to support 4G/LTE access.

Mobile broadband stimulates GDP growth

High-speed broadband infrastructure (mobile and fixed) is becoming as essential as roads, water and electricity. Studies show a direct correlation between broadband penetration and GDP growth. In emerging markets, many users can access the internet only via mobile devices due to the lack of fixed network infrastructure.

SPEED AND DATA TRAFFIC

Feature phone user

10 kbps

approx. 10 MB/month

Smartphone user

100-1,000 kbps

approx. 100 MB/month

Mobile PC/tablet user

>1 Mbps

approx. 1 GB/month

FIXED BROADBAND AND CONVERGENCE

Fixed broadband

In today s mature markets, most data traffic is handled by fixed networks. Operators compete by evolving their networks to provide fast internet speeds, reliable high-definition IPTV and video on demand. We enable this by providing end-to-end broadband access solutions via high-speed fiber (such as GPON) and copper (xDSL).

All-IP networks and convergence

To reduce cost and enable service bundling, fixed traffic can be provided over a multi-service network converging telephony, internet and TV. This multi-service network is IP based, providing lower-cost and higher-performance broadband services. IP starts in the core network. Our Evolved Packet Core (EPC) provides support for multiple access technologies and fixed-mobile convergence. New functionality is introduced through software upgrades. With our breadth of experience, we provide a service, including consulting and systems integration, to manage transformation of networks to all-IP, often involving multiple-vendor equipment.

COMMUNICATION SERVICES

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

As voice and SMS still account for the main part of operator revenues, operators now exploit opportunities to enhance user experience while reducing costs for voice communication.

Users want enriched communication and the ability to instantaneously share experiences and information with family, friends and colleagues anywhere, anytime and to any device. Our IP Multimedia Subsystem (IMS) makes this possible. Services controlled by IMS are voice (incl. HD-voice), video calls, the Rich Communication Suite (RCS) and messaging. With RCS, consumers get a suite of IMS-based services (e.g. presence information, chat and content sharing) from the address book of a mobile phone or from a broadband connection.

MANAGED SERVICES

Network operations have traditionally been seen as core to operators. Today, competitive pressure, rapid technology evolution and changing user demands drive another focus. Many operators now view strategy, marketing and customer retention as being equally important as technology. Our managed services agreements free up in-house resources for this focus, and can reduce network operating costs by as much as 20 percent.

We have a long history of taking on employees from operators. We have invested USD 1 billion in tools, methods and processes to secure capabilities and competence.

Improving operators operational efficiency

The need to improve operational efficiency, reducing both capital expenditures and operating expenses, is a key driver for an operator to change its business. It is estimated that a mature operator spends approximately 5-6 percent of revenues on network equipment and 10-12 percent on operating the network, i.e. operating expenses account for twice the capital expenditures for networks. Our network operations contracts are often multi-year, multi-technology and multi-vendor agreements.

Simplifying network complexity

Another key driver is the increasing complexity of networks as they are transformed and modernized. IT and telecom convergence creates many opportunities for us to act as an advisor, both in streamlining business and operations support systems and helping to quickly and cost-efficiently introduce new services.

Shared networks and shared capacity

The initial growth of managed services was driven by operational efficiency. There is now an increasing demand for business models that support shared capacity and network sharing between two or more operators. This trend also drives structural efficiencies in the networks. Managed services play a decisive role in this evolution.

TV AND MEDIA MANAGEMENT

TV is going digital and interactive

In the converging media landscape, broadcast and broadband are coming together, moving towards a connected world.

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The worldwide digital TV market is growing. TV solutions and services enable global media companies and operators (cable, satellite, telecom and terrestrial) to deliver TV content, either directly to consumers or for professional digital video content exchange.

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

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

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

Outsourcing trends:

- Reduce and control spending
- Focus on key business priorities
- Greater operational efficiency
- Lower risks, reduce complexity
- Shared capacity structural efficiency

OPERATIONS AND BUSINESS SUPPORT SYSTEMS

Operations Support Systems for control

Rising network complexity drives the need for one consolidated dashboard-style Operations Support System (OSS)**.** Our OSS includes capabilities for performance monitoring and fault management, configuration and security management as well as systems to optimize performance for efficiency. OSS can also handle multi-vendor equipment.

Business Support Systems efficient billing and charging

Our Business Support Systems (BSS) support operators in instant provisioning and activation of services, devices and price plans. Our solutions can also provide real-time convergent charging (i.e. the user gets one invoice for both mobile and fixed usage) and billing and data management. With our solutions, operators can capture and secure revenue streams. Users can instantly start using a new service or device and control their spending.

Operators have to handle the increased data traffic in their networks along with many new devices. At the same time, operators introduce tiered pricing and new business models in order to maximize their revenues for mobile broadband services as well as voice traffic. This development requires upgrading of old support systems as well as the introduction of new BSS solutions.

Consulting and systems integration services are vital components of BSS solutions.

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CONSUMER AND BUSINESS APPLICATIONS

Interaction and collaboration

To support operators in growing their revenues, we provide new means of interaction and collaboration. Our solutions include messaging, social networks, location-based services, media, advertising, internet commerce and enterprise applications.

We support our customers in the modernization and consolidation of legacy service delivery systems and messaging systems, such as SMS, MMS and video mail.

Our Business Communication Suite (BCS) targets the enterprise market. It enables sharing of voice, video data, messaging and web conferences in a collaborative environment.

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

Several of our solutions can be delivered as cloud services.

OUR ASSETS

UNIQUE GLOBAL PRESENCE AND SCALE

Our global presence and scale give us a competitive advantage. In the industry consolidation, where operators are merging, we can handle larger cross-border contracts as well as targeted local assignments. It is key for us to stay close to customers, building trust, earning a strong track record and applying our in-depth expertise.

Today, over 1,000 networks in more than 180 countries use equipment supplied by us. Over the years, we have gained local knowledge and experience in network rollouts and systems integration as well as managing, upgrading and modernizing networks.

TECHNOLOGY LEADERSHIP INVESTING FOR THE FUTURE

Our technology leadership is a key asset that we leverage. We focus on early involvement in creating new technologies, strong contribution in technology standardization work, development of intellectual property rights and establishment of licensing agreements. We pioneered the development of digital AXE switching, 2G/GSM, 3G/WCDMA and 4G/LTE, leading to 27,000 granted patents. We invested approximately 15 percent of our total sales into R&D in 2010. At year end, the number of R&D employees was more than 20,000. Over 80 percent of our product development is software related.

SERVICES LEADERSHIP

Networks are becoming increasingly complex and often include multi-vendor equipment. The knowledge gained from managing networks for 750 million subscribers is an asset. Today our global services organization handles consulting, systems integration, network rollout, network operation, customer support and education. Competence development is further enhanced by insourcing staff from operators and acquiring companies in consulting and systems integration.

Our breadth of experience enables us to offer end-to-end support to our customers.

ERICSSON ACADEMY

In 2010 we launched Ericsson Academy and Learning Services. It is an online platform for sharing knowledge and inspiration both internally and externally. The site offers free telecom tutorials, technical snapshots and a forum to exchange smart ideas.

CREATING A WINNING CULTURE

We want to attract and develop the most competent, high-performing and motivated people in the industry. The culture we encourage is innovative, fast moving and responsive, with a business-winning mindset. To get the entire company moving in this direction, we implemented a group wide empowerment program. We also run a leadership training program to promote global diversity and cultivate top talent worldwide.

PUTTING CONSUMER INSIGHT TO WORK

To stay abreast of consumer trends, we use our ConsumerLab market research unit, which conducts more than 40,000 interviews annually. This represents the combined opinions and behavior patterns of more than 1 billion people. Not only do we incorporate these insights into our product development, but we can also make them available to our customers.

2010 HIGHLIGHTS

JANUARY-MARCH

World record of 84 Mbps HSPA demonstrated.

TeliaSonera rolls out 4G/LTE in Norway and Sweden, with core network and RBS 6000 from Ericsson. Three more customers have since launched LTE.

Ericsson delivers LTE network equipment and services to AT&T.

A world record is set with 1 Gbps for LTE in a live demo.

Ericsson performs a live demo of the world s first high-speed microwave radio connection with a transporting capacity of 2.5 Gbps.

APRIL-JUNE

Ericsson increases presence in Korea by acquiring Nortel s stake in the joint venture LG-Nortel. The business is consolidated by Ericsson.

First managed operations contract in Canada, for Mobilicity s 3G network.

Indosat, Indonesia, prepares for 4G and launched Asia s fastest network with 42 Mbps.

Ericsson chosen to operate Telefonica s network operations center in São Paulo.

Ericsson provides industry s first 3D sports television network, ESPN 3D, with standards-based video processing solution, tuned for 3D and HD broadcasts.

JULY-SEPTEMBER

Mobile data is growing ten times faster than voice.

China Mobile Hebei selects Ericsson as its managed services partner.

MetroPCS launches first 4G/LTE network in the USA, with Ericsson as primary supplier.

Ericsson gets its largest fiber-to-the-home contract in India.

Ericsson announces embedded mobile broadband modules world s first to support 21 Mbps (HSPA) for notebooks and other consumer electronics.

EMOBILE upgrades its HSPA network with the HSPA Evolution technology the highest-speed network in Japan with a peak data rate of 42 Mbps.

OCTOBER-DECEMBER

TeliaSonera renews and expands its managed services contract with Ericsson to include field service for voice and data networks in 29 countries.

Hans Vestberg, CEO, participated via Telepresence at COP 16 in Mexico, to stress the importance of ICT in addressing climate change.

Ericsson is selected as key equipment and services provider for next evolution of the Sprint network, supplying radio access, core and IP/Microwave backhaul.

Ericsson wins managed services contract with China Unicom.

Verizon Wireless launches the world s largest LTE network with Ericsson as the primary vendor.

3 Italia chooses Ericsson for data center consolidation and modernization of IT infrastructure.

FIVE-YEAR SUMMARY

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

FIVE-YEAR SUMMARY

SEK million	2010	Change	2009	2008	2007	2006
Income statement items						
Net sales	**203,348**	2%	206,477	208,930	187,780	179,821
Operating income	**16,455**	178%	5,918	16,252	30,646	35,828
Financial net	**672**	307%	325	974	83	165
Net income	**11,235**	172%	4,127	11,667	22,135	26,436
Year-end position						
Total assets	**281,815**	4%	269,809	285,684	245,117	214,940
Working capital	**105,488**	6%	99,079	99,951	86,327	82,926
Capital employed	**182,640**	1%	181,680	182,439	168,456	142,447
Gross cash	**87,150**	14%	76,724	75,005	57,716	62,280
Net cash	**51,295**	42%	36,071	34,651	24,312	40,728
Property, plant and equipment	**9,434**	2%	9,606	9,995	9,304	7,881
Stockholders equity	**145,106**	4%	139,870	140,823	134,112	120,113
Non-controlling interest	**1,679**	45%	1,157	1,261	940	782
Interest-bearing liabilities and post-employment benefits	**35,855**	12%	40,653	40,354	33,404	21,552
Other information						
Earnings, per share, basic, SEK	**3.49**	203%	1.15	3.54	6.87	8.27
Earnings, per share, diluted, SEK	**3.46**	204%	1.14	3.52	6.84	8.23
Cash dividends per share, SEK	**2.25**[1)]	13%	2.00	1.85	2.50	2.50
Stockholders equity per share, SEK	**45.34**	4%	43.79	44.21	42.17	37.82
Number of shares outstanding (in millions)						
end of period, basic	***3,200***		*3,194*	*3,185*	*3,180*	*3,176*
average, basic	***3,197***		*3,190*	*3,183*	*3,178*	*3,174*
average, diluted	***3,226***		*3,212*	*3,202*	*3,193*	*3,189*
Additions to property, plant and equipment	**3,686**	8%	4,006	4,133	4,319	3,827
Depreciation and write-downs/impairments of property, plant and equipment	**3,296**	6%	3,502	3,105	2,914	3,038
Acquisitions/capitalization of intangible assets	**7,246**		11,413	1,287	29,838	18,319
Amortization and write-downs/impairments of intangible assets	**6,657**	23%	8,621	5,568	5,459	4,479
Research and development expenses	**31,558**	5%	33,055	33,584	28,842	27,533
as percentage of net sales	***15.5%***		*16.0%*	*16.1%*	*15.4%*	*15.3%*
Ratios						
Operating margin excluding joint ventures	**8.7%**		6.5%	8.0%	12.5%	16.7%
Operating margin	**8.1%**		2.9%	7.8%	16.3%	19.9%
EBITA margin	**11.0%**		6.7%	9.4%	18.0%	21.0%
Cash conversion	**112%**		117%	92%	66%	57%
Return on equity	**7.8%**		2.6%	8.2%	17.2%	23.7%
Return on capital employed	**9.6%**		4.3%	11.3%	20.9%	27.4%
Equity ratio	**52.1%**		52.3%	49.7%	55.1%	56.2%
Capital turnover	**1.1**		1.1	1.2	1.2	1.3
Inventory turnover days	**74**		68	68	70	71

Trade receivables turnover	**3.2**		2.9	3.1	3.4	3.9
Payment readiness, SEK million	**96,951**	9%	88,960	84,917	64,678	67,454
as percentage of net sales	***47.7%***		*43.1%*	*40.6%*	*34.4%*	*37.5%*
Statistical data, year-end						
Number of employees	**90,261**	9%	82,493	78,740	74,011	63,781
of which in Sweden	***17,848***	*2%*	*18,217*	*20,155*	*19,781*	*19,094*
Export sales from Sweden, SEK million	**100,070**	6%	94,829	109,254	102,486	98,694

1) For 2010, as proposed by the Board of Directors.

SHARE INFORMATION

STOCK EXCHANGE TRADING

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

In 2010, approximately 6 (7) billion Ericsson shares were traded, of which about 3.4 billion were traded on NASDAQ OMX Stockholm and about 1.6 billion were traded on NASDAQ. (Note: The approximate total volumes include trading on alternative trading venues such as BATS Europe, Burgundy, Chi-X Europe.)

Trading volume in Ericsson shares decreased by approximately 30 percent on NASDAQ OMX Stockholm and decreased by approximately 7 percent on NASDAQ as compared to 2009.

CHANGES IN NUMBER OF SHARES AND CAPITAL STOCK 2006 2010

		Number of shares	Share capital
2006	December 31 (no changes)	16,132,258,678	16,132,258,678
2007	December 31 (no changes)	16,132,258,678	16,132,258,678
2008	June 2, reverse split 1:5	3,226,451,735	16,132,258,678
2008	July 23, new issue. (Class C shares, later converted to Class B)	19,900,000	99,500,000
2008	December 31	3,246,351,735	16,231,758,678
2009	June 8, new issue (Class C-shares, later converted to Class B)	27,000,000	135,000,000
2009	December 31	3,273,351,735	16,366,758,678
2010	December 31	3,273,351,735	16,366,758,678

PERFORMANCE INDICATORS

	2010	2009	2008	2007[2)]	2006[2)]
Earnings per share, diluted (SEK)	**3.46**	1.14	3.52	6.84	8.23
Operating income per share (SEK)[1)]	**7.42**	5.80	7.50	9.64	11.29
Cash flow from operating activities per share (SEK)	**8.31**	7.67	7.54	6.04	5.82
Stockholders equity per share, basic, end of period (SEK)	**45.34**	43.79	44.21	42.17	37.82
P/E ratio	**22**	57	17	11	17
Total shareholder return (%)	**22**	15	20	43	3
Dividend per share (SEK)[3)]	**2.25**	2.00	1.85	2.50	2.50

1) For 2010, 2009 and 2008 excluding restructuring charges.
2) 2006 and 2007 restated for reverse split 1:5 in 2008.
3) For 2010 as proposed by the Board of Directors.

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

All performance indicators except Earnings per share, diluted, and Stockholders equity per share, basic, end of period are calculated on average number of shares outstanding, basic.

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THE ERICSSON SHARE

Share listings

NASDAQ OMX, Stockholm

NASDAQ, New York

Total number of shares outstanding	3,273,351,735
of which Class A shares	261,755,983
of which Class B shares	3,011,595,752
of which Ericsson treasury shares, Class B	73,088,515
Quotient value	SEK 5.00
Market capitalization, December 31, 2010	approx. SEK 255b.
GICs (Global Industry Classification)	45201020

Ticker codes

NASDAQ OMX	ERIC A
Stockholm	ERIC B
NASDAQ, New York	ERIC
Bloomberg NASDAQ	ERICA SS
OMX Stockholm	ERICB SS
Bloomberg NASDAQ	ERIC US
Reuters NASDAQ	ERICa.ST
OMX Stockholm	ERICb.ST
Reuters NASDAQ	ERIC.O

ISIN	
ERIC A	SE0000108649
ERIC B	SE0000108656
ERIC	US2948216088
CUSIP	294821608

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SHARE TREND

In 2010, Ericsson s total market capitalization increased by about 18 (13) percent to SEK 255 billion (SEK 215 billion in 2009). The OMX Stockholm Index on NASDAQ OMX Stockholm increased by 23 percent, the S&P 500 Index increased by 13 percent and the NASDAQ composite index increased by 17 percent.

OFFER AND LISTING DETAILS

Principal trading market NASDAQ OMX Stockholm share prices

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

NASDAQ OMX Stockholm publishes a daily Official Price List of Shares which includes the volume of recorded transactions in each listed stock, together with the prices of the highest and lowest recorded trades of the day. The Official Price List of Shares reflects price and volume information for trades completed by the members. The equity securities listed on the NASDAQ OMX Stockholm Official Price List of Shares currently comprise the shares of 258 companies.

Host market NASDAQ ADS prices

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

SHARE PRICES ON NASDAQ OMX STOCKHOLM

(SEK)	2010	2009	2008	2007[1)]	2006[1)]
Class A at last day of trading	**74.00**	65.00	59.30	76.80	138.00
Class A high for year (June 21, 2010)	**88.40**	78.80	83.60	148.50	154.50
Class A low for year (January 4, 2010)	**65.20**	55.40	40.60	73.00	104.50
Class B at last day of trading	**78.15**	65.90	58.80	75.90	138.25
Class B high for year (June 21, 2010)	**90.45**	79.60	83.70	149.50	155.00
Class B low for year (January 4, 2010)	**65.90**	55.50	40.60	72.65	104.50

1) 2006 and 2007 restated for reverse split 1:5 in 2008.

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SHARE PRICES ON NASDAQ NEW YORK

(USD)	2010	2009	2008	2007[1]	2006[1]
ADS at last day of trading	**11.53**	9.19	7.81	11.68	20.12
ADS high for year (April 23, 2010)	**12.39**	10.92	14.00	21.71	20.57
ADS low for year (February 5, 2010)	**9.40**	6.60	5.49	11.12	14.44

1) 2006 and 2007 restated for reverse split 1:5 in 2008.

SHARE PRICES ON NASDAQ OMX STOCKHOLM AND NASDAQ

	NASDAQ OMX Stockholm				NASDAQ	
	SEK per Class A share		SEK per Class B share		USD per ADS[1]	
Period	Low	High	Low	High	Low	High
Annual high and low						
2006[2]	104.50	154.50	104.50	155.00	14.44	20.57
2007[2]	73.00	148.50	72.65	149.50	11.12	21.71
2008	40.60	83.60	40.60	83.70	5.49	14.00
2009	55.40	78.80	55.50	79.60	6.60	10.92
2010	65.20	88.40	65.90	90.45	9.40	12.39
Quarterly high and low						
2009 First Quarter	55.40	78.00	55.50	78.70	6.60	9.65
2009 Second Quarter	64.10	78.80	64.00	79.60	8.10	9.92
2009 Third Quarter	65.80	78.60	66.10	79.50	9.10	10.84
2009 Fourth Quarter	64.70	76.25	65.25	76.95	8.94	10.92
2010 First Quarter	65.20	78.70	65.90	80.00	9.40	11.33
2010 Second Quarter	73.00	88.40	74.15	90.45	9.51	12.39
2010 Third Quarter	69.00	86.55	70.85	89.35	9.62	12.20
2010 Fourth Quarter	66.95	77.05	68.85	79.95	9.96	11.71
Monthly high and low						
August 2010	69.00	79.45	70.85	81.05	9.62	11.40
September 2010	69.70	78.50	71.85	80.65	9.98	11.33
October 2010	68.80	74.50	70.65	76.80	10.49	11.60
November 2010	66.95	72.00	68.85	74.20	9.96	11.20
December 2010	70.00	77.05	72.45	79.95	10.48	11.71
January 2011	72.50	78.55	74.80	82.00	10.99	12.61
February 2011	74.00	80.05	77.15	83.00	12.09	12.93

1) One ADS = 1 Class B share.
2) 2006 and 2007 restated for reverse split 1:5 in 2008.

SHAREHOLDERS

As of December 31, 2010, the Parent Company had 630,592 shareholders registered at Euroclear Sweden AB (the Central Securities Depository CSD), of which 1,334 holders had a US address. According to information provided by Citibank, there were 262,814,956 ADSs outstanding as of December 31, 2010, and 4,888 registered holders of such ADSs. A significant number of Ericsson ADSs are held by banks, broker and/or nominees for the accounts of their customer. As of December 31, 2010, the number of bank, broker and/or nominee accounts holding Ericsson ADSs was 196,360.

According to information known at year-end 2010, almost 78 percent of our Class A and Class B shares were owned by institutions, Swedish and international.

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

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

TOP EXECUTIVES AND BOARD MEMBERS, OWNERSHIP

	Number of Class A shares	Number of Class B shares	Voting rights, percent
Top executives and Board members as a group (31 persons)	2,416	3,937,920	0.07

For individual holdings, see Corporate Governance Report.

The table shows the total number of shares in the Parent Company owned by top executives and Board members (including Deputy employee representatives) as a group as of December 31, 2010.

The following table shows share information, as of December 31, 2010, with respect to our 15 largest shareholders, ranked by voting rights, as well as percentage of voting rights as of December 31, 2010, 2009 and 2008.

