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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ERICSSON ANNUAL REPORT ON FORM 20-F 2010

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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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Exhibit 10	Not applicable	
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

SEK 203.3 (206.5) billion

NET CASH

SEK 51.3 (36.1) billion

OPERATING MARGIN*

12% (12%)

EARNINGS PER SHARE

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

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.

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.

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.

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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

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.

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

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.

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.

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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.

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.

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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.

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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.

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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.

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.

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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.

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

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		