LARGEST SHAREHOLDERS, DECEMBER 31, 2010 AND PERCENTAGE OF VOTING RIGHTS, DECEMBER 31, 2010, 2009 AND 2008

Identity of person or group[1)]	Number of Class A shares	Of total Class A shares, percent	Number of Class B shares	Of total Class B shares, percent	2010 Voting rights, percent	2009 Voting rights, percent	2008 Voting rights, percent
Investor AB	102,664,038	39.22	61,414,664	2.04	**19.33**	19.33	19.42
AB Industrivärden	77,680,600	29.68	0	0.00	**13.80**	13.62	13.28
Handelsbankens Pensionsstiftelse	19,800,000	7.56	0	0.00	**3.52**	3.52	3.00
Skandia Liv	15,719,072	6.01	10,745,693	0.36	**2.98**	3.02	2.89
Swedbank Robur Fonder AB	1,495,549	0.57	138,868,343	4.61	**2.73**	3.07	2.44
Pensionskassan SHB Försäkringsföreningen	11,672,000	4.46	0	0.00	**2.07**	2.25	2.26
BlackRock Fund Advisors	0	0.00	81,187,654	2.70	**1.44**	1.81	0.00
Dodge & Cox, Inc.	0	0.00	80,330,400	2.67	**1.43**	1.05	0.98
AMF Pensionsförsäkring AB	800,000	0.31	67,174,148	2.23	**1.34**	1.30	1.55
OppenheimerFunds, Inc.	0	0.00	72,416,412	2.40	**1.29**	1.29	1.31
Handelsbanken Fonder AB	1,340	0.00	59,260,630	1.97	**1.05**	0.94	1.02
Gamla Livförsäkringsbolaget SEB Trygg Liv	4,675,919	1.79	12,275,600	0.41	**1.05**	0.98	1.04
Aberdeen Asset Managers Ltd.	0	0.00	56,648,517	1.88	**1.01**	0.71	0.38
SEB Investment Management AB	498,441	0.19	50,604,935	1.68	**0.99**	0.89	0.98
PRIMECAP Management Co.	0	0.00	52,241,292	1.73	**0.93**	0.83	0.56
Others	26,749,024	10.21	2,268,427,464	75.32	**45.04**	45.39	48.89
Total	**261,755,983**	**100.00**	**3,011,595,752**	**100.00**	**100.00**	**100.00**	**100.00**

1) Source: Capital Precision.

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LETTER FROM MICHAEL TRESCHOW

Dear shareholders,

When I summarized year 2009, I wrote that the key future opportunities for the industry and Ericsson would be increased mobile traffic. In 2010 we saw massive data traffic uptake, driven by laptops and smartphones. The global mobile data traffic actually more than doubled. As a consequence, Ericsson saw a growing demand for mobile broadband.

The telecom industry has for a very long time been characterized by rapid technology development and consolidation. Along with the introduction of new technologies, Ericsson s business is becoming more and more services and software-related. Management has taken action to adapt the Company to this change and the implementation of a new organization has so far been smooth. This is an important foundation for Ericsson s future growth.

In 2010, Ericsson acquired companies to the value of SEK 3.3 billion. Many new employees came aboard during the year, 5,250 joined through acquisitions and about 1,300 through managed services contracts. The Board closely follows the integration of acquired businesses and the insourcing of new employees from operators via managed services contracts. Ericsson has a well-established integration process and a culture where new colleagues quickly become a part of the Company.

During the year, The Board has continued to monitor the Company s remuneration principles. The Board is of the opinion that Ericsson has a well-balanced and competitive compensation structure which rewards performance. We think it is beneficial that senior executives invest in shares and we hope the new long-term variable remuneration (LTV) program will prove to be motivational.

Ericsson has a strong financial position with net cash of SEK 51.3 billion. A strong cash position is important since it gives the Company the ability to play a role in industry consolidation and to strengthen its assets in areas such as systems integration and consulting.

At my very first Board meeting in April 2002, Ericsson was in a quite different situation. The Company was in a financial crisis and at that meeting, we took the decision to propose a rights offering of SEK 30 billion. Since then we have paid back about SEK 41.9 billion in dividends to our shareholders, including the proposed dividend for 2010. In 2002 the share price declined below the subscription price of SEK 3.80 per B-share. Following the rights offering the share price saw sustained growth until 2007. Since then the share price has underperformed.

It has been an exciting journey for me to help to steer Ericsson and shape the industry during my years as Chairman of the Board. I have introduced two new CEOs and their management teams. We have seen the services part of the Company grow to represent close to 40 percent of revenues. Ericsson and the industry are now in the initial phase of rolling out mobile broadband on a large scale.

It is an exciting future ahead for Ericsson. Taking into account the Company s strong market and financial position, it is well positioned to continue to lead the industry.

After nine years in this position it is time to hand over to my successor. I wish the new chairman and Ericsson all the best.

Michael Treschow

Chairman of the Board

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BOARD OF DIRECTORS REPORT

CONTENTS

This Board of Directors Report is based on Ericsson s consolidated financial statements, prepared in accordance with IFRS as endorsed by the EU. The application of reasonable but subjective judgments, estimates and assumptions to accounting policies and procedures affects the reported amounts of assets and liabilities and contingent assets and liabilities at the balance sheet date as well as the reported amounts of revenues and expenses during the reporting period. These amounts could differ materially under different judgments, assumptions and estimates. Please see Note C2 Critical Accounting Estimates and Judgments (p. 91).

Also non-IFRS measures are used to provide meaningful supplemental information to the IFRS results. Non-IFRS measures are designed to facilitate analysis by indicating Ericsson s underlying performance. However, these measures should not be viewed in isolation or as substitutes to the IFRS measures. A reconciliation of non-IFRS measures with the IFRS results can be found on page 34.

This report includes forward-looking statements subject to risks and uncertainties. Actual billion *developments could differ materially from those described or implied. Please see Forward-Looking Statements (p. 175) and Risk Factors (p. 167).*

The external auditors review the quarterly interim reports, perform audits of the Annual Report and report their findings to the Board and its Audit Committee.

The terms Ericsson , the Group , and unless the context reasonably requires otherwise also the Company , all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries. The Parent Company solely refers to Telefonaktiebolaget LM Ericsson. Unless otherwise noted, numbers in parentheses 0 refer to the previous year (i.e. 2009).

VISION

Ericsson s vision is to be the prime driver in an all-communicating world. The vision of an all-communicating world is rapidly becoming a reality as there are more than 5.3 billion subscriptions today for mobile telecommunications. Ericsson envisions a continued evolution, from having connected 5 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.

STRATEGY

By leveraging global presence and scale as well as technology and services leadership, Ericsson will continue to be the prime driver in the telecom industry.

Global presence and scale

Ericsson has today business in more than 180 countries. The Company is the largest provider of operator equipment and with 45,000 service professionals, the Company has secured scale advantages.

Going forward, Ericsson intends to increase its market share in the solution areas: Communication Services, Consumer and Business Applications, Fixed Broadband and Convergence, Managed Services, Mobile Broadband, Operations and Business Support Systems and Television and Media Management.

With its strong financial position, the Company intends to grow also through acquisitions, targeting small and medium-sized companies.

Ericsson sees opportunities to increase its footprint, i.e. installed equipment base, mainly in Europe, where its market share is lower than the overall global position. By outperforming its competitors, there is an opportunity for the Company to grow footprint by achieving a larger part of a roll-out project than initially assigned by the customer.

Market indicators

In understanding where the market is heading, Ericsson follows different drivers.

For segment Networks the Company monitors the traffic development in the networks and the evolution of the installed equipment. These parameters vary between countries and regions. Operators total capital expenditure is not a key indicator since only around 50 percent of the cost is related to telecom. Of the telecom part, about 10-15 percent is designated for telecom equipment. Accordingly, operator capital expenditure can therefore decrease without necessarily impacting Ericsson sales.

For segment Global Services, it is relevant to study operators operating expenses, since Ericsson offers services and solutions to reduce their operating cost.

Multimedia is more fragmented, with a number of parameters for different parts of the business.

Business mix

Ericsson s Group margins depend to a high degree on the business mix with the proportion of services, software and hardware content as well as type of projects. Rolling out a new network, increasing coverage, or modernizing a network, means deploying hardware, i.e. radio base stations (RBSs) and controllers, on a large scale. These projects are often won in open tenders in a highly competitive environment. Later, after deployment, the hardware will be regularly upgraded with software to enable for example higher data speeds and new functionality/features. These upgrades normally provide the Company with more even revenue streams. The initial large projects are a necessary first step to secure future software and services business when upgrades and/or expansions of the networks take place.

Technology leadership

By continuing to invest in research and development (R&D), the Company will secure its technology leadership. The objectives are to deliver superior performance and to be the thought leader in the industry.

Ericsson has one of the industry s largest organizations for R&D.

Research and development

The Company s total spend on R&D was SEK 29.9 (27.0) billion excluding restructuring charges. More than 20,000 people work in developing products and solutions. With approximately 600 research engineers, research accounts for about three percent of the overall investment in R&D.

All research is closely connected to future solutions and products. The applied research usually targets products that will reach the market within three to five years. Research performed in the areas of multimedia and user services target products and solutions which are closer in time. An increasing part of the solutions are software based which requires a different mode of operation in R&D. During the last years, developing the Company s software capabilities has been important and a key part of this has been to implement new ways of working. An agile engineering method has been implemented, allowing quick response to market changes. The new ways of working as well as product packaging, enable online delivery of software, and new customization possibilities. The strategy to develop software-based solutions also means new business models in the customer engagement, such as software subscription or software-as-a-service.

The research activities are performed in-house as well as in collaboration with research institutes and universities. An essential part of the research work is performed in parallel with standardization work. Standardization is performed together with peers in different industry bodies. Open standards are a foundation for the industry in order to secure ecosystems and interoperability.

To speed up the transfer of knowledge and research concepts into product development, research engineers responsible for the initial project usually move along to the product development units. To fill the gap in the research organization, Ericsson continuously recruits talented research engineers with the task to take on new projects.

When developing new technologies such as 3G/WCDMA or 4G/LTE, the project cycles have normally been longer, up to ten years. However, when developing new services or applications other project models have been created with shorter lead-times, sometimes only a few months. In order to shorten the time from idea to product, Ericsson has introduced beta tests with up to 1,000 users trying out new services and applications. A focus area for Ericsson is now how to support the commercialization of these ideas into new solutions.

Every quarter, the executive team in Ericsson reviews the project portfolio in R&D. Return on investment is calculated as net present value for the different projects.

Read more about Ericsson s R&D in 2010 on page 31.

Intellectual property rights and licensing

The intellectual property rights (IPR) are licensed to other companies (infrastructure equipment suppliers, embedded module suppliers, handset suppliers and mobile application developers) in return for royalty payments and/or access to their IPRs. The Company is of the opinion that it has access to all essential patents that are material to the business in part or in whole. The net revenue from IPRs was about SEK 4.6 (4.5) billion in 2010.

Services leadership

With 45,000 service professionals across the world, the Company has the industry s largest services organization. The Company provides managed services, consulting and systems integration, customer support and network rollout.

The services organization, with its broad skills and experiences, provides a competitive advantage for sales of infrastructure.

Drawing on the experiences gained in providing services related to the infrastructure business, the Company is also able to offer new, more advanced and stand-alone services, such as managing data centers. A key area is to develop new business models such as network sharing and new ways of bundling technology and services. The Company has over the years strengthened its competence in services through the insourcing of staff from telecom operators and acquiring small and medium-sized companies in the field of consulting and systems integration.

Moving into new industry segments

Ericsson has in 2010 taken the decision to increase its efforts to approach customers in new segments, such as governments, health industry, transport and utilities. These are industries with either similar business models as telecom operators and/or obvious benefits from mobile broadband.

Guiding principles

The basic principles for Ericsson s strategy are:

- Customer intimacy; highly qualified employees working closely with the customer to create effective solutions
- Continuous process improvements and innovation in all areas
- Scale in delivery and technical solutions.

BUSINESS FOCUS

Meeting demand for mobile broadband worldwide

The business focus in 2010 has been to provide operators with mobile broadband. The most obvious driver of this development was the massive data traffic growth, especially in the US and Japan.

Recently introduced mobile devices such as smartphones and tablets drive data traffic and the need for higher speeds and enhanced capacity in the networks.

Telecom operators across the world see an increasing part of their revenues emerging from data, although voice still is the main source for sales revenues. For some operators in Japan, mobile data represents more than 50 percent of total revenues. In many countries, such as the US, operators have introduced tiered pricing for mobile data services, further spurring demand for data services. In addition, quality of service has become a differentiator for operators, driving investments for expansions and upgrades.

For Ericsson, this resulted in an increasing demand for mobile broadband and quicker than expected ramp-up of volumes of the new radio-base station RBS 6000. During the first half of 2010, Ericsson was still impacted by the cautious operator investments that started in the second half of 2009. The Company also put a lot of focus on mitigating the effects of the industry-wide component shortage that occurred mid 2010. While the supply of components has now normalized, we are still not fully meeting the increased demand on certain mobile broadband products. The total global number of mobile subscriptions is 5.3 billion. In 2010, mobile broadband subscriptions increased more than 60 percent to approximately 600 million, still only representing some 10 percent of total mobile subscriptions. Ericsson expects the strong uptake for mobile broadband to continue in 2011. Already in 2011, the number of mobile broadband subscriptions is expected to hit one billion. This development is mainly driven by the use of smartphones. Devices with embedded modules such as tablets are also expected to show continuously strong growth.

Increasing market share

In 2010, focus was also on increasing footprint in Europe and to secure footprint in the rollout of 3G networks in India. In Europe, approximately 800,000 radio-base stations are expected to be replaced. These base stations were installed before 2004 and consume 30 percent more energy than new equipment. Since energy represents a significant part of the total operating expenses of a radio site, replacement is a good business case. Ericsson has seen the initial modernization of networks in Europe and has so far managed to gain contracts in countries where the Company previously had a weaker position. However, modernization projects typically last for a couple of years, so it is still too early to conclude what the Company s market position will be. Ericsson has in general a lower market share in Europe than in the rest of the world. This was a result of the 3G rollouts that took place in Europe approximately eight years ago. Ericsson was then in a financially turbulent situation and lost out on certain 3G deals.

In India, 3G rollouts started in 2010 and Ericsson has maintained a market share in line with its 2G position.

Ericsson also acquired companies to strengthen its market position:

- Nortel s GSM business in North America with 350 employees
- Nortel s share in LG-Nortel in Korea with 1,300 employees.

Ericsson also signed agreements to acquire GDNT, a Chinese R&D and services company with 1,100 employees, and the Nortel multi-service switch business. These two businesses were not consolidated in 2010.

Technology

Ericsson invested SEK 29.9 (27.0) billion in R&D in 2010, excluding restructuring charges. The increase is mainly a result of consolidation of acquired companies.

Of the total cost for development of new products in 2010, the majority was spent on further enhancements of 3G/ WCDMA/HSPA as well as 4G/LTE. Resources are also spent on further adaptations of 2G/GSM although at lower levels compared to previous years.

The complexity in the industry with a number of technologies installed, new solutions and services as well as more frequencies used, requires continued efforts in R&D to secure Ericsson s technology leadership also in coming years.

Current radio research focus is on ensuring that radio networks can handle the massive data growth that we have experienced since introducing mobile broadband technologies.

Ericsson held approximately 27,000 (25,000) granted patents globally as of December 31, 2010. The Company believes it holds approximately 25 percent of all essential patents in LTE.

The Company has a number of essential patents relating to GSM, Edge, WCDMA, HSPA, TD-SCDMA, CDMA2000, WiMAX and LTE. Ericsson also holds patents in other areas, including IMS, voice-over-IP, ATM, messaging, WAP, Bluetooth, SDH/ SONET, WDM and carrier Ethernet.

Read more about Ericsson s R&D strategy and IPR s on page 28.

Increasing services business

In 2010, 54 (30) managed services contracts were signed, with fixed, mobile and cable operators and for enterprise networks. 26 (9) of the contracts were extensions or expansions.

The year was also characterized by further acquisitions. The Company acquired companies in the area of consulting and systems integrations:

- Pride in Italy with 1,000 employees
- InCode, a US strategy and consulting firm with 45 employees
- Optimi, a US-Spanish network management and optimization company with 200 employees.

Competence and skills

Ericsson introduced a new go-to-market model in 2010. The Company set up ten regions, replacing the former 23 market units. The regions approach customers with solutions, covering services, software and hardware. By this, Ericsson will move from a product-led to a solutions-led sales approach, selling the full breadth of the portfolio. The Company also started up projects in the regions, developing solutions for new customer segments.

At year end, Ericsson had 90,261 (82,493) employees. In 2010, 5,250 individuals joined Ericsson through acquisitions and about 1,300 through managed services contracts. Approximately 5,000 were made redundant and 6,000 were recruited. The vast majority of recruitments took place in India, China and Brazil. These new recruitments were primarily made within the areas of R&D and service delivery.

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Half of the workforce, 45,000 people, are service professionals. The competence and capabilities of the Company s employees is increasingly service and software oriented.

OPERATIONAL GOALS AND RESULTS

Ericsson s overall goal is to create shareholder value. Management uses four metrics to monitor the Company s overall performance: faster than market sales growth, a best-in-class margin, a strong cash conversion and growth in JV earnings.

Shareholder value creation

Grow faster than the market

The Company is the largest provider of operator equipment. In the market for 4G/LTE, the Company s market share is higher than for earlier radio technology generations since Ericsson has managed to get a good start in the rollout of 4G/LTE. The 4G/ LTE market is still small though, since it is in its initial phase. When including CDMA in the operator equipment market, Ericsson increased its market share in 2010 due to the acquired Nortel business. In professional services, the company is estimated to have kept or slightly increased its market share. The overall market position for segment Multimedia is difficult to assess, as the market is fragmented.

Best- in-class operating margin

The operating margin for the Company, excluding joint ventures and restructuring charges, was 12 (12) percent. Based on reported results for 2010, we believe the margin remains the highest among the Company s traditional telecom competitors that are publicly listed.

Cash conversion of over 70 percent

The cash conversion rate for 2010 was 112 (117) percent, reflecting a strong focus on cash flow and a higher net income. Cash conversion is defined as cash flow from operating activities divided by net income reconciled to cash.

Growth in JV earnings

JV earnings improved in 2010 to SEK 0.7 (6.1) billion, excluding restructuring charges. Ericsson s share in earnings in Sony Ericsson was SEK 0.9 (4.8) billion, excluding restructuring charges, and in ST-Ericsson SEK 1.5 (1.3) billion, excluding restructuring charges. Sony Ericsson s improved results were driven by a streamlined product portfolio focused on higher-end smartphones and an improved cost structure. ST-Ericsson is on its way of completing the transition program and has new products coming.

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 2010, approximately 10,000 representatives, in different professions, of Ericsson customers around the world were polled to assess their satisfaction with Ericsson, compared to its main competitors. Over the past five years, Ericsson has maintained a level of excellence. The goal is to increase this level further.

Employee engagement

In 2004 Ericsson began measuring motivation among its employees. This survey is conducted by an independent company. In 2010, 87 (91) percent of all employees across the world responded to the survey. The human capital index, which measures employee contribution in adding value for customers and meeting business goals, was 72 (69). This is a high level, but as with customer satisfaction, the objective is to further increase employee engagement and motivation.

FINANCIAL RESULTS OF OPERATIONS

ABBREVIATED INCOME STATEMENT WITH RECONCILIATION IFRS NON-IFRS MEASURES

SEK billion	IFRS 2010	IFRS 2009	IFRS 2008	Restructuring charges 2010	Restructuring charges 2009	Restructuring charges 2008	Non-IFRS measures 2010	Non-IFRS measures 2009	Percent change	Non-IFRS measures 2008
Net sales	**203.3**	206.5	208.9				**203.3**	206.5	2%	208.9
Cost of sales	**129.1**	136.3	134.6	**3.4**	4.2	2.5	**125.7**	132.1	5%	132.1
Gross income	**74.3**	70.2	74.3	**3.4**	4.2	2.5	**77.6**	74.4	4%	76.8
Gross margin %	**36.5%**	34.0%	35.5%				**38.2%**	36.0%		36.8%
Operating expenses	**58.6**	60.0	60.6	**3.5**	7.1	4.2	**55.2**	52.9	4%	56.4
Operating expenses as % of sales	**28.8%**	29.0%	29.0%				**27.1%**	25.6%		27.0%
Other operating income and expenses	**2.0**	3.1	3.0				**2.0**	3.1	35%	3.0
Operating income before share in earnings of JVs and associated companies	**17.6**	13.3	16.7	**6.8**	11.3	6.7	**24.4**	24.6	1%	23.4
Operating margin % before share in earnings of JVs and associated companies	**8.7%**	6.5%	8.0%				**12.0%**	11.9%		11.2%
Share in earnings of JVs and associated companies	**1.2**	7.4	0.4	**0.5**	1.3	0.9	**0.7**	6.1		0.4
Operating income	**16.5**	5.9	16.3	**7.3**	12.6	7.6	**23.7**	18.5	28%	23.9
Operating margin %	**8.1%**	2.9%	7.8%				**11.7%**	9.0%		11.4%
Financial income and expense, net	**0.7**	0.3	1.0							
Taxes	**4.5**	2.1	5.6							
Net income	**11.2**	4.1	11.7							
EPS diluted (SEK)	**3.46**	1.14	3.52							

Non-IFRS measures are used in the income statement as supplemental information to the IFRS results. Since there were significant restructuring costs during 2008, 2009 and 2010 and consequently significant impact on reported results and margins, non-IFRS measures excluding restructuring charges are presented to facilitate analysis by indicating Ericsson s underlying performance. However, these measures should not be viewed in isolation or as substitutes to the IFRS measures. For more details on the restructuring activities and corresponding charges, please see Note C5 Expenses by Nature .

Financial results of operations

Growth of sales, operating margin and net income are the overriding targets. In 2010, sales did not increase despite the strong demand for mobile broadband in the second half of the year. However, net income improved significantly, mainly due to improvements in Sony Ericsson earnings and less restructuring charges. For 2011, the main objectives remain. To achieve these targets, an essential ingredient is a continued focus on cost and internal efficiency work.

Sales

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

Sales were also negatively impacted by the strong SEK. Sales for comparable units, adjusted for currency exchange rate effects and hedging, decreased 7 percent.

In 2010, the Company saw the share of software sales decline to 24 (26) percent of sales. The portion of hardware increased to 37 (36) percent. The increase in hardware is a result of demand for mobile broadband products. In the short term, the software share might continue to decrease due to a higher portion of projects with a lot of hardware. Longer term, the software part should increase following more expansions and upgrades of networks.

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%	9%	5%	30%
Share of annual sales	22%	25%	23%	30%

Gross margin

Gross margin, excluding restructuring charges, improved to 38 (36) percent due to business mix with a higher proportion of network upgrades and expansions. Cost of sales was also reduced as a result of efficiency work.

Operating expenses

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses amounted to SEK 29.9 (27.0) billion. Spending on R&D as a percentage of sales was 15 (13) percent. The increase is a result of lower sales, higher investments in certain R&D areas and the acquired Nortel and LG-Ericsson operations. In 2011, R&D expenses of approximately SEK 31 33 billion is estimated, including restructuring charges. The amount might fluctuate due to currency exchange rate effects.

Selling and administrative expenses, excluding restructuring charges, was stable in relation to sales 12 (13) percent. The amount was SEK 25.3 (25.9) billion. In the year, there were positive effects from efficiency work along with the strong SEK. However, costs for the integration of acquired companies impacted negatively. The Company also conducted a growing number of LTE trials across the world which increased selling and administrative expenses.

Operating margin before JVs

Despite the improved gross margin, operating margin, before share in JV earnings and excluding restructuring charges, was flat at 12 (12) percent. This was an effect of increased R&D expenses.

Share in earnings of JVs

Sony Ericsson returned to profit in 2010, after two years of losses. The turnaround has been possible thanks to restructuring and a streamlined product portfolio focused on higher-end smartphones.

ST-Ericsson is still reporting a loss. The company is on its way of completing the transition program and has new products coming. Ericsson s share in Sony Ericsson s income before tax was SEK 0.9 (4.8) billion, excluding restructuring charges. Ericsson s share in ST-Ericsson s income before tax, adjusted to IFRS, was SEK 1.5 (1.3) billion, excluding restructuring charges.

Operating income

Operating income increased significantly, due to improved earnings in Sony Ericsson.

Financial net

The financial net was SEK 0.7 (0.3) billion. The difference is mainly attributable to a negative impact of around SEK 0.6 billion due to foreign exchange currency revaluation effects and lower interest net of SEK 0.3 billion compared to 2009.

Taxes

The tax expense for the year was SEK 4.5 (2.1) billion or 28.8 (33.9) percent of income after financial items. The tax rate may vary between years depending on business and geographic mix. The tax rate excluding joint ventures and associated companies was 25.7 (25.7) percent due to lower tax rate from the loss-making joint venture.

Net income

Net income increased SEK 7.1 billion to SEK 11.2 (4.1) billion as a result of improved earnings in Sony Ericsson and less restructuring charges.

Earnings per share, diluted

Earnings per share increased by SEK 2.32 to SEK 3.46 (1.14), as a result of improved net income. The Board of Directors proposes a dividend of SEK 2.25 (2.00).

Restructuring charges

Total restructuring charges were SEK 6.8 (11.3) billion. Cash outlays was SEK 3.3 (4.2) billion. A cost reduction program was initiated in 2009 and completed by the second quarter 2010. Charges of SEK 4.2 billion were recognized in 2010 related to the program. In the second half of the year, an additional SEK 2.6 billion in charges were recognized. These charges primarily relate to efficiency activities in service delivery, product development and administration. At the end of the year, cash outlays of SEK 3.2 billion remain to be made. In 2011, restructuring charges of approximately SEK 2 billion are estimated.

RESEARCH AND DEVELOPMENT PROGRAM

	2010	2009	2008
Expenses (SEK billion)[1)]	29.9	27.0	30.9
As percent of Net sales	14.7%	13.1%	14.8%
Employees within R&D as at December 31[2)]	20,800	18,300	19,800
Patents[2)]	27,000	25,000	24,000

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

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEET (ABBREVIATED)

December 31, SEK billion	2010	2009	2008
ASSETS			
Non-current assets, total	**83.4**	87.4	87.2
of which intangible assets	***46.8***	*48.2*	*48.2*
of which property, plant and equipment	***9.4***	*9.6*	*10.0*
of which financial assets	***14.5***	*15.3*	*14.1*
of which deferred tax assets	***12.7***	*14.3*	*14.9*
Current assets, total	**198.4**	182.4	198.5
of which inventory	***29.9***	*22.7*	*27.8*
of which trade receivables	***61.1***	*66.4*	*75.9*
of which other receivables/financing	***20.2***	*16.6*	*19.8*
of which short-term investments, cash and cash equivalents	***87.2***	*76.7*	*75.0*
Total assets	**281.8**	**269.8**	**285.7**
EQUITY AND LIABILITIES			
Equity	**146.8**	141.0	142.1
Non-current liabilities	***38.3***	*43.3*	*39.5*
of which post-employment benefits	***5.1***	*8.5*	*9.9*
of which borrowings	***27.0***	*30.0*	*24.9*
of which other non-current liabilities	***6.2***	*4.8*	*4.7*
Current liabilities	**96.8**	85.5	104.1
of which provisions	***9.4***	*12.0*	*14.0*
of which current borrowings	***3.8***	*2.1*	*5.5*
of which trade payables	***25.0***	*18.9*	*23.5*
of which other current liabilities	***58.6***	*52.5*	*61.0*
Total equity and liabilities[1)]	**281.8**	**269.8**	**285.7**

1) Of which interest-bearing liabilities and post-employment benefits SEK 35.9 billion (SEK 40.7 billion in 2009).

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

By maintaining a strong cash position, the Company can also maintain an active strategy for mergers and acquisitions. During 2010, Ericsson made five acquisitions and strengthened its market position in the USA and Korea along with adding competencies in consulting and systems integration.

An important focus area is the release 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 inventory turnover days was not met, while the other two were achieved. The efforts to release further working capital will continue in 2011.

At year end, the strong SEK impacted net operating assets positively when translating assets denominated in foreign currencies into SEK.

The Board of Directors will propose to the Annual General Meeting 2011 a dividend of SEK 2.25 per share. In 2010, the dividend was SEK 2.00 per share. When considering the level of dividend, the Board of Directors take into account the need to secure a continued strong cash position as well as capital needed in order to secure a healthy business going forward.

Current assets

Inventory levels have been higher than expected due to the industry-wide component shortage and supply chain bottlenecks. At year end, inventory was SEK 29.9 (22.7) billion. The higher inventory level followed a higher level of work in progress in the regions. This was an effect from delayed project implementations within network rollout due to the component shortage earlier in the year. Effects from component shortage and supply chain bottlenecks were eliminated at year end while there was still an impact of slightly higher component inventories. The target of inventory turnover days less than 65 days was not reached and improvement efforts will continue in 2011.

Trade receivables: Days sales outstanding reached high levels in parts of the year, but had improved significantly at year end, reaching 88 (106) days at year end. The improvement was mainly due to a strong collection and positive effects from a stronger SEK. The Company s nominal credit losses have historically been low and continued to be so in 2010.

Net cash increased to SEK 51.3 (36.1) billion, mainly due to a strong operating cash flow. Read more about changes in cash on page 42.

Equity

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

Return on equity increased to 7.8 (2.6) percent, primarily due to improved earnings in the joint venture Sony Ericsson and less restructuring charges.

Return on capital employed (ROCE) improved to 9.6 (4.3) percent. Excluding restructuring charges, ROCE would have been 13.6 (11.2) percent.

Non-current liabilities

Post-employment benefits related to defined benefit plans declined to SEK 5.1 (8.5) billion. The year 2010 was characterized by a general increase in discount rates and plan assets yielded higher than expected. Consequently, the Company experienced a decrease in the net pension liability and the funded ratio (plan assets as percentage of defined benefit obligations) increased to 89 (76) percent.

Current liabilities

Provisions declined to SEK 9.4 (12.0) billion. SEK 3.2 (4.3) billion were related to restructuring. The cash outlays of provisions were SEK 7.2 billion. The lower amount of provisions is mainly a result of business mix with more upgrades and expansions. There is also an effect of improved project management as well as geographical mix. Provisions will fluctuate over time, depending on business mix, market mix and technology shifts.

Payable days increased by five days to 62 (57) days. The target of payable days of above 60 days was met.

Non-current borrowings decreased to SEK 27.0 (30.0) billion. No major changes were made in the debt maturity profile during 2010. Debt of SEK 3.4 billion is maturing in 2012 and SEK 5.4 billion in 2013. The Company also has unutilized committed credit facilities of USD 2.0 billion available, maturing in 2014.

Credit ratings at solid investment grade

Credit ratings were unchanged during 2010, remaining at solid investment grade : Moody s at Baa1 and Standard & Poor s at BBB+, both with stable outlook.

Off-balance sheet arrangements

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

CASH FLOW

CASH FLOW (ABBREVIATED) JANUARY-DECEMBER

SEK billion	2010	2009	2008
Net income	**11.2**	4.1	11.7
Income reconciled to cash	**23.7**	21.0	26.0
Changes in operating net assets	**2.9**	3.5	2.0
Cash flow from operating activities	**26.6**	24.5	24.0
Adjusted operating cash flow[1)]	**29.8**	28.7	22.1
Cash flow from investing activities	**12.5**	37.5	8.5
of which capital expenditures, sales of PP&E, product development	***5.2***	*4.9*	*4.1*
of which acquisitions/divestments, net	***2.8***	*18.1*	*1.8*
of which short-term investments for cash management purposes and other investing activities	***4.5***	*14.5*	*6.2*
Cash flow before financing activities	**14.0**	13.0	15.5
Cash flow from financing activities	**5.7**	1.7	7.2
Cash conversion (Cash flow from operating activities divided by income reconciled to cash)	**112%**	117%	92%
Gross cash (Cash, cash equivalents and short-term investments)	**87.1**	76.7	75.0
Net cash (Gross cash less interest-bearing liabilities and post-employment benefits)	**51.3**	36.1	34.7

1) Cash flow from operations excl. restructuring cash outlays that have been provided for.

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

Net cash increased to SEK 51.3 (36.1) billion.

Cash flow from operating activities

The adjusted operating cash flow was positively impacted by improved net income as well as released working capital.

Cash flow from operating activities tends to fluctuate between quarters. This is due to changes in trade receivables where there is a seasonal effect from project completion. There is also an effect from seasonal purchase patterns of network operators. The cash flow is therefore evaluated on a yearly basis.

Cash flow from investing activities

Cash outlays for recurring investing activities increased slightly to SEK 5.2 (4.9) billion.

Acquisitions and divestments during the year were net SEK 2.8 (18.1) billion, with the major items being the Nortel stake in the LG-Nortel joint venture and Nortel s GSM business in North America. Divestments were SEK 0.5 (1.2) billion.

Cash outflow for short-term investments for cash management purposes and other investing activities was net SEK 4.5 (14.5) billion, largely attributable to SEK 3.0 (17.1) billion of short-term investments.

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Capital expenditures

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

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

The Company has sufficient cash and cash generation capacity to fund expected capital expenditures as well as acquisitions without external borrowings in 2011.

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, 2010, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

CAPITAL EXPENDITURES 2006 2010

SEK billion	2010	2009	2008	2007	2006
Capital expenditures	**3.7**	4.0	4.1	4.3	3.8
of which in Sweden	***1.4***	*1.3*	*1.6*	*1.3*	*1.0*
as percent of net sales	**1.8%**	1.9%	2.0%	2.3%	2.2%

Cash flow from financing activities

Dividends paid in the amount of SEK 6.7 (6.3) billion, were partly offset by increased borrowings of SEK 1.1 billion and other financing activities of SEK 0.1 billion.

Cash conversion

Cash conversion was 112 (117) percent, well above the target of 70 percent. Over the past three years, cash conversion has been above target.

The cash conversion was largely attributable to the strong improvement in net operating assets and the lower income reconciled to cash.

Restricted cash

Cash balances in certain countries with restrictions on transfers of funds to the Parent Company as cash dividends, loans or advances amounted to SEK 10.8 (8.9) billion.

BUSINESS RESULTS

Regional development

The regions are the Company s primary sales channels. As of January 1, 2010, Ericsson has changed its geographical reporting. Instead of the five geographical areas reported in previous years, ten regions are reported, mirroring the new internal geographical organization.

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SALES PER REGION AND SEGMENT 2010

SEK billion	Networks	Global Services	Multi-media	Total change	Percent
North America	30.5	17.7	1.3	**49.5**	107%
Latin America	9.2	7.7	0.9	**17.9**	11%
Northern Europe & Central Asia	7.2	4.3	0.6	**12.2**	2%
Western & Central Europe	8.3	10.5	1.0	**19.9**	12%
Mediterranean	10.6	10.6	1.4	**22.6**	10%
Middle East	7.2	6.6	1.4	**15.1**	17%
Sub-Saharan Africa	3.6	4.6	1.0	**9.2**	40%
India	5.1	2.8	0.7	**8.6**	43%
China & North East Asia	17.1	8.3	0.5	**26.0**	0%
South East Asia & Oceania	7.8	6.5	0.6	**14.9**	29%
Other*	6.0	0.5	1.1	**7.4**	4%
Total	**112.7**	**80.1**	**10.5**	**203.3**	**2%**
Share of total	56%	39%	5%	**100%**	
Percent change	1%	1%	21%	**2%**	

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

North America

Sales was positively impacted by the acquired Nortel businesses and negatively affected by the strong SEK. Ericsson became the largest player in the region, driven by organic growth as well as acquisitions. The main growth drivers were the managed services agreement with Sprint, data traffic driven network expansions and the initial build out of LTE networks. Ericsson is a leading supplier of WCDMA/CDMA and LTE to Verizon, AT&T and MetroPCS. MetroPCS and Verizon commercially launched their LTE networks in 2010. North America is Ericsson s largest market measured in sales and its second largest after Sweden measured in number of employees.

Sprint announced Ericsson as key partner in their network evolution strategy Network vision program.

Latin America

The region was characterized by major mergers between regional operators. Lower cost smartphones have created continuous growth in mobile broadband usage, driving operators to invest in networks and services. The services business developed favorably, especially managed services. LTE trials are ongoing in the region.

The world s first solution to connect public buses to mobile broadband was provided by Dataprom and Ericsson in Brazil. Ericsson was also selected to manage Telefonica s network operation center in São Paulo with core, transmission and fixed-access equipment.

The contracts mentioned are a selection of deals signed by Ericsson in 2010. Ericsson normally publicly announces only a part of its wins. Typically only agreements that have some kind of significance in terms of strategy or value are announced via a press release. Ericsson also always seeks for customer approval for any contract release.

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Northern Europe and Central Asia

In the eastern part of the region, both 2G expansions and mobile broadband buildouts are taking place. In Scandinavia, focus is on 4G/LTE deployments. 4G/ LTE trials are planned or ongoing across the region. Operators have operational efficiency high on the agenda, which creates good demand for managed services. Denmark s leading operator TDC is about to upgrade to 4G/LTE and has chosen Ericsson to supply and manage its nationwide network. Ericsson was also chosen to provide the broadband access network based on VDSL2 technology to TeliaSonera.

Western and Central Europe

Mobile broadband usage continues to increase in the region. Following conclusions of auctions for 4G/LTE in several markets, Ericsson has been selected for a number of 4G/LTE trials now being implemented with major operators. Ericsson is also supporting operators in connection with data capacity and modernization projects. Operators focus on efficiency continued to drive strong interest for managed services, network sharing and network transformation leading to opportunities in both services and networks. The UK is at the forefront of network sharing. Ericsson has completed the consolidation of shared sites (over 12,000) for Mobile Broadband Network Ltd (MBNL). Ericsson also extended the managed services business through extensions of existing contracts. This includes a three-year extension with Netia Poland, as well as a renewed and expanded multi-country managed services contract with TeliaSonera International Carrier for field operation services for voice and data networks, built on multi-vendor equipment. Ericsson also signed a five-year managed field service contract for Vodafone in Germany.

Mediterranean

Operator investments especially in Spain and Greece were cautious due to the overall economic environment and price competition among operators. In order to meet demand for mobile broadband services, operators continued to focus on network modernization. Operational efficiency continues to be high on the agenda, creating good momentum for managed services and consulting in networks as well as in all ICT areas.

Ericsson signed a seven-year managed services contract with 3 Italia for data center consolidation and modernization of IT infrastructure.

The largest utility company in Spain, Endesa, selected Ericsson to operate its corporate telecommunication network.

Middle East

The sales drop was caused by cautious operator investments in parts of the region. Development in the region showed large variations where the Gulf countries continued to show good momentum, while most other parts of the region were slow. Services continues to be a large part of the business, representing 43 percent of total sales. Operators are starting to show interest in 4G/LTE with several trials going on throughout the region. Mobile subscriptions in the region are developing positively with net additions for both voice and broadband services.

To offer innovative services to its customers, the Qtel Group chose Ericsson s Service Delivery Platform. Its customers across the Middle East, North Africa and South East Asia get access to new multimedia services such as social networking and mobile music.

Sub-Saharan Africa

The region was impacted by the global economic downturn with a tight credit environment as well as operator consolidation. The region is predominately a market where 2G rollouts are in focus. However, demand for mobile broadband is emerging throughout the region, although at a low pace. Services sales increased and now represents 50 percent of total sales.

India

India sales were impacted by 3G auctions and security clearance in the first half of the year. In the middle of the year, Ericsson got security clearance for deliveries of equipment. In the fall, contracts for 3G deployments were signed. Ericsson has a market share for 3G which is in line with its 2G position. Throughout the year, the recurring services business maintained good development. Radius Infratel signed a fiber-to-the-home contract with Ericsson, providing more than half a million subscribers with fixed broadband.

China and North-East Asia

While operators on mainland China are still focused on successful 3G launches, operators across the region also now have 4G/LTE on the agenda. In Japan, demand for mobile broadband had a positive effect on sales.

Ericsson won a managed services contract with China Unicom for field maintenance of radio base station sites, fixed network and transmission as well as a contract with China Mobile for field maintenance of radio base station sites. Leading Japanese operator SoftBank Mobile invested in capacity by upgrading its HSPA radio access network with Ericsson s RBS 6000. Increased use of smartphones and advanced mobile applications boost data traffic and in order to ensure continued user quality, EMOBILE has enhanced its network with 3G/HSPA 42 Mbps supplied by Ericsson.

On June 30, the acquisition of Nortel s part of LG-Nortel was completed. This positions Ericsson as a leading vendor in Korea. Another milestone was the showcase of the first complete TD-LTE solution with end-to-end-capabilities, together with ST-Ericsson in China.

South-East Asia and Oceania

Sales of network equipment were weaker overall due to cautious investment in a number of markets. Investment highlights include network expansions in Bangladesh and Indonesia. Access to spectrum for 3G and 4G/LTE remains a limitation in several markets. Overall there is an increasing interest for managed services among operators in several countries.

The region includes a mix of markets focused on long-term government-sponsored fiber deployments as well as operator investment in 3G/HSPA upgrades and 4G/LTE trials. Other markets in the region are continuing to expand in 2G and mobile broadband.

Indonesian GSM and 3G operator AXIS extended its managed services contract with Ericsson. Ericsson will be responsible for AXIS network operations, field maintenance, support services and spare parts management in Greater Jakarta and Northern Sumatra. Indosat has commissioned Ericsson to modernize its network and launched Asia s fastest mobile network, based on Ericsson s 3G/ HSPA 42 Mbps.

Networks

Network sales declined 1 percent to SEK 112.7 (114.0) billion. Sales were positively impacted by the acquisition of Nortel businesses. There was a negative impact from the industry-wide component shortage during the year.

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

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

The operating margin was 15 (14) percent. The improvement is due to cost reductions as well as business mix in the first half of the year with a higher proportion of network upgrades and expansions.

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

The value of the market for operator equipment was approximately USD 100 billion in 2009. Market data shows that Ericsson has a market share of approximately 40 percent in GSM/WCDMA radio base stations.

To grow market share organically Ericsson is striving to increase footprint, especially in Europe where the Company has a lower market share than elsewhere. Network modernization projects, along with the 3G rollouts in India, puts initial pressure on gross margin. However, these projects are essential parts of the Company s strategy to build a good platform for continued long-term growth and profitability.

Ericsson has focus on operational excellence and cost efficiencies. For hardware, cost efficiencies can be gained by using more standardized components, merging platforms and using more land transportation etc. In software development and implementation, efficient programming, project execution and re-use of platforms are key to keeping costs down. Measures to secure these cost efficiencies are an element of every operation.

In 2010, Ericsson commercially launched its multi-standard radio base station RBS 6000 which is now shipping in large volumes. A number of commercial 4G/ LTE launches took place in the US and Sweden, with Ericsson as a supplier. Operators have launched 4G/LTE covering more than 140 million people, of whom 60 percent are served by Ericsson 4G/LTE equipment. The Company could thus secure early volume deliveries of 4G/LTE. These activities should give the Company competitive scale advantages.

An industry-wide component shortage hit the Company in 2010, making it difficult for the Company to meet the increased demand for mobile broadband related products. Ericsson ramped up production of its new radio base station RBS 6000 much quicker and with less quality issues than expected. To mitigate the effects of the industry-wide component shortage, internal measures were taken to re-design products and to secure a reduced degree of customized components. In the fourth quarter, the supply of components had normalized.

In the Networks segment, Ericsson competes mainly with large and well-established telecommunication equipment suppliers. The most significant competitors include Alcatel-Lucent, Huawei, Nokia Siemens Networks, Cisco, ZTE and Juniper. The Company also competes with local and regional manufacturers and providers of telecommunications equipment.

Global Services

Global Services sales increased 1 percent to SEK 80.1 (79.2) billion. Operating margin was 11 (11) percent. Global Services includes Professional Services and Network Rollout.

Professional Services consists of managed services, consulting and systems integration, customer support and education. Professional Services increased 4 percent to SEK 58.5 (56.1) billion and in local currencies 9 percent, in line with previous years growth pace. Managed Services increased 21 percent to SEK 21.1 (17.4) billion. The increase was primarily driven by the contract with the US-based operator Sprint, which started in September 2009. The contract value was USD 5.5 billion for seven years at the time of the announcement.

Two thirds of Professional Services revenues are recurring, mainly managed services and customer support. Contracts are often long, five to seven years, and payments are made in advance. Consulting and systems integration deals are by nature shorter and paid after fulfillment of contract.

Network Rollout decreased -7 percent to SEK 21.6 (23.1) billion. Network rollout includes turnkey projects with a large part of third party sourcing, making it a lower-margin business.

Ericsson s services offering covers all areas within an operator s operational scope. Ericsson can be provided the opportunity to design, plan, build and manage a core network or operate all field operations for an operator s business support system, service, core, transmission and access network. Most often however, operators turn to Ericsson for support in a certain part of its operation. Ericsson has three assignments where the Company is responsible for everything within an operator s operational scope. Those agreements are with Sprint in the US, 3 in the UK and 3 in Italy. Ericsson manages networks, or parts of networks, with 450 million subscribers. If also field operations and spare parts management contracts are included, the figure is 750 million subscribers.

Over the past years, Ericsson has seen a growing interest from operators for sharing the access networks. Through this, operators can reduce cost for the so called passive equipment at a site, like rental costs for towers, power and cooling. Execution of a sharing plan requires complex integration of multi-vendor systems, which is one of Ericsson s key competencies.

The total global telecom services market was valued at USD 239-249 billion in 2009 (see graph on next page). Roughly two thirds is operator-internal operating spending. Services handled by suppliers represented a third of the total market. Over the years 2005-2009 the total services market grew in average by about 11 percent annually.

Ericsson estimates its market share in telecom services at over 10 percent. Due to the fragmented market, Ericsson is by far the largest player. The Company has 45,000 professionals across the world. Over the years, the Company has insourced more than 20,000 employees from operators.

Services is a local business and all competitors therefore basically have the same cost structure. In order to gain synergies and cost efficiencies, global methods, processes and tools are a prerequisite. Over the past years, Ericsson has invested USD 1 billion in developing methods, processes and tools, securing efficiencies and cost advantages. As telecom is becoming more and more of a software industry, monitoring and maintenance of networks as well as upgrading of software can be done remotely. Ericsson today has four global network operations service centers in Mexico, Romania, India and China. The Company secures the operation of networks around the clock, throughout the year, for 2 billion subscribers.

In managed services, Ericsson can insource employees from the customer. In the transition period, restructuring costs are taken, for e.g. replacement of IS/IT-systems, migration of employees into new systems and premises. All this to transform operations to standardized processes, methods and tools. In this process, management s leadership and communication skills are of utmost importance. Ericsson has a culture of putting individuals in focus, showing respect and giving employees the opportunities to develop. In the transformation phase, following the transition, scale synergies are carried through.

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Of operators internal operating expenditures a large part relates to IS/IT. With solutions for Operations Support Systems (OSS) and Business Support Systems (BSS), Ericsson targets also this IS/IT-oriented part of the market. OSS/BSS are software-based solutions, but require a lot of integration work on the customer s site, both for IS/IT and telecom systems. Systems integration business is also important to the Business Support System s (BSS) area within segment Multimedia.

Competition in the Global Services segment includes many of the traditional telecommunication equipment suppliers. Since a lot of business in Global Services is about moving up the value chain, the Company competes with large companies from other industry sectors, such as Accenture, HP, IBM, Oracle and India-based off-shore companies, e.g. Tata Consultancy Services and Tech Mahindra. Among competition is also a large number of smaller but specialized companies operating on a local or regional basis.

Multimedia

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

In 2010, a program for return to profitability was initiated. The program includes phase-out of products, reduction of sourcing and supply costs and decoupling of software and hardware using commercial off-the-shelf hardware. Increased volumes at the end of the year resulted in a recovery in the last quarter.

Operations within Multimedia are divided into three areas with their specific market drivers.

Business Support Systems is the segment s largest market with a total value of about USD 35 billion in 2009. Within this market, the revenue management market is the largest. The Company is the market leader and more than 1.2 billion subscribers are charged and billed via Ericsson s solutions.

The decline in Multimedia s total sales 2010 was mainly related to revenue management. Segment Multimedia in general and revenue management in particular has a large exposure to markets such as India, Middle East and Sub-Saharan Africa where operators postponed investments mainly due to operator consolidation. Going forward, there is growth potential as operators want to modernize their business support systems to capture the full revenue potential of mobile broadband and to merge billing and charging systems into one solution.

The second largest operation in Multimedia is Television and Media Management which developed well in 2010. The compression business continues to grow. Ericsson is the leading player with a market share of 25 percent in compression and 40 percent in IPTV head-ends. The worldwide digital TV market showed strong growth, with digital TV homes expected to double in the next five years.

The third operation is Consumer and Business Applications. A key aim is to support operators in modernizing their legacy value-added services environment, by providing for example messaging systems and service delivery systems. With a market share of 40 percent in mobile positioning and more than 10 percent in service delivery platforms, Ericsson holds a leading position. The Business Communication Suite targets the enterprise market. It combines unified communication with mobility, providing business communities with a collaboration and multimedia solution.

Multimedia is mainly a software business. The solutions often require local adaptations in customers networks. Therefore Multimedia sales also drive sales of systems integration services.

The market for the Multimedia segment is rather fragmented. Competitors vary widely depending on the solution being offered. They include many of the traditional telecommunication equipment and IT suppliers, such as Amdocs and Comverse, as well as companies from other industries, such as Harmonic, Oracle and Thompson.

Joint Ventures

Sony Ericsson

Sony Ericsson is a 50/50 joint venture between Sony Corporation and Ericsson, established in 2001. Sony Ericsson is accounted for according to the equity method.

The global handset market is believed to have increased slightly in volume to almost 1.2 billion units. Sony Ericsson s market share in the total global handset market 2010 was approximately 4 percent in units and 6 percent in value. Sony Ericsson focuses on the smartphone segment and the Android operating system.

Units shipped declined by 25 percent to 43.1 (57.1) million while the average selling price increased by 23 percent to EUR 146 (119). Sales decreased by 7 percent to EUR 6.3 (6.8) billion. Gross margin improved during the year to 29 (15) percent as benefits of cost reductions and new smartphones materialized.

Income before taxes, excluding restructuring charges, was EUR 0.2 (0.9) billion. Income increased during the year thanks to improved gross margin and reduced operating expenses. Ericsson s share in Sony Ericsson s income before taxes was SEK 0.7 (5.7) billion.

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

ST-Ericsson

ST-Ericsson is a 50/50 joint venture between STMicroelectronics and Ericsson, which started in February, 2009. ST-Ericsson is accounted for according to the equity method. It has one of the industry s strongest product offering in semiconductors and platforms for mobile devices. ST-Ericsson is a key supplier to top handset manufacturers. In 2010, ST-Ericsson continued its transition, merging three operations. Its focus today is to deliver new products to the market.

Sales declined 9 percent to USD 2.3 (2.5) billion. The operating loss for the year, adjusted for restructuring costs, was USD 0.4 (0.4) billion.

ST-Ericsson is reporting in US-GAAP. Ericsson s share in ST-Ericsson s income before taxes, adjusted to IFRS, was SEK 1.8 (1.8) billion. Adjustments for IFRS-compliance mainly consist of capitalization of R&D expenses for hardware development.

The Company s net financial position was USD 82 (229) million at year-end. In the fourth quarter 2010, a short-term credit facility of USD 150 million made available on a 50:50 basis by parent companies was utilized.

During 2010, two restructuring plans of USD 345 million were finalized. The first one of USD 230 million gave full impact from third quarter and the second plan of USD 115 million was completed by year end.

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

LEGAL AND TAX PROCEEDINGS

Together with most of the mobile communications industry, Ericsson has been named a defendant in two class action lawsuits in the US, in which plaintiffs allege that adverse health effects could be associated with mobile phone usage:

In Pennsylvania: In September 2008, the federal court in Pennsylvania dismissed the plaintiffs claims as preempted by federal law. The Third Circuit Court of Appeals subsequently affirmed this ruling. In February 2011, the Public Citizen Litigation Group filed an appeal with US Supreme Court.

In the District of Columbia: In July 2010, the District of Columbia Superior Court granted in part and denied in part the defendants motion to dismiss. In September 2010, the plaintiff filed a third amended complaint. In October 2010, the defendants moved to dismiss the District of Columbia case. In February, 2011, the Supreme Court for the District of Columbia dismissed with prejudice Ericsson from the case.

In April 2007, an Australian company, QPSX Developments Pty Ltd., filed a patent infringement lawsuit against Ericsson and other defendants in the US, alleging that Ericsson infringed a patent related to Asynchronous Transfer Mode (ATM) technology. The lawsuit was stayed in August 2009 pending the resolution of a reexamination proceeding in the US Patent and Trademark Office (PTO). The stay was lifted in November 2010 after all the asserted patent claims were confirmed as valid by the PTO. The trial is scheduled for September 2011.

Swedish fiscal authorities have disallowed deductions for sales commission payments via external service companies to sales agents in certain countries. Most of the taxes have already been paid. The decision covering the fiscal year 1999 was appealed. In December 2006, the County Administrative Court in Stockholm rendered a judgment in favor of the fiscal authorities. The Administrative Court of Appeal in Stockholm affirmed the County Administrative Court s judgment. The judgment has been appealed to the Administrative Supreme Court. For more information on risks related to litigations, see chapter Risk Factors.

In January 2011, a US company SynQor filed a patent infringement lawsuit against Ericsson Inc. in the Eastern District of Texas alleging that Ericsson infringes five U.S. patents related to bus converters. In February 2011, SynQor filed a motion for preliminary injunction seeking to prevent Ericsson from manufacturing, using, selling, and offering for sale in the U.S. and/or importing into the U.S. certain unregulated and semi-regulated bus converters and any Ericsson products that contain those bus converters. SynQor also seeks to prevent Ericsson from selling the accused bus converters to companies that in-turn sell products incorporating the bus converters in or into the U.S.

MATERIAL CONTRACTS

Material contractual obligations are outlined in Note C32 Contractual obligations . These are primarily related to operating leases for office and production facilities, purchase contracts for outsourced manufacturing, R&D and IT operations, and the purchase of components for the Company s own manufacturing.

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

CORPORATE GOVERNANCE

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

Continued Compliance with the Swedish Corporate Governance Code

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

An ethical business

Ericsson s Code of Business Ethics summarizes the Group s fundamental policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to achieve and maintain its high 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 2010/2011

The Annual General Meeting on April 13, 2010, re-elected Michael Treschow as Chairman of the Board and Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Ulf J. Johansson, Sverker Martin-Löf, Nancy McKinstry, Anders Nyrén, Carl-Henric Svanberg and Marcus Wallenberg as Directors of the Board. The Annual General Meeting elected Hans Vestberg and Michelangelo Volpi as new members of the Board. Anna Guldstrand, Jan Hedlund and Karin Åberg were appointed as union representatives with Pehr Claesson, Kristina Davidsson and Karin Lennartsson as deputies.

Management

Hans Vestberg was appointed President and CEO, succeeding Carl-Henric Svanberg, as of January 1, 2010. The President and CEO is supported by the Executive Leadership Team which, in addition to the President and

CEO, consists of heads of Group Functions, heads of business units, two heads of region and the Chief Brand Officer. A management system is implemented to ensure that the business is well controlled and able 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 of Group management as well as the 2010 guidelines for remuneration to senior management are reported in Notes to the Consolidated Financial Statements Note C29, Information Regarding Members of the Board of Directors, the Group management and Employees .

As of December 31, 2010, 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.

All relevant information regarding remuneration can be found in chapter Remuneration Report.

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

The Board of Directors proposes that the current guidelines for remuneration and other employment terms for the senior management (Remuneration Policy) remain unchanged for the period up to the 2012 Annual General Meeting.

Details of how Ericsson delivers on these principles and policy, including information on previously decided long-term variable remuneration that has not yet become due for payment, can be found Note C29, Information regarding Members of the Board of Directors, the Group management and Employees .

RISK MANAGEMENT

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

- Risk management is an integrated part of the Ericsson Group Management System
- Each operational unit is accountable for owning and managing its risks according to policies, directives and process tools. Decisions are made or escalated according to defined delegation of authority. Financial risks are coordinated through Group Function Finance
- Risks are dealt with during the strategy process, the annual planning and target setting, the continuous monitoring through monthly and quarterly steering group meetings and during operational processes by transaction (customer bid/ contract, acquisition, investment and product development projects). They are subject to various controls such as decision tollgates and approvals.

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

For information of risks that could impact the fulfillment of the targets and form the basis for mitigating activities, see the other sections of the Board of Directors Report, Notes C14, Trade receivables and customer finance , C19, Interest-bearing liabilities , C20, Financial risk management and financial instruments and chapter Risk Factors on page 167.

SOURCING AND SUPPLY

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

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority is in low-cost countries. Node production is largely done in-house and on-demand. This consists of assembly, testing of modules and integrating them into complete radio base stations, mobile switching centers etc.

Where possible Ericsson relies on alternative supply sources. When selecting a new supplier, the supplier code of conduct should be met. Variations in market prices for raw materials generally have a limited effect on total cost of goods sold.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

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

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

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

Minimizing risk

Responsible business practices

Ericsson supports the UN Global Compact and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. The Ericsson Group Management System includes policies and directives that cover responsible business practices, such as the Code of Business Ethics, Code of Conduct (CoC), anti-corruption and environmental management. It is reinforced by training, workshops and monitoring, including a global assessment program run by an external assurance provider in which CR criteria represent approximately 20 percent of the total areas assessed. During 2010, Ericsson launched a new Sustainability Policy and an e-learning program on Sustainability and CR for all employees.

Supply chain

Suppliers must comply with Ericsson s CoC. Some 150 employees, covering all regions, are trained as supplier CoC auditors and the Company performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that lasting improvements are made. As a complement to the audits, a free web-based CoC training is now available for all suppliers in 13 languages. To effectively address the issue of conflict minerals, Ericsson participates in the Global e-Sustainability Initiative (GeSI) work group for conflict minerals.

Design for environment

Processes and controls are in place to ensure compliance with relevant product related environmental, customer and regulatory requirements. The areas covered are energy efficiency and materials management. To better meet the rapidly changing legal requirements on materials management a new materials declarations tool was released in 2010.

Take-back

Ericsson Ecology Management and Product Take-back is a global initiative to take responsibility of products at the end of their life. More than 95 percent of decommissioned equipment is recycled, exceeding the EU Waste Electronic Electrical Equipment Directive (WEEE) stipulation of 75 percent. During 2010 more than 2,500 tonnes of e-waste were collected. This is less than 2009 due to there being a fewer number of operator change-outs of equipment. During 2010, Ericsson has continued to improve its capabilities to handle WEEE in Latin America and the Middle East as well as in production facilities in Sweden, India and China. Alignment of the process in order to comply with the Indian WEEE Directive has also begun.

Ericsson received recognition and a number of prestigious awards for its sustainability and corporate responsibility achievements. Vodafone presented Ericsson with its Corporate Responsibility supplier award.

Greenpeace named Ericsson one of the best ICT companies in its Cool lT Leaderboard. Ericsson s focus and accomplishment on sustainability and life-cycle management was awarded the InfoWorld Green Award. Gartner has also recognized Ericsson for its sustainability leadership.

Ericsson is a partner in the Ghana E-waste project. Its goal is to establish local recycling capabilities and transform informal e-waste recycling into a formal business and thereby help to alleviate poverty. This is being coordinated by the Raw Materials Group in cooperation with the Ghana Environmental Protection Agency and financed by the Nordic Development Fund.

Radio waves and health

Ericsson provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Ericsson has co-sponsored over 90 studies related to electromagnetic fields, radio waves and health since 1996. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and 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.

Creating value

The environmental opportunity

Information and Communication Technology (ICT) represents about two percent of global CO_2 emissions, but can potentially offset a significant portion of the remaining 98 percent from other sectors. Ericsson takes active measures to ensure that its own carbon footprint will be continuously reduced. A carbon footprint reduction target was set in 2008, to reduce emissions relative to products sold by 40 percent over five years, from in-house activities and the life-cycle impacts of products. In 2010, Ericsson met the annual 10 percent reduction target:

- There was a slight increase in direct emissions from Ericsson s in-house activities. Component shortages have led to an increase in shipping by air, and business travel has increased somewhat due to increased number of employees

- A 14 percent reduction was achieved in indirect emissions from products in operation per capacity, resulting in 26 percent total from 2008. This improvement was mainly due to the introduction of the radio base station RBS 6000 family. In addition, part of Ericsson s sustainability strategy is to focus on the role that broadband can play in helping to offset global CO_2 emissions. Ericsson focused on sustainable city solutions, and has actively engaged in global climate policy, including the Guadalajara ICT Declaration and Global e-Sustainability Initiative publication Evaluating the Carbon-Reducing Impacts of ICT .

Meeting the millennium development goals

Mobile connectivity fuels economic growth, which is particularly vital for the billions of people living at the base of the economic pyramid the markets of the future. Ericsson is committed to using its technology and competence to help achieve the UN Millennium Development Goals (MDGs), and customer engagement is part of its strategy to meet this aim.

In 2010, Ericsson and its partners, The Earth Institute, Columbia University and Millennium Promise, launched a global education initiative, Connect To Learn, as an extension of its commitment to the MDGs.

Ericsson response

Ericsson Response is a global employee volunteer initiative with the aim to rapidly roll out communication solutions and provide telecommunications experts to assist disaster relief operations. Ericsson Response cooperates with the UN Office for the Coordination of Humanitarian Affairs (UNOCHA), the UN World Food Programme (WFP), the UN Children s fund (UNICEF) and other International Organizations and Non-Governmental Organizations (NGO) like the International Federation of Red Cross and Red Crescent Societies (IFRC) and Save the Children.

In 2010, support was provided to WFP and UNICEF working in Haiti, Port-au-Prince, during six months of on-site work by 19 volunteers. This is one of the longest disaster response deployments of Ericsson Response s history. This year also marked the tenth anniversary and a decade of relief work provided by Ericsson Response.

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 is the owner of a substantial part of Ericsson s intellectual property rights. It manages the patent portfolio, including patent applications, licensing and crosslicensing of patents and defending of patents in litigations. The Parent Company has 6 (6) branch offices. In total, the Group has 68 (65) branch and representative offices.

Financial information

Net sales for the year amounted to SEK 0.0 (0.3) billion and income after financial items was SEK 6.8 (8.1) billion. Exports accounted for 100 (100) percent of net sales. The Parent Company had no sales in 2010 or 2009 to subsidiaries, while 45 (45) percent of total purchases of goods and services were from such companies.

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

- Investments in LG-Ericsson of SEK 1.9 billion
- Decreased current and non-current receivables from subsidiaries of SEK 8.3 billion
- Increased other current receivables of SEK 1.6 billion
- Increased cash, cash equivalents and short-term investments of SEK 9.2 billion
- Increased current and non-current liabilities to subsidiaries of SEK 4.7 billion
- Decreased other current liabilities of SEK 0.2 billion.

At year end, cash, cash equivalents and short-term investments amounted to SEK 71.6 (62.4) billion.

Share information

As per December 31, 2010, the total number of shares was 3,273,351,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,011,595,752 Class B shares, each carrying one tenth of one vote. The two largest shareholders at year end were Investor and Industrivärden holding 19.33 and 13.80 percent respectively of the voting rights in the Parent Company.

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

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 5,890,018 treasury shares were sold or distributed to employees in 2010. The quotient value of these shares was SEK 29.4 million, representing less than 1 percent of capital stock, and compensation received amounted to SEK 59.8 million. The holding of treasury stock at December 31, 2010 was 73,088,515 Class B shares. The quotient value of these shares is SEK 365.4 million, representing 2.2 percent of capital stock, and the related acquisition cost amounts to SEK 622.2 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 2.25 (2.00) per share be paid to shareholders duly registered on the record date April 18, 2011, and that the Parent Company shall retain the remaining part of non-restricted equity.

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

Amount to be paid to the shareholders	SEK 7,365,041,404
Amount to be retained by the Parent Company	SEK 35,608,440,926
Total non-restricted equity of the Parent Company	SEK 42,973,482,330

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company s and the Group s need for financial resources as well as the Parent Company s and the Group s liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 52 (52) percent and a net cash amount of SEK 51.3 (36.1) 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 our 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.

POST-CLOSING EVENTS

On March 16, 2011, Ericsson made a statement regarding the situation in Japan following the earthquake on March 11.

The Company focuses on supporting customers in securing functionality of vital telecommunication services. Ericsson states that, as Japan is a large supplier to the global market for semiconductors and other components, it is reasonable to expect an effect on supply but it is too early to say to what extent. The situation in Japan is not expected to have material impact on Ericsson s Q1 2011 sales.

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, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, 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, March 30, 2011

PricewaterhouseCoopers AB

CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED INCOME STATEMENTS

Years ended December 31, SEK million	Notes	2010	2009	2008
Net sales	C3, C4	**203,348**	206,477	208,930
Cost of sales		**129,094**	136,278	134,661
Gross income		**74,254**	70,199	74,269
Gross margin (%)		**36.5%**	34.0%	35.5%
Research and development expenses		**31,558**	33,055	33,584
Selling and administrative expenses		**27,072**	26,908	26,974
Operating expenses		**58,630**	59,963	60,558
Other operating income and expenses	C6	**2,003**	3,082	2,977
Operating income before shares in earnings of joint ventures and associated companies		**17,627**	13,318	16,688
Operating margin before shares in earnings of joint ventures and associated companies (%)		**8.7%**	6.5%	8.0%
Share in earnings of joint ventures and associated companies	C12	**1,172**	7,400	436
Operating income		**16,455**	5,918	16,252
Financial income	C7	**1,047**	1,874	3,458
Financial expenses	C7	**1,719**	1,549	2,484
Income after financial items		**15,783**	6,243	17,226
Taxes	C8	**4,548**	2,116	5,559
Net income		**11,235**	4,127	11,667
Net income attributable to:				
Stockholders of the Parent Company		**11,146**	3,672	11,273
Non-controlling interest		**89**	455	394
Other information				
Average number of shares, basic (million)	C9	**3,197**	3,190	3,183
Earnings per share attributable to stockholders of the Parent Company, basic (SEK)[1)]	C9	**3.49**	1.15	3.54
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK)[1)]	C9	**3.46**	1.14	3.52

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, SEK million	Notes	2010	2009	2008
Net income		**11,235**	4,127	11,667
Other comprehensive income				
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions	C16	**3,892**	633	4,019
Revaluation of other investments in shares and participations				
Fair value remeasurement	C16	**7**	2	6
Cash Flow hedges				
Gains/losses arising during the period	C16	**966**	665	5,116
Reclassification adjustments for gains/losses included in profit or loss	C16	**238**	3,850	1,192
Adjustments for amounts transferred to initial carrying amount of hedged items	C16	**136**	1,029	
Changes in cumulative translation adjustments	C16	**3,259**	1,067	7,314
Share of other comprehensive income on joint ventures and associated companies	C16	**434**	259	1,253
Tax on items relating to components of Other comprehensive income	C16	**1,120**	1,040	2,330
Total other comprehensive income		**322**	485	2,948
Total comprehensive income		**10,913**	4,612	14,615
Total Comprehensive Income attributable to:				
Stockholders of the Parent Company		**10,814**	4,211	13,988
Non-controlling interest		**99**	401	627

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CONSOLIDATED BALANCE SHEETS

December 31, SEK million	Notes	2010	2009
ASSETS			
Non-current assets			
Intangible assets	C10		
Capitalized development expenses		**3,010**	2,079
Goodwill		**27,151**	27,375
Intellectual property rights, brands and other intangible assets		**16,658**	18,739
Property, plant and equipment	C11, C26, C27	**9,434**	9,606
Financial assets			
Equity in joint ventures and associated companies	C12	**9,803**	11,578
Other investments in shares and participations	C12	**219**	256
Customer finance, non-current	C12	**1,281**	830
Other financial assets, non-current	C12	**3,079**	2,577
Deferred tax assets	C8	**12,737**	14,327
		83,372	87,367
Current assets			
Inventories	C13	**29,897**	22,718
Trade receivables	C14	**61,127**	66,410
Customer finance, current	C14	**3,123**	1,444
Other current receivables	C15	**17,146**	15,146
Short-term investments	C20	**56,286**	53,926
Cash and cash equivalents	C25	**30,864**	22,798
		198,443	182,442
TOTAL ASSETS		**281,815**	269,809
EQUITY AND LIABILITIES			
Equity			
Stockholders equity	C16	**145,106**	139,870
Non-controlling interest in equity of subsidiaries	C16	**1,679**	1,157
		146,785	141,027
Non-current liabilities			
Post-employment benefits	C17	**5,092**	8,533
Provisions, non-current	C18	**353**	461
Deferred tax liabilities	C8	**2,571**	2,270
Borrowings, non-current	C19, C20	**26,955**	29,996
Other non-current liabilities		**3,296**	2,035
		38,267	43,295
Current liabilities			
Provisions, current	C18	**9,391**	11,970
Borrowings, current	C19, C20	**3,808**	2,124
Trade payables	C22	**24,959**	18,864
Other current liabilities	C21	**58,605**	52,529

	96,763	85,487
TOTAL EQUITY AND LIABILITIES[1)]	**281,815**	269,809

1) Of which interest-bearing liabilities and post-employment benefits SEK 35,855 million (SEK 40,653 million in 2009).

CONSOLIDATED STATEMENTS OF CASH FLOW

January December, SEK million	Notes	2010	2009	2008
Operating activities				
Net income		**11,235**	4,127	11,667
Adjustments to reconcile net income to cash	C25	**12,490**	16,856	14,318
		23,725	20,983	25,985
Changes in operating net assets				
Inventories		**7,917**	5,207	3,927
Customer finance, current and non-current		**2,125**	598	549
Trade receivables		**4,406**	7,668	11,434
Trade payables		**5,964**	3,522	4,794
Provisions and post-employment benefits		**2,739**	2,950	3,830
Other operating assets and liabilities, net		**5,269**	3,508	4,203
		2,858	3,493	1,985
Cash flow from operating activities		**26,583**	24,476	24,000
Investing activities				
Investments in property, plant and equipment	C11	**3,686**	4,006	4,133
Sales of property, plant and equipment		**124**	534	1,373
Acquisitions of subsidiaries and other operations	C25, C26	**3,286**	19,321	74
Divestments of subsidiaries and other operations	C25, C26	**454**	1,239	1,910
Product development	C10	**1,644**	1,443	1,409
Other investing activities		**1,487**	2,606	944
Short-term investments		**3,016**	17,071	7,155
Cash flow from investing activities		**12,541**	37,462	8,544
Cash flow before financing activities		**14,042**	12,986	15,456
Financing activities				
Proceeds from issuance of borrowings		**2,580**	14,153	5,245
Repayment of borrowings		**1,449**	9,804	4,216
Sale of own stock and options exercised		**51**	69	3
Dividends paid		**6,677**	6,318	8,240
Other financing activities		**175**	199	
Cash flow from financing activities		**5,670**	1,701	7,208
Effect of exchange rate changes on cash		**306**	328	1,255
Net change in cash		**8,066**	15,015	9,503
Cash and cash equivalents, beginning of period		**22,798**	37,813	28,310
Cash and cash equivalents, end of period	C25	**30,864**	22,798	37,813

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Capital stock	Additional paid in capital	Revaluation of other investments in shares and participations	Cash flow hedges	Cumulative translation adjustments	Retained earnings	Stockholders equity	Non-controlling interest (NCI)	Total equity
January 1, 2010		16,367	24,731	4	78	663	98,035	139,870	1,157	141,027
Total comprehensive income	C16			4	440	3,808	14,178	10,814	99	10,913
Transactions with owners										
Stock issue										
Sale of own shares							52	52		52
Stock Purchase Plans							762	762		762
Dividends paid							6,391	6,391	286	6,677
Business combinations									708	708
December 31, 2010		**16,367**	**24,731**		**518**	**3,145**	**106,636**	**145,106**	**1,679**	**146,785**
January 1, 2009		16,232	24,731	1	2,356	2,124	100,093	140,823	1,261	142,084
Total comprehensive income	C16			3	2,434	1,461	3,241	4,211	401	4,612
Transactions with owners										
Stock issue		135						135		135
Sale of own shares							75	75		75
Repurchase of own shares							135	135		135
Stock Purchase and Stock Option Plans							658	658		658
Dividends paid							5,897	5,897	421	6,318
Business combinations									84	84
December 31, 2009		**16,367**	**24,731**	**4**	**78**	**663**	**98,035**	**139,870**	**1,157**	**141,027**
January 1, 2008		16,132	24,731	5	307	6,345	99,282	134,112	940	135,052
Total comprehensive income	C16			6	2,663	8,469	8,188	13,988	627	14,615
Transactions with owners										
Stock issue		100						100		100
Sale of own shares							88	88		88
Repurchase of own shares							100	100		100
Stock Purchase and Stock Option Plans							589	589		589
Dividends paid							7,954	7,954	286	8,240
Business combinations									20	20
December 31, 2008		**16,232**	**24,731**	**1**	**2,356**	**2,124**	**100,093**	**140,823**	**1,261**	**142,084**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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C1 SIGNIFICANT ACCOUNTING POLICIES

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, 2010, have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 Additional rules for Group Accounting , related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2010, the Company has applied IFRS as issued by the IASB (IFRS effective as per December 31, 2010) and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

without any early application. There is no difference between IFRS effective as per December 31, 2010, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS.

The financial statements were approved by the Board of Directors on February 21, 2011. The balance sheets and income statements are subject to approval by the annual meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2010, changing presentation or disclosure:

- IFRS 3 Business Combinations (revised with prospective application) The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, the definition of a business and a business combination has been expanded, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent cash payments classified as debt subsequently re-measured through the income statement. 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. All acquisition related costs shall be expensed as incurred.

- IAS 27 Consolidated and separate financial statements (revised with prospective application). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in income statement.

The following new or amended standards and interpretations have also been adopted:

- IFRIC 17, Distributions of Non-Cash Assets to Owners (Issued November 27, 2008)

- IFRS 2, amendment, Group Cash-settled Share-based Payment Transactions (issued June 18, 2009)

- Improvements to IFRSs (Issued April 16, 2009).

None of the new or amended standards and interpretations has had any significant impact on the financial result or position of the Company. However, the impact on business combination accounting due to the revised IFRS 3 Business Combinations is dependent on type and size of any future arrangement involving a business combination.

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

Changes in financial reporting structure

Change in segments

As of January 1, 2010, Ericsson reports the following segments: Networks, Global Services, Multimedia, Sony Ericsson and ST-Ericsson.

The only change compared to previous years is that Network Rollout is now included in Global Services instead of Networks. All other segments are unchanged. With this change the external reporting is aligned with the new internal reporting structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segments as of January 1, 2010:

- Networks
- Global Services
  - Of which Professional Services
    - Of which Managed Services
  - Of which Network Rollout
- Multimedia
- Sony Ericsson
- ST-Ericsson

Change in geographical break down

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

Regions as of January 1, 2010:

- North America
- Latin America
- Northern Europe and Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

China and Northeast Asia

South East Asia and Oceania

Other

In 2008 and 2009 Ericsson reported top 15 countries in sales. As of January 1, 2010, top five countries are reported.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Business combinations from January 1, 2010

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. 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.

Business combinations before January 1, 2010

At the acquisition of a business, the cost of the acquisition, being the purchase price, was measured as the fair value of assets acquired, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquisition cost was allocated to acquired assets, liabilities and contingent liabilities based upon appraisals made, including assets that were not recognized on the acquired entity s balance sheet, for example intangible assets such as customer relations, brands and patents. Goodwill arose when the purchase price exceeded the fair value of recognizable acquired net assets. Final amounts had to be established within one year after the transaction date.

Non-controlling interest

Acquisitions from January 1, 2010

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

When the Company ceases to have control or significant influence, 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.

Acquisitions before January 1, 2010

The Company treated transactions with non-controlling interests (formerly minority interests) as transactions with external parties. Disposals of minority interests were recognized as gains and losses in the income statement. Purchases from non-controlling interests resulted in goodwill if there were differences between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. The non-controlling interest in the acquiree was measured at the non-controlling interests proportionate share of the acquiree s net assets.

Joint ventures and associated companies

Investments in joint ventures and associated companies, i.e. where voting stock interest, including effective potential voting rights, is at least 20 percent but not more than 50 percent, or where a corresponding influence is obtained through agreement, are accounted for in accordance with the equity method. Under the equity method, the investment in an associate 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency remeasurement and translation

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

Transactions and balances

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

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

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

Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company offers a comprehensive portfolio of telecommunication and data communication systems, multimedia solutions and professional services, covering a range of technologies.

The contracts are of four main types:

- delivery-type.
- contracts for various types of services, for example multi-year managed services contracts.
- license agreements for the use of the Company s technology or intellectual property rights, not being a part of another product.
- construction-type.

The majority of the Company s products and services are sold under delivery-type contracts including multiple elements, such as base stations, base station controllers, mobile switching centers, routers, microwave transmission links, various software products and related installation and integration services. Such contract elements generally have individual item prices in agreed price lists per customer.

Sales are recorded net of value added taxes, goods returned, trade discounts and rebates. Revenue is recognized with reference to all significant contractual terms when the product or service has been delivered, when the revenue amount is fixed or determinable, and when collection is reasonably assured. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognized.

The profitability of contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

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

Definitions of contract types and related more specific revenue recognition criteria

Different revenue recognition methods, based on either IAS 18 Revenue or IAS 11 Construction contracts , are applied based on the solutions provided to customers, the nature and sophistication of the technology involved and the contract conditions in each case.

The contract types that are accounted for in accordance with IAS 18 are:

- Delivery-type contracts, i.e. contracts for delivery of a product or a combination of products to form a whole or a part of a network as well as delivery of stand-alone products. Medium-size and large delivery type contracts generally include multiple elements. Such elements are normally standardized types of equipment or software as well as services, such as network rollout.

Revenue is recognized when risks and rewards have been transferred to the customer, normally stipulated in the contractual terms of trade. For delivery-type contracts with multiple elements, revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. If there are undelivered elements essential to the functionality of delivered elements, the Company defers recognition of revenue until all elements essential to the functionality have been delivered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contracts for services include various types of services such as: training, consulting, engineering, installation, multi-year managed services and hosting. Revenue is generally recognized when the services have been provided. Revenue for managed service contracts and other services contracts covering longer periods is recognized pro rata over the contract period.

Contracts generating license fees from third parties for the use of the Company s technology or intellectual property rights. Revenue is normally recognized based on sales of products sold to the customer/licensee.

The contract type that is accounted for in accordance with IAS 11 is:

Construction-type contracts. In general, a construction-type contract is a contract where the Company supplies to a customer, a complete network, which to a large extent is based upon new technology or includes major components which are specifically designed for the customer. Revenues from construction-type contracts are recognized according to stage of completion, generally using the milestone output method.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 FX 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 OCI.

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 profit or loss 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, and

- 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Goodwill

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, plant and equipment

Property, plant and equipment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. 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.

Provisions

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 ultimate outcome or actual cost of settling an individual infringement may vary from the Company s estimate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 .

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 not 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 Parent 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 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 C29, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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.

Borrowing costs

The Company capitalizes borrowing costs in relation to qualifying assets, for the Company normally being internally generated intangible assets as capitalized development expenses. All other borrowing costs are expensed as incurred.

Government grants

Government grants are recognized when there is a reasonable assurance of compliance with conditions attached to the grants and that the grants will be received.

For the Company, government grants are linked to performance of research or development work or to capital expenditures that are subsidized as governmental stimulus to employment or investments in a certain country or region. Government grants linked to research and development are normally deducted in reporting the related expense, whereas grants related to assets are accounted for deducting the grant when establishing the acquisition cost of the asset.

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, 2010, 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, 2011.

Amendment to IAS 32, Financial instruments: Presentation Classification of rights issues

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

IFRIC 19, Extinguishing financial liabilities with equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Amendments to IFRS 7
Amends disclosures in relation to transfers of financial assets.

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

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. The basis of classification depends on the entity s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Improvements to IFRSs 2010.
The amendments are generally applicable for annual periods beginning at January 1, 2011, except for Amendments to IFRS 7 that is applicable as from January 1, 2012, and IFRS 9 that is applicable as from January 1, 2013. The EU has not endorsed Amendments to IFRS 7, IFRS 9 or Improvements to IFRSs.

None of the amendments effective as from January 1, 2011, are expected to have a significant impact on the Company s financial result or position. The impact of amendments to IFRS 7 and IFRS 9 have not yet been evaluated.

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 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

Estimates are necessary in evaluation of contractual performance and estimated total contract costs for assessing whether any loss provisions are to be made or if customers will reach conditional purchase volumes triggering contractual discounts to be given.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2010, were SEK 1.1 (1.7) billion or 1.6 (2.4) percent 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, 2010, amounted to SEK 3.1 (3.0) billion or 10 (12) percent of gross inventory.

Investments in joint ventures and associated companies

Key sources of estimation uncertainty

Impairment testing is performed after initial recognition whenever there is an indication of impairment.

At December 31, 2010, the amount of joint ventures and associated companies amounted to SEK 9.8 (11.6) billion.

Deferred taxes

Key sources of estimation uncertainty

Deferred tax assets are recognized for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes and for tax loss carry-forwards. The largest amounts of tax loss carry-forwards are reported in Sweden, with an indefinite period of utilization (i.e. with no expiry date). The valuation of tax loss carry-forwards, deferred tax assets and the Company s ability to utilize tax losses is based upon management s estimates of future taxable income in different tax jurisdictions. For further detailed information, please refer to Note C8, Taxes .

At December 31, 2010, the value of deferred tax assets amounted to SEK 12.7 (14.3) billion. The deferred tax assets related to loss carryforwards are reported as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Capitalized development expenses

Key sources of estimation uncertainty

Impairment testing is performed after initial recognition whenever there is an indication of impairment. Intangible assets not yet available for use are tested annually. The impairment testing amounts are based on estimates of future cash flows for the respective products.

At December 31, 2010, the capitalized development expenses amounted to SEK 3.0 (2.1) billion. An impairment charge of SEK 0 (0.2) billion was recognized as a part of the restructuring program. Under this program decisions were taken to phase out certain products. The impairment charge relates to balances for these products.

Judgments made in relation to accounting policies applied

Development costs that meet IFRS intangible asset recognition criteria for products that will be sold, leased or otherwise marketed as well as those intended for internal use are capitalized. The starting point for capitalization is based upon management s judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to the Company s established project management model. Capitalization ceases and amortization of capitalized development costs begin when the product is available for general release.

The definition of amortization periods and the evaluation of impairment indicators also require management s judgment.

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.

The market capitalization of the Company as per year-end 2010 well exceeded the value of the Company s net assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2010, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 43.8 (46.1) billion, including goodwill of SEK 27.2 (27.4) billion. The Company has also recognized goodwill in ST-Ericsson of SEK 1.4 (1.3) billion, as disclosed in note C12, Financial Assets, Non-Current . An impairment charge of SEK 0.9 (4.3) billion was recognized as a part of the restructuring program. Under this program decisions were taken to phase out certain products. The impairment charge relates to balances for these products.

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, 2010, amounted to SEK 2.5 (2.5) billion.

Provisions other than warranty provisions

Key sources of estimation uncertainty

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2010, provisions other than warranty commitments amounted to SEK 7.3 (9.9) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2010, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 28.7 (30.7) billion and fair value of plan assets to SEK 25.4 (23.2) 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 our operating segments, we have looked at which markets and what type of customers our products and services aim to attract as well as what distribution channels they are sold through. We have also considered commonality regarding technology, research and development. To best reflect our business focus and to facilitate comparability with peers, we report five operating segments:

- Networks
- Professional Services
- Multimedia
- Sony Ericsson
- ST-Ericsson

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Transmission/backhaul; microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks.
- Network management tools; supporting operators management of existing networks as well as introduction of new network architectures, technologies and services. This includes tools for configuration, performance monitoring, security management, inventory management and software upgrades.

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

- Managed services comprise solutions for network design and planning, network operations (the management of day-to-day operations of customer networks), field operations and site maintenance and shared solutions such as hosting of platforms and applications.
- Consulting and Systems integration; technology and operational consulting, integration of multi-vendor equipment, design and integration of new solutions and handling of technology change and transformation programs, learning services and optimization services ensuring the best possible user experience. Industry-specific solutions for vertical industries are also included.
- Customer support; staff world-wide provide around-the-clock support and advice to ensure network uptime and performance.
- Network rollout services, deploying new networks, modernizing and expanding existing networks.

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

- TV solutions; a suite of open, standards-based digital TV solutions in HD, 3G or standard quality (real-time and on-demand), combined with interactive services. The offering includes IPTV solutions, video compression, on-demand solutions, content management systems, advertising and interactive TV applications for operators, service providers, advertisers and content providers.
- Consumer and business applications; solutions for the consumer include service delivery platforms, Rich Communication Suite (RCS), messaging, a social media portal, and location-based services. Enterprise market solutions include converged business communication solutions such as Ericsson Business Communication Suite (BCS), Brokering solutions facilitate payment and distribution of content.
- Business Support Systems includes Revenue Management (Pre-paid, Post-paid, convergent Charging and Billing), Customer Care, Provisioning, Device Management and Analytics.

Sony Ericsson, the joint venture delivers innovative and feature-rich mobile phones and accessories. The JV forms an essential part of our end-to-end capability for mobile multimedia services.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Our Regions are our primary sales channel. The Company operates world-wide and reports its operations divided into ten regions. Other includes sales of for example embedded modules, cables, power modules as well as licensing and IPR.

North America

Latin America

Northern Europe & Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

China & North East Asia

South East Asia & Oceania

Other

Major customers

The Company does not have any customer for which revenues from transactions have exceeded 10 percent of the Company s total revenues for the years 2010, 2009 or 2008.

We derive most of our 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 (42) percent of our net sales. Our largest customer accounted for approximately 8 (5) percent of sales in 2010. For more information, see Risk Factors, Market, Technology and Business Risks .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating segments

2010	Networks	Global Services	Multi-media	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations[1]	Group
Segment sales	111,459	80,117	10,504	60,118	13,116	275,314		73,234	202,080
Inter-segment sales	1,249	6	13	60	3,403	4,731		3,463	1,268
Net sales	**112,708**	**80,123**	**10,517**	**60,178**	**16,519**	**280,045**		**76,697**	**203,348**
Operating income	**12,481**	**6,513**	**643**	**1,523**	**3,527**	**16,347**	**805**	**913**	**16,455**
Operating margin (%)	11%	8%	6%	3%	21%	6%			8%
Financial income									1,047
Financial expenses									1,719
Income after financial items									**15,783**
Taxes									4,548
Net income									**11,235**
Other segment items									
Share in earnings of joint ventures and associated companies	64	17	2	664	1,763	1,182	10		1,172
Amortization	4,554	303	806	25	930	6,618		955	5,663
Depreciation	2,600	555	144	731	1,022	5,052		1,753	3,299
Impairment losses	675	276	52		61	1,064		61	1,003
Reversals of impairment losses	9	2	1			12			12
Restructuring expenses	3,915	2,675	207	402	536	7,735	17	469	7,283
Gains/losses from divestments	154	53	92			299	59		358

1) Sony Ericsson and ST-Ericsson are accounted for in accordance with the equity method. The difference between what is reported to the CODM and externally is eliminated in the Eliminations column.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Regions

2010	**Net sales**	**Non-current assets[3)]**
North America	49,473	7,251
Of which the United States	*46,104*	*6,977*
Latin America	17,882	1,998
Northern Europe & Central Asia[1)2)]	12,171	42,112
Western & Central Europe[2)]	19,868	8,629
Mediterranean	22,628	1,523
Middle East	15,099	84
Sub-Saharan Africa	9,194	51
India	8,626	262
China & North East Asia	25,965	3,795
Of which China	*14,633*	*1,013*
South East Asia & Oceania	14,902	351
Other[1)2)]	7,540	
Total	**203,348**	**66,056**
1) Of which Sweden	*4,237*	*41,683*
2) Of which EU	*43,707*	*46,563*

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

For employee information, see Note C29, Information Regarding Members of the Board of Directors, the Group Management and Employees .

Operating segments

2009	**Networks[1)]**	**Global Services[1)]**	**Multi-media**	**Sony Ericsson**	**ST-Ericsson**	**Total Segments**	**Unallo-cated**	**Elimi-nations[2)]**	**Group**
Segment sales	113,339	79,038	12,996	71,984	13,535	290,892		85,519	205,373
Inter-segment sales	746	82	276	164	5,731	6,999		5,895	1,104
Net sales	**114,085**	**79,120**	**13,272**	**72,148**	**19,266**	**297,891**		**91,414**	**206,477**
Operating income	7,598[3)]	6,271[4)]	655	10,820	2,615	1,089	855	5,684	5,918
Operating margin (%)	7%	8%	5%	15%	14%	0%			3%
Financial income									1,874
Financial expenses									1,549
									6,243

Income after financial items									
Taxes									2,116
Net income									**4,127**
Other segment items									
Share in earnings of joint ventures and associated companies	37	33	1	5,693	1,762	7,386	14		7,400
Amortization	2,673	574	910	165	828	5,150		941	4,209
Depreciation	2,768	627	155	1,124	997	5,671		2,121	3,550
Impairment losses	4,333[3]		80		46	4,459		46	4,413
Reversals of impairment losses	38	9	2			49			49
Restructuring expenses	8,358[3]	2,434	385	1,754	890	13,821	82	1,322	12,581
Gains/losses from divestments	10	777[4]	41		47	875	32		843

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1) Amounts for 2009 and 2008 have been restated to be consistent with the segment allocation method applied as from 2010.
2) Sony Ericsson and ST-Ericsson are accounted for in accordance with the equity method. The difference between what is reported to the CODM and externally is eliminated in the Eliminations column.
3) Including impairment losses related to restructuring activities of SEK 4.3 billion.
4) In Q2 2009, the TEMS business was divested, resulting in a capital gain of SEK 0.8 billion.

Regions

2009	Net sales	Non-current assets[3)]
North America	23,912	8,359
Of which the United States	*21,538*	*8,100*
Latin America	20,025	2,066
Northern Europe & Central Asia[1)2)]	11,981	44,091
Western & Central Europe[2)]	22,459	11,713
Mediterranean	25,161	1,352
Middle East	18,250	115
Sub-Saharan Africa	15,341	49
India	15,262	225
China & North East Asia	25,960	988
Of which China	*18,455*	*903*
South East Asia & Oceania	20,849	417
Other[1)2)]	7,277	
Total	**206,477**	**69,375**
1)Of which Sweden	*4,096*	*43,574*
2)Of which EU	*49,313*	*49,158*

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

For employee information, see Note C29, Information Regarding Members of the Board of Directors, the Group Management and Employees .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating segments

2008	Networks[1)]	Global Services[1)]	Multimedia[2)]	Sony Ericsson	Total Segments	Unallocated	Elimi- nations[3)]	Group
Segment sales	120,504	70,467	12,614	108,492	312,077		108,492	203,585
Inter-segment sales	16	41	5,288	261	5,606		261	5,345
Net sales	**120,520**	**70,508**	**17,902**	**108,753**	**317,683**		**108,753**	**208,930**
Operating income	**12,540**	**4,951**	**118**	**1,094**	**16,279**	**618**	**591**	**16,252**
Operating margin (%)	10%	7%	1%	0%	5%			8%
Financial income								3,458
Financial expenses								2,484
Income after financial items								**17,226**
Taxes								5,559
Net income								**11,667**
Other Segment Items								
Share in earnings of joint ventures and associated companies	25	91	1	503	436			436
Amortization	3,210	368	1,429	53	5,060	1	53	5,006
Depreciation	2,347	532	228	1,138	4,245	1	1,138	3,108
Impairment losses	547		19		566			566
Reversals of impairment losses	6	1			7			7
Restructuring expenses	4,870	1,533	337	1,692	8,432	20	846	7,606
Gains/losses from divestments	9	16	992		985	113		1,098

1) Amounts for 2009 and 2008 have been restated to be consistent with the segment allocation method applied as from 2010.
2) Multimedia figures include the Mobile Platforms business which from 2009 is part of ST-Ericsson.
3) Sony Ericsson is accounted for in accordance with the equity method. The difference between what is reported to the CODM and externally is eliminated in the Eliminations column.

Regions

2008	Net sales	Non-current assets[3)]
North America	15,538	8,917
Of which the United States	*14,132*	*8,829*

Latin America	22,897	1,676
Northern Europe & Central Asia[1) 2)]	14,854	47,037
Western & Central Europe[2)]	21,502	5,537
Mediterranean	29,559	1,499
Middle East	17,844	70
Sub-Saharan Africa	15,339	54
India	15,204	156
China & North East Asia	22,081	816
Of which China	*15,068*	*688*
South East Asia & Oceania	20,978	464
Other[1) 2)]	13,134	
Total	**208,930**	**66,226**
1) Of which Sweden	*8,876*	*46,458*
2) Of which EU	*57,601*	*52,945*

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For employee information, see Note C29, Information Regarding Members of the Board of Directors, the Group Management and Employees.

C4 NET SALES

Net sales

	2010	2009	2008
Sales of products and network rollout services	**140,222**	145,873	150,846
Of which:			
Delivery-type contracts	***140,156***	*144,908*	*148,358*
Construction-type contracts	***66***	*965*	*2,488*
Professional Services sales	**58,529**	56,123	48,978
License revenues[1)]	**4,597**	4,481	9,106
Net sales	**203,348**	206,477	208,930
Export sales from Sweden	**100,070**	94,829	109,254

1) The ST-Ericsson joint venture was formed in February 2009, figures for 2008 include licenses revenues from Mobile Platforms.

C5 EXPENSES BY NATURE

Expenses by nature

	2010	2009	2008
Goods and services	**130,725**	124,627	138,298
Amortization and depreciation	**8,962**	7,759	8,114
Impairments and obsolescence allowances, net of reversals	**966**	5,637	2,680
Employee remunerations	**57,183**	54,877	51,297
Interest expenses	**1,719**	1,549	2,484
Taxes	**4,548**	2,116	5,559
Expenses incurred	**204,103**	196,565	208,432
Less:			
Inventory changes[1)]	**8,465**	4,784	3,761
Additions to Capitalized development	**1,647**	1,443	1,409
Expenses charged to the Income Statement	**193,991**	199,906	203,262

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

The cost reduction program, initiated in first quarter 2009, has been completed by the second quarter 2010. Total restructuring charges in 2010 were SEK 6.8 (11.3) b. Cost and capital efficiency remain high on the company agenda and efficiency work will continue also in 2011. This primarily relates to service delivery, product development and administration. Restructuring charges are included in the expenses presented above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restructuring charges by function

	2010	2009	2008
Cost of sales	**3,354**	4,180	2,540
R&D expenses	**1,682**	6,045	2,648
Selling and administrative expenses	**1,778**	1,034	1,572
Total restructuring charges	**6,814**	11,259	6,760

C6 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

	2010	2009	2008
Gains on sales of intangible assets and PP&E	**301**	193	302
Losses on sales of intangible assets and PP&E	**422**	126	190
Gains on sales of investments and operations	**577**	962	1,236
Losses on sales of investments and operations	**219**	119	138
Capital gains/losses, net	**237**	910	1,210
Other operating revenues	**1,766**	2,172	1,767
Total other operating income and expenses	**2,003**	3,082	2,977

C7 FINANCIAL INCOME AND EXPENSES

Financial income and expenses

	2010		2009		2008	
	Financial income	Financial expenses	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest on financial assets	**811**		1,287		2,938	
Of which on financial assets at fair value through profit or loss	***304***		*814*		*2,282*	
Contractual interest on financial liabilities		**1,315**		1,616		2,023
Of which on financial liabilities at fair value through profit or loss						
Net gain/loss on:						
Instruments at fair value through profit or loss[1)]	**295**	**206**	635	155	322	280
Of which included in fair value hedge relationships		***151***		*155*		*32*
Available for sale						
Loans and receivables	**68**		53		191	
Liabilities at amortized cost		**4**		2		656

Other financial income and expenses	**9**	**194**	5	86	7	85
Total	**1,047**	**1,719**	1,874	1,549	3,458	2,484

1) Excluding net gain from operating assets and liabilities, SEK 1,528 million (net gain of SEK 2,247 million in 2009, net loss of SEK 4,234 million in 2008), reported as Cost of Sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C8 TAXES

The Company s expense for 2010 was SEK 4,548 (2,116) million or 28.8 (33.9) percent of the income after financial items. The tax rate may vary between years depending on business and geography mix. The tax rate excluding joint ventures and associated companies was 25.7 (25.7) percent mainly due to a lower tax rate on losses made by the joint venture.

Income taxes recognized in the income statement

	2010	**2009**	**2008**
Current income taxes for the year	**4,635**	4,605	5,574
Current income taxes related to previous years	**35**	441	167
Deferred tax income/expense ( )	**307**	661	297
Sub total	***4,363***	*3,503*	*5,704*
Share of taxes in joint ventures and associated companies	**185**	1,387	145
Taxes	**4,548**	2,116	5,559

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

Reconciliation of swedish income tax to the actual income tax

	2010	**2009**	**2008**
Tax rate in Sweden (26.3%)	**4,150**	1,643	4,823
Effect of foreign tax rates	**405**	812	22
Of which joint ventures and associated companies	***467***	*550*	*1*
Current income taxes related to previous years	**35**	441	167
Recognition/remeasurement of tax losses related to previous years	**257**	8	169
Recognition/remeasurement of deductible temporary differences related to previous years	**172**	267	62
Tax effect of non-deductible expenses	**830**	1,155	986
Tax effect of non-taxable income	**880**	630	327
Tax effect of changes in tax rates	**77**	148	159
Taxes	**4,548**	2,116	5,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax balances

Tax effects of temporary differences and tax loss carryforwards are attributable as shown in the table below:

Tax effects of temporary differences and tax loss carryforwards

	2010 Deferred tax assets	2010 Deferred tax liabilities	2010 Net balance	2009 Deferred tax assets	2009 Deferred tax liabilities	2009 Net balance
Intangible assets and property, plant and equipment	**543**	**3,725**		359	3,096	
Current assets	**3,398**	**110**		2,481	53	
Post-employment benefits	**976**	**636**		852	472	
Provisions	**2,019**	**12**		2,240		
Equity	**781**			1,901		
Other	**3,395**			4,343	459	
Loss carryforwards	**3,537**			3,961		
Deferred tax assets/liabilities	**14,649**	**4,483**		16,137	4,080	
Netting of assets/liabilities	**1,912**	**1,912**		1,810	1,810	
Net deferred tax balances	**12,737**	**2,571**	**10,166**	14,327	2,270	12,057

Changes in deferred taxes, net

	2010	2009
Opening balance, net	**12,057**	12,120
Recognized in income statement	**307**	661
Recognized in OCI	**1,120**	1,040
Acquisitions/disposals of subsidiaries	**606**	186
Translation differences	**472**	130
Closing balance, net	**10,166**	12,057

Tax effects reported directly in Other Comprehensive Income amount to SEK 1,120 (1,040) million, of which actuarial gains and losses related to pensions SEK 836 (173) million, cash flow hedges SEK 183 (1,059) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK 101 (154) million.

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

Significant tax loss carryforwards are related to countries with long or indefinite periods of utilization, mainly Sweden and the US. Of the total deferred tax assets for tax loss carryforwards, SEK 3,537 million, SEK 2,222 million relate to Sweden with indefinite time of utilization. Due to the Company s strong current financial position and taxable income during 2010, Ericsson has been able to utilize part of its tax loss carryforwards during the year. The assessment is that Ericsson will be able to generate sufficient income in the coming years to also utilize the remaining parts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets for Sony Ericsson and ST-Ericsson are not included, as they are accounted for in accordance with the equity method. Sony Ericsson has in its annual report deferred tax assets of EUR 574 million. The major part of the tax assets relates to the Swedish company.

Investments in subsidiaries

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

Tax loss carryforwards

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

At December 31, 2010, the available tax loss carryforwards amounted to SEK 13,030 (14,493) million. The tax effect of these tax loss carryforwards are reported as an asset.

The final years in which these loss carryforwards can be utilized are shown in the following table:

Tax loss carryforwards year of expiration

Year of expiration	Tax loss carryforwards	Tax effect
2011	0	0
2012	32	7
2013	299	80
2014	898	244
2015	498	119
2016 or later	11,303	3,087
Total	**13,030**	**3,537**

Tax loss carryforwards for Sony Ericsson and ST-Ericsson are not included, as they are accounted for in accordance with the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C9 EARNINGS PER SHARE

Earnings per share 2008 2010

	2010	2009	2008
Basic			
Net income attributable to stockholders of the Parent Company (SEK million)	**11,146**	3,672	11,273
Average number of shares outstanding, basic (millions)	**3,197**	3,190	3,183
Earnings per share, basic (SEK)	**3.49**	1.15	3.54
Diluted			
Net income attributable to stockholders of the Parent Company (SEK million)	**11,146**	3,672	11,273
Average number of shares outstanding, basic (millions)	**3,197**	3,190	3,183
Dilutive effect for stock option plans			1
Dilutive effect for stock purchase plans	**29**	22	18
Average number of shares outstanding, diluted (millions)	**3,226**	3,212	3,202
Earnings per share, diluted (SEK)	**3.46**	1.14	3.52

C10 INTANGIBLE ASSETS

Intangible assets 2010

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trade-marks and other intangible assets		
		For internal use						
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Accumulated acquisition costs								
Opening balance	5,221	2,060	1,376	**8,657**	**27,375**	10,624	24,898	**35,522**
Acquisitions/capitalization	1,389	153	102	**1,644**		521		**521**
Balances regarding acquired businesses[1)]					**1,256**	2,800	1,025	**3,825**
Sales/disposals							55	**55**
Contribution to joint ventures								
Translation difference					**1,480**	363	538	**901**
Closing balance	**6,610**	**2,213**	**1,478**	**10,301**	**27,151**	**13,582**	**25,330**	**38,912**
Accumulated amortization								
Opening balance	2,104	1,630	1,087	**4,821**		2,639	9,875	**12,514**
Amortization	422	145	97	**664**		1,450	3,549	**4,999**
Sales/disposals							27	**27**

Translation difference						152	294	**446**
Closing balance	**2,526**	**1,775**	**1,184**	**5,485**		**3,937**	**13,103**	**17,040**
Accumulated impairment losses								
Opening balance	1,665	55	37	**1,757**			4,269	**4,269**
Impairment losses[2)]	49			**49**			945	**945**
Closing balance	**1,714**	**55**	**37**	**1,806**			**5,214**	**5,214**
Net carrying value	**2,370**	**383**	**257**	**3,010**	**27,151**	**9,645**	**7,013**	**16,658**

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

2) The write-down (impairment charge) of SEK 0.9 billion is a consequence of the restructuring program decision to phase out certain products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The goodwill is allocated to the operating segments Networks SEK 16.5 (16.5) billion, Global Services SEK 4.1 (3.7) billion and Multimedia SEK 6.6 (7.2) billion.

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

- Sales growth
- Development of operating income (based on operating margin or cost of goods sold and operating expenses relative to sales)
- Development of working capital and capital expenditure requirements.

The assumptions regarding revenue growth, approved by group management and each operating segment s management, are based on industry sources and projections made within the Company for the development 2011 2015 for key industry parameters:

- The number of global mobile subscriptions is estimated to grow from 5.3 billion by the end of 2010 (6 billion by the end of 2011) to approximately 8 billion by the end of 2015. Of these, some hundred millions (approximately 450 million 2015) will have mobile PC connections, while more than 3 billion 2015 will have a mobile broadband connection.

Mobile PC includes USB dongles and embedded modules for CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA and can also be used for fixed applications.

Mobile Broadband includes CDMA2000 EV-DO, HSPA, LTE, Mobile WiMax and TDSCDMA. It includes handsets, USB dongles and embedded modules. The vast majority is handsets.

- Fixed broadband subscriptions will grow from around 500 million (470 in 2010 and 510 in 2011) to around 600 million in the same time perspective. Fixed broadband includes Fiber, Cable and xDSL
- Mobile traffic volume is estimated to increase (around 15 times 2010 2015, around 8 times 2011 2015), while the fixed Internet traffic is estimated to increase (around 6 times 2010 2015, around 4 times 2011 2015), however from a much larger base.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

As per year end 2010, the market capitalization of the Company well exceeded the value of the Company s net assets.

An after-tax discount rate of 8 (12) percent has for all cash generating units been applied for the discounting of projected after-tax cash flows. The assumptions for 2009 are disclosed in note C10 in the Annual Report of 2009.

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

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

Intangible assets 2009

	Capitalized development expenses				Goodwill	Intellectual property rights (IPR), trade-marks and other intangible assets		
	For internal use							
	To be marketed	Acquired costs	Internal costs	Total	Total	Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
Accumulated acquisition costs								
Opening balance	5,518	1,821	1,217	**8,556**	**24,877**	9,429	20,450	**29,879**
Acquisitions/capitalization	1,045	239	159	**1,443**		602	2	**604**
Balances regarding divested/acquired businesses[1)]					**3,534**	811	5,021	**5,832**
Sales/disposals					**21**	142		**142**
Contribution to joint ventures	1,342			**1,342**				
Translation difference					**1,015**	76	575	**651**
Closing balance	**5,221**	**2,060**	**1,376**	**8,657**	**27,375**	**10,624**	**24,898**	**35,522**
Accumulated amortization								
Opening balance	1,570	1,562	1,042	**4,174**		2,425	6,853	**9,278**
Amortization	534	68	45	**647**		360	3,202	**3,562**
Sales/disposals						131		**131**
Translation difference						15	180	**195**
Closing balance	**2,104**	**1,630**	**1,087**	**4,821**		**2,639**	**9,875**	**12,514**
Accumulated impairment losses								
Opening balance	1,508	55	37	**1,600**			14	**14**
Impairment losses[2)]	157			**157**			4,255	**4,255**

Closing balance	**1,665**	**55**	**37**	**1,757**			**4,269**	**4,269**
Net carrying value	**1,452**	**375**	**252**	**2,079**	**27,375**	**7,985**	**10,754**	**18,739**

1) During 2009, Ericsson acquired Nortel SEK 8.7 billion.
2) The write-down (impairment charge) of SEK 4.3 billion is a consequence of the restructuring program decision to phase out certain products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C11 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2010

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, plant and equipment 2009

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in process and advance payments	Total
Accumulated acquisition costs					
Opening balance	4,054	6,131	18,058	795	**29,038**
Additions	362	657	1,699	1,288	**4,006**
Balances regarding divested/acquired businesses		183	95	1	**279**
Sales/disposals	282	1,241	2,184	148	**3,855**
Reclassifications	240	151	947	1,338	
Translation difference	157	217	338	18	**730**
Closing balance	**4,217**	**5,298**	**18,087**	**578**	**28,180**
Accumulated depreciation					
Opening balance	1,545	4,211	12,967		**18,723**
Depreciation	303	735	2,512		**3,550**
Balances regarding divested businesses		112	191		**303**
Sales/disposals	174	1,188	1,873		**3,235**
Reclassifications	75	51	126		
Translation difference	57	140	231		**428**
Closing balance	**1,692**	**3,557**	**13,058**		**18,307**
Accumulated impairment losses					
Opening balance	47	125	148		**320**
Impairment losses			1		**1**
Reversals of impairment losses		33	16		**49**
Sales/disposals					
Translation difference	2	1	2		**5**
Closing balance	**45**	**91**	**131**		**267**
Net carrying value	**2,480**	**1,650**	**4,898**	**578**	**9,606**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2009, amounted to SEK 236 (229) million.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C12 FINANCIAL ASSETS, NON-CURRENT

Equity in joint ventures and associated companies

	Joint ventures 2010	Joint ventures 2009	Associated companies 2010	Associated companies 2009	Total 2010	Total 2009
Opening balance	**10,317**	6,694	**1,261**	1,294	**11,578**	7,988
Share in earnings	**1,099**	7,455	**73**	55	**1,172**	7,400
Taxes	**181**	1,388	**4**	1	**185**	1,387
Translation difference	**391**	277	**47**	17	**438**	294
Change in hedge reserve	**22**	6			**22**	6
Pensions	**20**	21			**20**	21
Dividends			**119**	70	**119**	70
Contributions to joint ventures and associated companies		9,941 1)	**138**	2	**138**	9,943
Reclassification		1	**1**	2	**1**	3
Closing balance	**8,648 2)**	10,317 2)	**1,155 3)**	1,261	**9,803**	11,578

1) Including contribution of SEK 5.0 billion paid to STMicroelectronics.
2) Including goodwill for ST-Ericsson of SEK 1.381 million (SEK 1,341 million in 2009).
3) Goodwill, net, amounts to SEK 16 million (SEK 16 million in 2009).

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

	2010	2009	2008
Non-current assets	**3,622**	4,003	3,228
Current assets	**9,904**	12,790	21,190
Non-current liabilities	**592**	130	157
Current liabilities	**10,533**	14,675	17,593
Net assets	**2,401**	1,988	6,668
Net sales	**30,089**	36,074	54,377
Income after financial items	**705**	5,540	400
Income taxes	**231**	1,252	151
Net income	**474**	4,288	249
Net income attributable to:			
Stockholders of the Parent Company	**433**	4,441	353
Non-controlling interest	**41**	153	104
Assets pledged as collateral		182	
Contingent liabilities	**16**	17	20

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ericsson s share of assets, liabilities and income in associated company ericsson nikola tesla d.d.[1]

	2010	2009	2008
Non-current assets	**92**	311	394
Current assets	**749**	754	695
Non-current liabilities	**2**	3	6
Current liabilities	**209**	240	253
Net assets	**630**	822	830
Net sales	**784**	994	1,182
Income after financial items	**17**	90	139
Income taxes	**1**	1	5
Net income	**16**	91	134
Net income attributable to:			
Stockholders of the Parent Company	**16**	91	134
Non-controlling interest			
Assets pledged as collateral	**4**	5	5
Contingent liabilities	**43**	151	172

1) Ericsson s share is 49.07 percent.
All three companies apply IFRS in the reporting to Ericsson.

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

	2010	2009
Non-current assets	**6,673**	7,238
Current assets	**2,249**	3,856
Non-current liabilities	**214**	129
Current liabilities	**2,519**	2,691
Net assets	**6,189**	8,274
Net sales	**8,260**	9,633
Income after financial items	**1,762**	1,762
Income taxes	**50**	136
Net income	**1,712**	1,626
Net income attributable to:		
Stockholders of the Parent Company	**1,713**	1,626

Non-controlling interest	**1**	
Assets pledged as collateral	**3**	
Contingent liabilities		6

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other financial assets, non-current

	Other investments in shares and participations		Customer finance, non-current		Derivatives, non-current		Other financial assets, non-current	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Accumulated acquisition costs								
Opening balance	**1,660**	1,783	**1,232**	1,082	**843**	2,814	**3,197**	3,557
Additions	**114**	1	**3,562**	408			**683**	389
Business combinations	**33**							
Disposals/repayments/deductions		36	**3,322**	258			**35**	244
Change in value in funded pension plans[1)]							**726**	521
Reclassifications		1						
Revaluation					**843**	1,971		
Translation difference	**134**	87	**2**				**189**	16
Closing balance	**1,607**	1,660	**1,474**	1,232		843	**4,382**	**3,197**
Accumulated impairment losses/allowances								
Opening balance	**1,404**	1,474	**402**	236			**1,463**	1,454
Impairment losses/allowance	**75**	3	**2**	222			**7**	74
Business combinations								
Disposals/repayments/deductions	**26**		**206**	56				
Translation difference	**117**	73	**1**				**167**	65
Closing balance	**1,388**	1,404	**193**	402			**1,303**	1,463
Net carrying value	**219**	256	**1,281**	830		843	**3,079**	**1,734**

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

C13 INVENTORIES

Inventories

	2010	**2009**
Raw materials, components, consumables and manufacturing work in progress	**8,509**	6,190
Finished products and goods for resale	**11,894**	6,621
Contract work in progress	**9,494**	9,907
Inventories, net	**29,897**	22,718

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

Reported amounts are net of obsolescence allowances of SEK 3,090 (2,961) million.

The increase in inventories during 2010 is due to higher level of working progress in the regions. During the year it has been industry component shortages and supply chain bottlenecks.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Movements in obsolescence allowances

	2010	2009	2008
Opening balance	**2,961**	3,493	2,752
Additions, net	**250**	562	1,553
Utilization	**165**	1,297	1,039
Translation difference	**46**	2	250
Balances regarding acquired/divested businesses	**90**	201	23
Closing balance	**3,090**	2,961	3,493

The amount of inventories recognized as expense and included in Cost of sales was SEK 47,415 (52,255) million.

C14 TRADE RECEIVABLES AND CUSTOMER FINANCE

Trade receivables and customer finance

	2010	2009
Trade receivables excluding associated companies and joint ventures	**61,609**	67,133
Allowances for impairment	**766**	924
Trade receivables, net	**60,843**	66,209
Trade receivables related to associated companies and joint ventures	**284**	201
Trade receivables, total	**61,127**	66,410
Customer finance	**4,725**	3,046
Allowances for impairment	**321**	772
Customer finance, net	**4,404**	2,274
Of which short term	***3,123***	*1,444*
Credit commitments for customer finance	**3,282**	3,027

Days Sales Outstanding were 88 (106) in December, 2010.

Movements in allowances for impairment

	Trade receivables			Customer finance		
	2010	2009	2008	2010	2009	2008
Opening balance	**924**	1,471	1,351	**772**	326	275

Additions	**282**	388	651	**25**	595	90
Utilization	**285**	583	492	**87**	67	3
Reversal of excess amounts	**169**	312	81	**359**	37	74
Reclassification	**33**	10	69			
Translation difference	**19**	43	115	**30**	45	38
Balances regarding acquired/divested business		7	4			
Closing balance	**766**	924	1,471	**321**	772	326

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aging analysis as per December 31, 2010

				of which past due in the following time intervals		of which past due and impaired in the following time intervals	
	Amount	of which neither impaired nor past due	of which impaired, not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
Trade receivables excluding associated companies and joint ventures	61,609	54,510	52	2,227	1,500	418	2,902
Allowances for impairment of receivables	766		16			90	660
Customer finance	4,725	3,804	528	62	85	18	228
Allowances for impairment of customer finance	321		75			18	228

Aging analysis as per December 31, 2009

				of which past due in the following time intervals		of which past due and impaired in the following time intervals	
	Amount	of which neither impaired nor past due	of which impaired, not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
Trade receivables excluding associated companies and joint ventures	67,133	58,727	43	2,962	2,081	774	2,546
Allowances for impairment of receivables	924		8			180	736
Customer finance	3,046	1,292	1,314	9	1	145	285
Allowances for impairment of customer finance	772		342			145	285

Credit risk

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

Credit risk in trade receivables

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

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

Ensure efficient credit management within the Company and thereby improve Days Sales Outstanding and Cash Flow

Ensure payment terms are commercially justifiable

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Trade receivables amounted to SEK 61,609 (67,133) million as of December 31, 2010. Provisions for expected losses are regularly assessed and amounted to SEK 766 (924) million as of December 31, 2010. Ericsson s nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of Ericsson s sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represent 29 (26) percent of the total trade receivables.

Customer finance credit risk

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

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

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

As of December 31, 2010, Ericsson s total outstanding exposure related to customer finance was SEK 4,725 (3,046) million. As of December 31, 2010, Ericsson also had unutilized customer finance commitments of SEK 3,282 (3,027) million. During 2010 Ericsson transferred certain customer finance assets to third parties, and continues to recognize a part of such assets corresponding to the extent of its continuing involvement. The total carrying amount of the original assets transferred is SEK 3,808 (560) million, the amount of the assets that Ericsson continues to recognize is SEK 190 (28) million, and the carrying amount of the associated liabilities is SEK 190 (28) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2010, there were a total of 74 (68) customer finance arrangements originated by or guaranteed by Ericsson. The five largest facilities represented 44 (43) percent of the total credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Of Ericsson s total outstanding customer finance exposure as of December 31, 2010, 66 (57) percent was related to Central and Eastern Europe, Middle East and Africa, 11 (15) percent to the Americas, 9 (14) percent to Western Europe, and 14 (14) percent to Asia Pacific.

The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net positive impact of SEK 331 million compared to a negative impact of SEK 480 million in 2009. Credit losses amounted to SEK 87 (67) million. A credit loss reported in 2005 was partly recovered in 2010 for the amount of SEK 136 million.

Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests. If available, third-party risk coverage is as a rule arranged. Third-party risk coverage means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk transfer under a sub participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover. A credit risk cover from a third party may also be issued by an insurance company. During 2010, Ericsson has not taken possession of any collateral it holds as security or called on any other credit enhancement.

Information about guarantees related to customer finance is included in note C24, Contingent Liabilities .

The table below summarizes Ericsson s outstanding customer finance as of December 31, 2010 and 2009.

Outstanding customer finance

	2010	2009
Total customer finance	**4,725**	3,046
Accrued interest	**69**	57
Less third-party risk coverage	**1,409**	382
Ericsson s risk exposure	**3,385**	2,721

C15 OTHER CURRENT RECEIVABLES

Other current receivables

	2010	2009
Prepaid expenses	**2,369**	2,403
Accrued revenues	**1,850**	1,538
Advance payments to suppliers	**881**	776
Derivatives with a positive value[1)]	**3,042**	1,760
Taxes	**5,439**	4,830
Other	**3,565**	3,839
Total	**17,146**	15,146

1) Also see Note C20 Financial Risk Management and Financial Instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C16 EQUITY AND OTHER COMPREHENSIVE INCOME

Capital stock 2010

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

Capital stock

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

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

At December 31, 2010, the total number of treasury shares was 73,088,516 (78,978,533 in 2009 and 61,066,097 in 2008) Class B shares. Ericsson did not repurchase shares in 2010, in relation to the Stock Purchase Plan.

Reconciliation of number of shares

	Number of shares	Capital stock
Number of shares Jan 1, 2010	3,273,351,735	16,367
Number of shares Dec 31, 2010	3,273,351,735	16,367

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

Dividend proposal

The Board of Directors will propose to the Annual General Meeting 2011 a dividend of SEK 2.25 per share (2.00 in 2010 and 1.85 in 2009).

Additional paid in capital

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

Revaluation of other investments in shares and participations

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

Cash flow hedges

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cumulative translation adjustments

The cumulative translation adjustments comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, changes regarding revaluation of goodwill in local currency as well as from the translation of liabilities that hedge the Company s net investment in foreign subsidiaries.

Retained earnings

Retained earnings, including net income for the year, comprise the earned profits of the Parent Company and its share of net income in subsidiaries, joint ventures and associated companies. Actuarial gains and losses related to pensions are included in retained earnings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity and other comprehensive income 2010

2010	Capital stock	Additional paid in capital	Revaluation of other investments in shares and participations	Cash flow hedges	Cumulative translation adjustments	Retained earnings	Stock-holders equity	Non-controlling interest (NCI)	Total equity
January 1, 2010	16,367	24,731	4	78	663	98,035	**139,870**	1,157	**141,027**
Net income									
Group						12,503	**12,503**	89	**12,592**
Joint ventures and associated companies						1,357	**1,357**		**1,357**
Other comprehensive income									
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions									
Group						3,892	**3,892**		**3,892**
Joint ventures and associated companies						27	**27**		**27**
Revaluation of other investments in shares and participations									
Fair value remeasurement									
Group			7				**7**		**7**
Joint ventures and associated companies									
Cash flow hedges									
Gains/losses arising during the year									
Group				966			**966**		**966**
Joint ventures and associated companies				31			**31**		**31**
Reclassification adjustments for gains/losses included in profit or loss				238 [1]			**238**		**238**
Adjustments for amounts transferred to initial carrying amount of hedged items				136			**136**		**136**
Changes in cumulative translation adjustments									
Group					3,269 [2]		**3,269**	10	**3,259**
Joint ventures and associated companies					438		**438**		**438**
Tax on items relating to components of OCI[3]			3	183	101 [4]	833	**1,120**		**1,120**
Total other comprehensive income			4	440	3,808	3,032	**332**	10	**322**
Total comprehensive income			**4**	**440**	**3,808**	**14,178**	**10,814**	**99**	**10,913**
Transactions with owners									
Stock issue									
Sale of own shares						52	**52**		**52**
Stock Purchase Plan									
Group						762	**762**		**762**
Joint ventures and associated companies									
Dividends paid						6,391	**6,391** [5]	286	**6,677**
Business combinations								708	**708**

December 31, 2010	**16,367**	**24,731**	**518**	**3,145**	**106,636**	**145,106**	**1,679**	**146,785**

1) SEK 1,139 million is recognized in Net Sales, SEK 586 million is recognized in Cost of Sales and SEK 315 million is recognized in R&D expenses.
2) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 1,480 million (SEK 1,015 million in 2009, SEK 2,993 million in 2008), gain/loss from hedging activities of foreign entities, SEK 385 million (SEK 586 in 2009, SEK 660 million in 2008) and SEK 140 million (SEK 10 million in 2009, SEK 13 million in 2008) of realized gain/losses net from sold/liquidated companies.
3) For further disclosures, see note C8 Taxes .
4) Deferred tax on gains/losses on hedges on investments in foreign entities.
5) Dividends paid per share amounted to SEK 2.25 (SEK 2.00 in 2009 and SEK 1.85 in 2008).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity and other comprehensive income 2009

	Capital stock	Additional paid in capital	Revaluation of other investments in shares and participations	Cash flow hedges	Cumulative translation adjustments	Retained earnings	Stock-holders equity	Non-controlling interest (NCI)	Total equity
January 1, 2009	16,232	24,731	1	2,356	2,124	100,093	**140,823**	1,261	**142,084**
Net income									
Group						9,685	**9,685**	455	**10,140**
Joint ventures and associated companies						6,013	**6,013**		**6,013**
Other comprehensive income									
Actuarial gains and losses, and the effect of the asset ceiling, related to pensions									
Group						633	**633**		**633**
Joint ventures and associated companies						28	**28**		**28**
Revaluation of other investments in shares and participations									
Fair value remeasurement									
Group			2				**2**		**2**
Joint ventures and associated companies									
Cash flow hedges									
Gains/losses arising during the year									
Group				665			**665**		**665**
Joint ventures and associated companies				7			**7**		**7**
Reclassification adjustments for gains/losses included in profit or loss				3,850			**3,850**		**3,850**
Adjustments for amounts transferred to initial carrying amount of hedged items				1,029			**1,029**		**1,029**
Changes in cumulative translation adjustments									
Group					1,013		**1,013**	54	**1,067**
Joint ventures and associated companies					294		**294**		**294**
Tax on items relating to components of OCI			1	1,059	154	174	**1,040**		**1,040**
Total other comprehensive income			3	2,434	1,461	431	**539**	54	**485**
Total comprehensive income			**3**	**2,434**	**1,461**	**3,241**	**4,211**	**401**	**4,612**
Transactions with owners									
Stock issue	135						**135**		**135**
Sale of own shares						75	**75**		**75**
Repurchase of own shares						135	**135**		**135**
Stock Purchase and Stock Option Plans									
Group						658	**658**		**658**
Joint ventures and associated companies									
Dividends paid						5,897	**5,897**	421	**6,318**
Business combinations								84	**84**
December 31, 2009	**16,367**	**24,731**	**4**	**78**	**663**	**98,035**	**139,870**	**1,157**	**141,027**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity and other comprehensive income 2008

	Capital stock	Additional paid in capital	Revaluation of other investments in shares and participations	Cash flow hedges	Cumulative translation adjustments	Retained earnings	Stock-holders equity	Non-controlling interest (NCI)	Total equity
January 1, 2008	16,132	24,731	5	307	6,345	99,282	**134,112**	940	**135,052**
Net income									
Group						11,564	**11,564**	394	**11,958**
Joint ventures and associated companies						291	**291**		**291**
Other comprehensive income									
Actuarial gains and losses related to pensions									
Group						4,019	**4,019**		**4,019**
Joint ventures and associated companies						4	**4**		**4**
Revaluation of other investments in shares and participations									
Fair value remeasurement									
Group			6				**6**		**6**
Joint ventures and associated companies			1				**1**		**1**
Cash flow hedges									
Gains/losses arising during the year									
Group				5,116			**5,116**		**5,116**
Joint ventures and associated companies				36			**36**		**36**
Reclassification adjustments for gains/losses included in profit or loss				1,192			**1,192**		**1,192**
Adjustments for amounts transferred to initial carrying amount of hedged items									
Changes in cumulative translation adjustments									
Group					7,081		**7,081**	233	**7,314**
Joint ventures and associated companies					1,214		**1,214**		**1,214**
Tax on items relating to components of OCI			1	1,225	174	930	**2,330**		**2,330**
Total other comprehensive income			6	2,663	8,469	3,085	**2,715**	233	**2,948**
Total comprehensive income			**6**	**2,663**	**8,469**	**8,188**	**13,988**	**627**	**14,615**
Transactions with owners									
Stock issue	100						**100**		**100**
Sale of own shares						88	**88**		**88**
Repurchase of own shares						100	**100**		**100**
Stock Purchase and Stock Option Plans									
Group						589	**589**		**589**
Joint ventures and associated companies									
Dividends paid						7,954	**7,954**	286	**8,240**
Business combinations								20	**20**
December 31, 2008	**16,232**	**24,731**	**1**	**2,356**	**2,124**	**100,093**	**140,823**	**1,261**	**142,084**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C17 POST-EMPLOYMENT BENEFITS

Ericsson sponsors a number of post-employment benefit plans throughout the Company, which are in line with market practice in each country. The year 2010 was characterized by the overall increase in discount rates, and a higher than expected return on plan assets. Consequently, the Company experienced a decrease in the net pension liability, and an actuarial gain.

CONTENTS

SECTION ONE: AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

Amount recognized in the consolidated balance sheet

	Sweden	UK	Euro zone	US	Other	Total
2010						
Defined benefit obligation (DBO)[1)]	14,980	5,437	3,163	2,693	2,437	28,710
Fair value of plan assets[2)]	12,389	5,691	2,514	2,048	2,793	25,435
Deficit/Surplus (+/)	2,591	254	649	645	356	3,275
Unrecognized past service costs			5		60	55
Closing balance	2,591	254	654	645	416	3,220
Plans with net surplus excluding asset ceiling[3)]		290	643		939	1,872
Provision for post-employment benefits[4)]	**2,591**	**36**	**1,297**	**645**	**523**	**5,092**
2009						
Defined benefit obligation (DBO)[1)]	16,150	5,688	3,840	2,781	2,258	30,717
Fair value of plan assets[2)]	10,927	5,336	2,406	1,974	2,563	23,206

Deficit/Surplus (+/)	5,223	352	1,434	807	305	7,511
Unrecognized past service costs			14		79	93
Closing balance	5,223	352	1,420	807	384	7,418
Plans with net surplus excluding asset ceiling[3)]		190	29		896	1,115
Provision for post-employment benefits[4)]	**5,223**	**542**	**1,449**	**807**	**512**	**8,533**

1) For details on DBO, please refer to section three of this note.
2) For details on plan assets, please refer to section four of this note.
3) Plans with a net surplus, i.e. where plan assets exceed DBO, are reported as Other financial assets, non-current (please see Note C12 Financial Assets).
4) Plans with net liabilities are reported in the balance sheet as Post-employment benefits, non-current.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SECTION TWO: TOTAL PENSION EXPENSES RECOGNIZED IN THE INCOME STATEMENT

The expenses for post-employment benefits within Ericsson are distributed between defined contribution plans and defined benefit plans, with a trend toward defined contribution plans.

Pension costs for defined contribution plans and defined benefit plans

	Sweden	UK	Euro zone	US	Other	Total
2010						
Pension cost for defined contribution plans	1,037	95	433	244	192	2,001
Pension cost for defined benefit plans[1)]	762	153	159	30	14	1,090
Total	**1,799**	**248**	**592**	**274**	**178**	**3,091**
Total pension cost expressed as a percentage of wages and salaries						7.1%
2009						
Pension cost for defined contribution plans	1,686	73	385	124	185	2,453
Pension cost for defined benefit plans[1)]	674	66	202	49	144	1,135
Total	**2,360**	**139**	**587**	**173**	**329**	**3,588**
Total pension cost expressed as a percentage of wages and salaries						8.7%
2008						
Pension cost for defined contribution plans	1,607	40	345	114	72	2,178
Pension cost for defined benefit plans[1)]	625	156	179	35	33	1,028
Total	**2,232**	**196**	**524**	**149**	**105**	**3,206**
Total pension cost expressed as a percentage of wages and salaries						8.3%

1) See cost details in table below.

Cost details for defined benefit plans recognized in the income statement

	Sweden	UK	Euro zone	US	Other	Total
2010						
Current service cost	631	161	129	32	140	1,093
Interest cost	643	314	182	159	172	1,470
Expected return on plan assets	511	322	141	130	253	1,357
Past service cost			33		9	42

Curtailments, settlements and other	1		44	31	82	158
Total	**762**	**153**	**159**	**30**	**14**	**1,090**
2009						
Current service cost	594	205	138	35	131	1,103
Interest cost	590	284	194	171	155	1,394
Expected return on plan assets	366	270	125	156	208	1,125
Past service cost			5		25	30
Curtailments, settlements and other	144	153	10	1	41	267
Total	**674**	**66**	**202**	**49**	**144**	**1,135**
2008						
Current service cost	539	186	141	29	122	1,017
Interest cost	549	299	160	142	133	1,283
Expected return on plan assets	431	310	143	137	201	1,222
Past service cost			11		8	19
Curtailments, settlements and other	32	19	10	1	29	69
Total	**625**	**156**	**179**	**35**	**33**	**1,028**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SECTIONS THREE TO SIX FOCUS ON THE DEFINED BENEFIT PLANS SECTION THREE: CHANGE IN THE DEFINED BENEFIT OBLIGATION, DBO

The DBO is the gross pension liability.

Change in the defined benefit obligation

	Sweden	UK	Euro zone	US	Other	Total
2010						
Opening balance	16,150	5,688	3,840	2,781	2,258	30,717
Current service cost	631	161	129	32	140	1,093
Interest cost	643	314	182	159	172	1,470
Employee contributions		11	4		5	20
Pension payments	159	99	82	169	194	703
Actuarial gain/loss (/+)	2,285	157	569	46	104	2,861
Settlements			14		104	118
Curtailments	1		30	38	93	162
Business combinations[1)]			74		148	222
Other	1	20	95	30	8	114
Translation difference		461	466	148	7	1,082
Closing balance	**14,980**	**5,437**	**3,163**	**2,693**	**2,437**	**28,710**
Of which medical benefit schemes				*594*		*594*
2009						
Opening balance	14,866	4,867	3,557	2,789	1,931	28,010
Current service cost	594	205	138	35	131	1,103
Interest cost	590	284	194	171	155	1,394
Employee contributions		14	4		12	30
Pension payments	107	108	90	172	142	619
Actuarial gain/loss (/+)	351	543	204	143	120	1,121
Settlements					1	1
Curtailments	144	153	14			311
Business combinations					13	13
Other		13	74	26	40	127
Translation difference		49	227	211	265	124
Closing balance	**16,150**	**5,688**	**3,840**	**2,781**	**2,258**	**30,717**
Of which medical benefit schemes				*631*		*631*

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Funded status

The funded ratio, defined as total plan assets in relation to the total defined benefit obligation (DBO), was 88.6 percent in 2010, compared to 75.5 percent in 2009.

The following table summarizes the value of the DBO per geographical area based on whether there are plan assets wholly or partially funding each pension plan.

Value of the defined benefit obligation

	Sweden	UK	Euro zone	US	Other	Total
2010						
DBO, closing balance	14,980	5,437	3,163	2,693	2,437	**28,710**
Of which partially or fully funded	*14,527*	*5,437*	*2,086*	*2,072*	*1,998*	***26,120***
Of which unfunded	*453*		*1,077*	*621*	*439*	***2,590***
2009						
DBO, closing balance	16,150	5,688	3,840	2,781	2,258	**30,717**
Of which partially or fully funded	*15,660*	*5,688*	*2,659*	*2,119*	*1,813*	***27,939***
Of which unfunded	*490*		*1,181*	*662*	*445*	***2,778***

SECTION FOUR: CHANGE IN THE PLAN ASSETS

A majority of pension plans have assets managed by local Pension Trust funds, whose sole purpose is to secure the future pension payments to the employees.

Change in the plan assets

	Sweden	UK	Euro zone	US	Other	Total
2010						
Opening balance	10,927	5,336	2,406	1,974	2,563	**23,206**
Expected return on plan assets	511	322	141	130	253	**1,357**
Actuarial gain/loss (+/)	222	265	105	103	42	**653**
Employer contributions	729	343	173	58	93	**1,396**
Employee contributions		11	3		5	**19**
Pension payments		119	43	103	119	**384**
Settlements					104	**104**
Business combinations[1)]					164	**164**
Other			53		4	**49**
Translation difference		467	324	114	16	**921**
Closing balance	**12,389**	**5,691**	**2,514**	**2,048**	**2,793**	**25,435**
2009						
Opening balance	8,181	4,407	2,330	2,289	1,830	**19,037**
Expected return on plan assets	366	270	125	156	208	**1,125**
Actuarial gain/loss (+/)	1,076	342	136	253	162	**1,191**

Employer contributions	1,305	387	213	49	122	**2,076**
Employee contributions		14	4		12	**30**
Pension payments		122	75	115	125	**437**
Settlements						
Business combinations			1		11	**12**
Other	1		90		2	**87**
Translation difference		38	144	152	367	**109**
Closing balance	**10,927**	**5,336**	**2,406**	**1,974**	**2,563**	**23,206**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Refunds from or reductions in future contributions to plan assets are recognized if they are available and firmly decided.

Actual return on plan assets

	Sweden	UK	Euro zone	US	Other	Total
2010	733	587	246	233	211	**2,010**
2009	1,441	612	10	97	370	**2,316**

Asset allocation

	Sweden	UK	Euro zone	US	Other	Total
2010						
Equities	4,326	2,028	1,277	1,134	458	**9,223**
Interest-bearing securities	7,508	3,207	970	870	1,837	**14,392**
Other	555	456	267	44	498	**1,820**
Total	**12,389**	**5,691**	**2,514**	**2,048**	**2,793**	**25,435**
Of which Ericsson securities						
2009						
Equities	3,824	1,825	1,094	1,069	394	**8,063**
Interest-bearing securities	7,103	2,801	1,051	741	1,747	**13,586**
Other		710	261	164	422	**1,557**
Total	**10,927**	**5,336**	**2,406**	**1,974**	**2,563**	**23,206**
Of which Ericsson securities						

Equity instruments amount to 36 (35) percent of the total assets, interest bearing instruments amount to 57 (59) percent of the total assets, and other instruments amount to 7 (6) percent of the total assets.

The contributions to the defined benefit plans for the upcoming year will be based on the development of the financial markets as well as on the growth of the pension liability, and how these developments affect the target funding ratio of the Company.

SECTION FIVE: ACTUARIAL GAINS AND LOSSES REPORTED DIRECTLY IN OTHER COMPREHENSIVE INCOME

Actuarial gains and losses reported directly in other comprehensive income

	2010	2009
Cumulative gain/loss (/+) at beginning of year	**5,326**	5,402
Recognized gain/loss (/+) during the year	**3,514**	70
Translation difference	**37**	6
Cumulative gain/loss (/+) at end of year	**1,849**	5,326

Since January 1, 2006, Ericsson applies immediate recognition of actuarial gains and losses directly in the statement of Other Comprehensive Income. Actuarial gains and losses may arise from either a change in actuarial assumptions or in deviations between estimated and actual outcome.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Actuarial gains/losses (/+) related to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction , had an effect on other comprehensive income amounting to SEK 29 million in 2010 (SEK 662 million in 2009). For further details, see Note C12, Financial Assets, Non-Current .

Multi-year summary

	2010	2009	2008	2007	2006
Plan assets	**25,435**	23,206	19,037	20,236	18,395
DBO	**28,710**	30,717	28,010	25,226	24,612
Deficit/Surplus (/+)	**3,275**	7,511	8,973	4,990	6,217
Actuarial gains and losses (/+)					
Experience-based adjustments of pension obligations	**177**	310	57	76	232
Experience-based adjustments of plan assets	**653**	1,191	2,952	59	358

SECTION SIX: ACTUARIAL ASSUMPTIONS

Actuarial assumptions

	Sweden	UK	Euro zone[1)]	US[1)]	Other[1)]
2010					
Discount rate	4.80%	5.40%	5.59%	5.73%	8.55%
Expected return on plan assets for the year	4.55%	6.00%	6.27%	7.00%	9.91%
Future salary increases	3.25%	4.50%	2.91%	4.50%	5.70%
Inflation	2.00%	3.50%	2.00%	2.50%	3.50%
Health care cost inflation, current year	n/a	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	21	22	22	18	19
Life expectancy after age 65 in years, females	24	24	25	20	22
2009					
Discount rate	4.00%	5.60%	5.26%	5.89%	8.91%
Expected return on plan assets for the year	4.55%	6.00%	6.31%	7.00%	9.34%
Future salary increases	3.25%	4.90%	2.92%	4.50%	6.77%
Inflation	2.00%	3.60%	2.17%	2.50%	3.80%
Health care cost inflation, current year	n/a	n/a	n/a	9.00%	n/a
Life expectancy after age 65 in years, males	21	21	22	18	18
Life expectancy after age 65 in years, females	24	24	25	20	22

1) Weighted average.

Actuarial assumptions are assessed on a quarterly basis.

The discount rate for each country is determined by reference to market yields on high-quality corporate bonds.

The overall expected long-term return on plan assets is a weighted average of each asset category s expected rate of return. The expected return on interest-bearing investments is set in line with each country s market yield. Expected return on equities is derived from each country s risk free rate with the addition of a risk premium.

Salary increases are partially affected by fluctuations in inflation rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The net periodic pension cost and the present value of the DBO for current and former employees are calculated using the Projected Unit Credit (PUC) actuarial cost method, where the objective is to spread the cost of each employee s benefits over the period that the employee works for the Company.

Sensitivity analysis for medical benefit schemes

The effect (in SEK million) of a one percentage point change in the assumed trend rate of medical cost would have the following effect:

Sensitivity analysis for medical benefit schemes

	1 percent increase	1 percent decrease
Net periodic post-employment medical cost	3	3
Accumulated post-employment benefit obligation for medical costs	54	46

SECTION SEVEN: INFORMATION ON ISSUES AFFECTING THE NET PENSION LIABILITY FOR THE YEAR

Sweden

In 2010, The Swedish defined benefit obligation has been calculated using a discount rate based on yields of covered bonds, which is higher than a discount rate based on yields of government bonds. The Swedish covered bonds are considered high quality bonds, mainly AAA-rated, as they are secured with assets, and the market for covered bonds is considered deep and liquid, thereby meeting IAS19 requirements.

As before, Ericsson has secured the disability- and survivors pension part of the ITP Plan through an insurance solution with the insurance company Alecta. Although this part of the plan is classified as a multi-employer defined benefit plan, it has not been possible for Ericsson to get sufficient information to apply defined benefit accounting, and therefore, it has been accounted for as a defined contribution plan.

Alecta has a collective funding ratio which is a buffer for its insurance commitments to protect against fluctuations in investment return and insurance risks. Alecta s target ratio is 140 percent and reflects the fair value of Alecta s plan assets as a percentage of plan commitments, then measured in accordance with Alecta s actuarial assumptions, which are different from those in IAS 19. Alecta s collective funding ratio was 146 in 2010 (141 in 2009).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C18 PROVISIONS

Provisions

	Warranty	Restructuring	Project related	Other	Total
2010					
Opening balance	**2,533**	**4,299**	**1,694**	**3,905**	**12,431**
Additions	1,743	2,640	1,285	1,046	**6,714**
Reversal of excess amounts	297	335	353	869	**1,854**
Negative effect on Income Statement					***4,860***
Cash out/Utilization	1,466	3,261	1,547	880	**7,154**
Balances regarding divested/acquired businesses	182		28		**210**
Reclassification	182	176	62	200	**144**
Translation differences	44	289	64	62	**459**
Closing balance	**2,469**	**3,230**	**1,105**	**2,940**	**9,744**
2009					
Opening balance	**1,931**	**3,830**	**3,794**	**4,795**	**14,350**
Additions	2,141	4,920	1,952	2,129	**11,142**
Reversal of excess amounts	171	210	451	915	**1,747**
Negative effect on Income Statement					***9,395***
Cash out/Utilization	1,427	4,248	3,459	1,595	**10,729**
Balances regarding divested/acquired businesses	96			16	**112**
Reclassification	19	146	128	595	**558**
Translation differences	56	139	14	70	**139**
Closing balance	**2,533**	**4,299**	**1,694**	**3,905**	**12,431**

Provisions will fluctuate over time depending on business mix, market mix as well as technology shifts. Risk assessment in the ongoing business is performed monthly to identify the need for new additions and reversals. Management uses its best judgment to estimate provisions based on this assessment. In certain circumstances, provisions are no longer required due to more favorable outcomes than anticipated, which affect the provisions balance as a reversal. In other cases the outcome can be negative, and if so, a charge is recorded in the income statement.

For 2010, new or additional provisions amounting to SEK 6.7 billion were made, and SEK 1.9 billion were reversed. The actual cash outlays for 2010 was SEK 7.2 billion compared with the estimated SEK 8 billion. The expected cash outlays in 2011 is approximately SEK 8 billion.

Of the total provisions, SEK 353 (461) million are classified as non-current. For more information, see Note C1, Significant Accounting Policies and Note C2, Critical Accounting Estimates and Judgments .

Warranty provisions

Warranty provisions are based on historic quality rates for established products as well as estimates regarding quality rates for new products and costs to remedy the various types of faults predicted. The actual cash outlays for 2010 was SEK 1.5 billion and in line with the expected SEK 2 billion. Provisions amounting to SEK 1.7 billion were made and due to more favorable outcomes in certain cases reversals of SEK 0.3 billion were made. The cash outlays of warranty provisions during year 2011 is estimated to approximately SEK 2 billion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restructuring provisions

The cost reduction program initiated in the first quarter 2009 was completed by the second quarter 2010. The total restructuring charges for the program was SEK 15.5 billion of which SEK 6.9 billion were provided for as restructuring provisions. In the second half of the year the cost reduction continued and primarily relates to continuous efficiency activities in service delivery and development, transformation in managed services contracts and product rationalization. In 2010 SEK 2.6 billion (4.9) in provision were made. The cash outlays were 3.3 billion (4.2) for the full year and SEK 0.7 billion were related to restructuring programs before 2009. The cash outlay for 2011 is estimated to approximately SEK 3 billion.

Project related provisions

Project provisions relate to estimated losses on onerous contracts, including probable contractual penalties. The cash outlays of project related provisions were SEK 1.5 billion and in line with the estimated SEK 1 billion. Provisions amounting to SEK 1.3 billion were made and SEK 0.4 billion were reversed due to a more favorable outcome than expected. The cash outlays for 2011 is estimated to be approximately SEK 1 billion.

Other provisions

Other provisions include provisions for tax issues, litigations, supplier claims, and other. The cash outlays was SEK 0.9 billion in 2010 compared to the estimate of SEK 2 billion. During 2010, new provisions amounting to SEK 1.0 billion were made and SEK 0.9 billion were reversed during the year due to a more favorable outcome. For 2011, the estimated cash outlays is approximately SEK 2 billion.

C19 INTEREST-BEARING LIABILITIES

As of December 31, 2010, Ericsson s outstanding interest-bearing liabilities were SEK 30.8 (32.1) billion.

Interest-bearing liabilities

	2010	2009
Borrowings, current		
Current part of non-current borrowings[1)]	**760**	684
Other current borrowings	**3,048**	1,440
Total current borrowings	**3,808**	2,124
Borrowings, non-current		
Notes and bond loans	**20,646**	23,801
Other borrowings, non-current	**6,309**	6,195
Total non-current interest-bearing liabilities	**26,955**	29,996
Total interest-bearing liabilities	**30,763**	32,120

1) Including notes and bond loans of SEK 0 (0) million.

All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium-Term Note (EMTN) program. Bonds issued at a fixed interest rate are swapped to a floating interest rate using interest rate swaps, resulting in a weighted average interest rate of 2.65

(2.88) percent at December 31, 2010. These bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Notes and bond loans

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

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

C20 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Ericsson s financial risk management is governed by a policy approved by the Board of Directors. The Finance Committee of the Board of Directors is responsible for overseeing the capital structure and financial management of the Company and approving certain matters (such as acquisitions, investments, customer finance commitments, guarantees and borrowing) and is continuously monitoring the exposure to financial risks.

Ericsson defines its managed capital as the total Company equity. For Ericsson, a robust financial position with a strong equity ratio, investment grade rating, low leverage and ample liquidity is deemed important. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

Ericsson s overall capital structure should support the financial targets: to grow faster than the market, deliver best-in-class margins and generate a healthy cash flow. The capital structure is managed by balancing equity, debt financing and liquidity in such a way that the Company secure funding of operations at a reasonable cost of capital. Regular borrowings are complemented with committed credit facilities to give additional flexibility to manage unforeseen funding needs. Ericsson strive to finance growth, normal capital expenditures and dividends to shareholders by generating sufficient positive cash flows from operating activities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ericsson s capital objectives are:

- An equity ratio above 40 percent.
- A cash conversion rate above 70 percent.
- To maintain a positive net cash position.
- To maintain a solid investment grade rating by Moody s and Standard & Poor s.

Capital objectives related information

	2010	2009
Capital (SEK billion)	**147**	141
Equity ratio (percent)	**52**	52
Cash conversion rate (percent)	**112**	117
Positive net cash (SEK billion)	**51.3**	36.1
Credit rating		
Moody s	**Baa1**	Baa1
Standard & Poor s	**BBB+**	BBB+

Ericsson has a treasury function with the principal role to ensure that appropriate financing is in place through loans and committed credit facilities, to actively manage the Company s liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures in a manner consistent with underlying business risks and financial policies. Hedging activities, cash management and insurance management are largely centralized to the treasury function in Stockholm.

Ericsson also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to Ericsson. To the extent customer loans are not provided directly by banks, the Parent Company provides or guarantees vendor credits. The customer finance function monitors the exposure from outstanding vendor credits and credit commitments.

Ericsson classifies financial risks as:

- Foreign exchange risk
- Interest rate risk

Credit risk

Liquidity and refinancing risk

Market price risk in own and other equity instruments.

The Board of Directors has established risk limits for defined exposures to foreign exchange and interest rate risks as well as to political risks in certain countries.

For further information about accounting policies, please see Note C1, Significant Accounting Policies .

Foreign exchange risk

Ericsson is a global company with sales mainly outside Sweden. Revenues and costs are to a large extent in currencies other than SEK and therefore the financial results of the Company are impacted by currency fluctuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ericsson reports the financial accounts in SEK and movements in exchange rates between currencies will affect:

- Specific line items such as Net sales and Operating income.
- The comparability of our results between periods.
- The carrying value of assets and liabilities.
- Reported cash flows.

Net sales and Operating Income are affected by changes in foreign exchange rates from two different kinds of exposures, translation exposure and transaction exposure. In the Operating Income we are primarily exposed to transaction exposure which is partially addressed by hedging.

Currency exposure

Exposure currency	Translation exposure	Transaction exposure	Net exposure	Net exposure, percent of total
Net sales				
USD	46.6	40.8	87.4	43%
EUR	27.4	10.5	37.9	19%
CNY	13.5	0.3	13.2	6%
JPY	8.8	0.6	9.4	5%
INR	8.3	1.1	7.2	4%
GBP	7.8	1.5	6.3	3%
BRL	5.9	0.2	5.7	3%
SEK	41.7	37.6	4.1	2%
Other	42.2	11.2	31.0	15%
Pre-hedge total	**202.2**	**0.0**	**202.2**	**100%**
Hedge			1.1	
Total Net sales			**203.3**	
Net cost				
USD	45.9	14.7	60.6	33%
SEK	32.8	15.3	48.1	26%
EUR	25.8	4.5	30.3	16%
CNY	12.8	1.1	11.7	6%
INR	9.0	3.6	5.4	3%
BRL	5.9	0.7	5.2	3%

JPY	8.4	4.3	4.1	2%
GBP	7.5	6.8	0.7	0%
Other	37.9	18.0	19.9	11%
Pre-hedge total	**186.0**	**0.0**	**186.0**	**100%**
Hedge			0.8	
Total Net cost			**186.8**	
Operating income			**16.5**	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Translation exposure

Translation exposure relates to Sales and Cost of Sales in foreign entities when translated into SEK upon consolidation. These exposures can not be addressed by hedging, but as the Income Statement is translated using average rate, the impact of volatility in foreign currency rates is reduced.

Transaction exposure

Transaction exposure relates to Sales and Cost of sales in non-reporting currencies in individual group companies. Foreign exchange risk is as far as possible concentrated to Swedish group companies, primarily Ericsson AB. Sales to foreign subsidiaries are normally denominated in the functional currency of the receiving entity, and export sales from Sweden to external customers are normally denominated in USD or other foreign currency. In order to limit the exposure toward exchange rate fluctuations on future revenues and costs, committed and forecasted future sales and purchases in major currencies are hedged, for the coming 6 12 months.

According to Company policy, transaction exposure in subsidiaries balance sheets (i.e. trade receivables and payables and customer finance receivables) should be fully hedged, except for non-tradable currencies. Group Treasury has a mandate to leave selected transaction exposures in subsidiaries balance sheets unhedged up to an aggregate Value at Risk (VaR) of SEK 20 million, given a confidence level of 99 percent and a 1-day horizon.

Foreign exchange exposures in balance sheet items are hedged through offsetting balances or derivatives.

As of December 31, 2010, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of SEK 0.6 (0.3) billion. The market value is partly deferred in the hedge reserve in OCI to offset the gains/losses on hedged future sales in foreign currency.

Cash flow hedges

The purpose of hedging forecasted revenues and costs is to reduce volatility in the income statement. Hedging is done by selling or buying foreign currencies against the functional currency of the hedging entity using FX forwards.

Hedging is done based on a rolling 12-month exposure forecast. Ericsson uses a layered hedging approach, where the closest quarters are hedged to a higher degree than later quarters. Each consecutive quarter is hereby hedged on several occasions and is covered by an aggregate of hedging contracts initiated at various points in time, which supports the objective of reducing volatility in the income statement from changes in foreign exchange rates.

Translation exposure in net assets

Ericsson has many subsidiaries operating outside Sweden with other functional currencies than SEK. The results and net assets of such companies are exposed to exchange rate fluctuations, which affect the consolidated income statement and balance sheet when translated to SEK. Translation risk related to forecasted results from foreign operations can not be hedged, but net assets can be addressed by hedging.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Translation exposure in foreign subsidiaries is hedged according to the following policy established by the Board of Directors:

Translation risk related to net assets in foreign subsidiaries is hedged up to 20 percent in selected companies. The translation differences reported in OCI during 2010 were negative, SEK 3.7 billion, including hedging gain of SEK 0.4 billion.

Interest rate risk

Ericsson is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position was SEK 51.3 (36.1) billion at the end of 2010, consisting of cash, cash equivalents and short-term investments of SEK 87.2 (76.7) billion and interest-bearing liabilities and post-employment benefits of SEK 35.9 (40.7) billion.

Ericsson manages the interest rate risk by (i) matching fixed and floating interest rates in interest-bearing balance sheet items and (ii) avoiding significant fixed interest rate exposure in Ericsson s net cash position. The policy is that interest-bearing assets shall have an average interest duration between 10 and 14 months and interest-bearing liabilities an average interest duration shorter than 6 months, taking derivative instruments into consideration. Treasury has a mandate to deviate from the asset management benchmark given by the Board and take FX positions up to an aggregate risk of VaR SEK 30 million given a confidence level of 99 percent and a 1-day horizon.

As of December 31, 2010, 97 (88) percent of Ericsson s interest-bearing liabilities and 90 (61) percent of Ericsson s interest-bearing assets had floating interest rates, i.e. interest periods of less than 12 months.

When managing the interest rate exposure, Ericsson uses derivative instruments, such as interest rate swaps. Derivative instruments used for converting fixed rate debt into floating rate debt are designated as fair value hedges.

Fair value hedges

The purpose of fair value hedges is to hedge the variability in the fair value of fixed-rate debt (issued bonds) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g. STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk/spread is not hedged.

The fixed leg of the IRS is matched against the cash flows of the hedged bond. Hereby the fixed-rate bond/debt is converted into a floating-rate debt in accordance with the policy.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Outstanding derivatives[1)]

	2010		2009	
Fair value	**Asset**	**Liability**	**Asset**	**Liability**
Currency derivatives				
Maturity within 3 months	**581**	**1,086**	580	500
Maturity between 3 and 12 months	**945**	**505**	910	423
Maturity 1 to 3 years	**2**	**21**	90	44
Maturity 3 to 5 years			84	
Maturity more than 5 years			3	
Total currency derivatives	**1,528**	**1,613[2)]**	1,666[3)]	967
Of which designated in cashflow hedge relations	***662***		*96*	
Of which designated in net investment hedge relations		***3***		*62*
Interest rate derivatives				
Maturity within 3 months	**6**	**28**		
Maturity between 3 and 12 months	**76**	**61**	28	40
Maturity 1 to 3 years	**544**	**118**	49	151
Maturity 3 to 5 years	**184**	**34**	175	40
Maturity more than 5 years	**705**	**87**	685	58
Total interest rate derivatives	**1,515**	**329[2)]**	937[3)]	289
Of which designated in fair value hedge relations	***862***		*845*	

1) Some of the derivatives with short maturities are recognized in the balance sheet as non-current due to hedge accounting.
2) Of which SEK 902 million is reported as non-current liabilities.
3) Of which SEK 843 million is reported as non-current assets.

Sensitivity analysis

Ericsson uses the VaR methodology to measure foreign exchange and interest rate risks in portfolios managed by Treasury. This statistical method expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time. For the VaR measurement, Ericsson has chosen a probability level of 99 percent and a 1-day time horizon. The daily VaR measurement uses market volatilities and correlations based on historical daily data (one year).

The average VaR calculated for 2010 was for the interest rate mandate SEK 20.3 (14.3) million and for the transaction exposure mandate SEK 9.8 (13.9) million. No VaR-limits were exceeded during 2010.

Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. This exposure arises in the investments in cash, cash equivalents, short-term Investments and from derivative positions with positive unrealized results against banks and other counterparties.

Ericsson mitigates these risks by investing cash primarily in well-rated securities such as treasury bills, government bonds, commercial papers, and mortgage covered bonds with short-term ratings of at least A-1/P-1 and long-term ratings of AAA. Separate credit limits are assigned to each counterpart in order to minimize risk

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

concentration. We have had no sub-prime exposure in our investments. All derivative transactions are covered by ISDA netting agreements to reduce the credit risk. No credit losses were incurred during 2010, neither on external investments nor on derivative positions.

At December 31, 2010, the credit risk in financial cash instruments was equal to the instruments carrying value. Credit exposure in derivative instruments was SEK 3.0 (2.6) billion.

Liquidity risk

Liquidity risk is that Ericsson is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves.

Ericsson minimizes the liquidity risk by maintaining a sufficient net cash position. This is managed through centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. For information about contractual obligations, please see Note C32, Contractual obligations . The current cash position is deemed to satisfy all short-term liquidity requirements.

During 2010, cash and bank and short-term investments increased by SEK 10.5 billion to SEK 87.2 billion. The increase was mainly due to positive operating cash flow.

Cash, cash equivalents and short-term investments

	Remaining time to maturity				
(SEK billion)	**< 3 months**	**< 1 year**	**1 5 years**	**>5 years**	**Total**
Bank Deposits	29.4	0.1			**29.5**
Type of issuer/counterpart					
Governments		9.3	23.5	2.9	**35.7**
Banks	1.5		4.0		**5.5**
Corporations					
Mortgage institutes			15.3	1.2	**16.5**
2010	30.9	9.4	42.8	4.1	**87.2**
2009	31.8	2.6	34.4	7.9	**76.7**

The instruments are either classified as held for trading or as assets available for sale with maturity less than one year and therefore short-term investments. Cash, Cash Equivalents and short-term investments are mainly held in SEK unless off-set by EUR-funding.

Refinancing risk

Refinancing risk is the risk that Ericsson is unable to refinance outstanding debt at reasonable terms and conditions, or at all, at a given point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Repayment schedule of long-term borrowings[1)]

Nominal amount (SEK billion)	Current maturities of long-term debt	Notes and bonds (non-current)	Liabilities to financial institutions (non-current)	Total
2011	0.8			**0.8**
2012		3.5	0.9	**4.4**
2013		5.4		**5.4**
2014		3.4		**3.4**
2015			4.1	**4.1**
2016		2.0		**2.0**
2017		4.5		**4.5**
2018				
2019				
2020		1.2		**1.2**
Total	**0.8**	**20.0**	**5.0**	**25.8**

1) Excluding finance leases reported in Note C27, Leasing .

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

Bank financing is used for certain subsidiary funding and to obtain committed credit facilities.

Funding programs[1)]

	Amount	Utilized	Unutilized
Euro Medium-Term Note program (USD million)	5,000	3,003	1,997
Euro Commercial Paper program (USD million)	1,500		1,500
Swedish Commercial Paper program (SEK million)	5,000		5,000
Long-term Committed Credit facility (USD million)	2,000		2,000
Indian Commercial Paper program (INR million)	5,000	3,200	1,800

1) There are no financial covenants related to these programs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments carried at other than fair value

The fair value of the majority of the Company s financial instruments are determined based on quoted market prices or rates. In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. Assets valued at fair value through profit or loss showed a net gain of SEK 1.1 billion. For further information about valuation principles, please see Note C1, Significant accounting policies .

Financial instruments carried at other than fair value[1)]

	Carrying amount		Fair value	
SEK billion	**2010**	**2009**	**2010**	**2009**
Current maturities of non-current borrowings	**0.8**	0.7	**0.8**	0.7
Notes and bonds	**20.6**	23.8	**20.5**	22.8
Other borrowings non-current	**5.1**	4.8	**5.0**	4.0
Total	**26.5**	29.3	**26.3**	27.5

1) Excluding finance leases reported in Note C27, Leasing .

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

Market price risk in own shares and other listed equity investments

Risk related to our own share price

Ericsson is exposed to the development of its own share price through stock option and stock purchase plans for employees and synthetic share-based compensations to the Board of Directors. The obligation to deliver shares, or pay compensation amounts, under these plans is covered by holding Ericsson Class B shares as treasury stock and warrants for issuance of new Ericsson Class B shares or provisions. An increase in the share price will result in social security charges, which represents a risk to both income and cash flow. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares as treasury stock to be sold to generate funds to cover also social security payments, and through the purchase of call options on Ericsson Class B shares. For further information about the stock option and stock purchase plans, please see note C29, Information Regarding Members of the Board of Directors, the Group Management and Employees .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments, carrying amounts

SEK billion	Customer finance C14	Trade receivables C14	Short-term investments	Cash equivalents	Borrowings C19	Trade payables C22	Other financial assets C12	Other current receivables C15	Other current liabilities C21	Other non-current liabilities	2010	2009
Assets at fair value through profit or loss			56.3	1.5				3.0	1.0	0.9	**58.9**	56.0
Loans and receivables	4.4	61.1		2.1			2.7				**70.3**	73.7
Available for sale assets												
Financial liabilities at amortized cost					30.8	25.0					**55.8**	51.0
Total	**4.4**	**61.1**	**56.3**	**3.6**	**30.8**	**25.0**	**2.7**	**3.0**	**1.0**	**0.9**	**73.4**	**78.7**

C21 OTHER CURRENT LIABILITIES

Other current liabilities

	2010	2009
Income tax liabilities	**2,228**	1,890
Advances from customers	**5,946**	4,903
Liabilities to associated companies and joint ventures	**115**	152
Accrued interest	**349**	378
Accrued expenses, of which	**31,463**	29,957
Employee related	***10,063***	*10,137*
Supplier related	***12,273***	*10,769*
Other[1)]	***9,127***	*9,051*
Deferred revenues	**11,415**	8,267
Derivatives with a negative value[2)]	**1,039**	1,255
Other[3)]	**6,050**	5,727
Total	**58,605**	52,529

1) Major balance relates to accrued expenses for customer projects.
2) See Note C20, Financial Risk Management and Financial Instruments .
3) Includes items such as VAT and withholding tax payables and other payroll deductions, and liabilities for goods received where invoice is not yet received.

C22 TRADE PAYABLES

Trade payables

	2010	2009
Payables to associated companies and joint ventures	**157**	1,186
Other	**24,802**	17,678
Total	**24,959**	18,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C23 ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral

	2010	2009
Chattel mortgages	**191**	167
Bank deposits	**467**	383
Total	**658**	550

C24 CONTINGENT LIABILITIES

Contingent liabilities