

ERICSSON LM TELEPHONE CO

Form 20-F

April 29, 2009

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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, 2008

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

American Depositary Shares
B Shares*

Name of Each Exchange on Which Registered

The NASDAQ Stock Market LLC
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:

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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 1.00 nominal value)	14,823,478,760
A shares (SEK 1.00 nominal value)	1,308,779,918
C shares (SEK 1.00 nominal value)	0

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

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

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

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

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

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

US GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

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

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THIS IS ERICSSON IN 2008

As the world's largest supplier of network equipment and related services to telecom operators, Ericsson has over 78,000 employees and customers in more than 175 countries. Innovation, technology leadership and sustainable business solutions advance a vision to be the prime driver in an all-communicating world. Long-term relationships with all major operators result in Ericsson serving well over 40 percent of all mobile subscribers. Ericsson manages a number of operator-owned networks with, altogether, 250 million subscribers globally. The Sony Ericsson joint venture is a major supplier of feature-rich mobile phones.

FINANCIAL RESULTS IN SHORT

Sales grew by 11 percent to SEK 209 billion
with global demand across the entire portfolio.

Operating margin was 11.4 (16.3) percent, excluding restructuring charges,
due to a gross margin decrease along with insignificant contribution from Sony Ericsson compared to 2007.

Earnings per share 49 percent lower, SEK 3.52,
negatively impacted by restructuring charges and Sony Ericsson.

Payment readiness improved from SEK 65 billion to SEK 85 billion at year end,
with working capital efficiency improvements.

KEY DEVELOPMENTS

650 million new mobile subscriptions added to reach the 4 billion mark.

Emerging markets fastest growing, with India and China now our largest markets.

Record year for GSM network shipments.

Weaker demand for replacement phones affecting mobile phone market but usage grew.

Mobile broadband took off with more than doubled subscriptions and peak data rates of 21 Mbps.

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Joint venture to build leading position in semiconductors and platforms for mobile devices.

Multimedia investments start to pay off with especially good progress in Revenue Management and Service Delivery & Provisioning.

LTE established as first true global mobile standard.

Introduced new multi-standard radio base station.

Expanded presence in Silicon Valley to strengthen our position in IP technologies.

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DEAR FELLOW SHAREHOLDERS,

We may be living in uncertain times, but there is one thing that gives me a strong belief in the future of our business: the majority of people worldwide appreciate the benefits that our products and services bring.

Mobile subscriptions have now reached the four billion mark, a remarkable achievement that reinforces our vision to be the prime driver in an all-communicating world. This was also the year that mobile broadband really took off and Ericsson was a key contributor to both of these milestones. As you can see from the results, our strategy and commitment to our vision are paying off.

Financially strong

We had a solid performance this year with robust sales growth and best-in-class margins. Ericsson's strong financial position enables us to pursue strategic opportunities, such as quickly building a market-leading position in core mobile phone technologies from a joint venture with STMicroelectronics.

The turmoil within the financial markets is leading to a macroeconomic downturn that will eventually affect all parts of society. However, the vast majority of our customers are financially strong. Their networks are well dimensioned, but traffic is growing rapidly which drives the need for continued spending to maintain quality of service.

So far, our network and services businesses have hardly been affected at all by the financial markets' turmoil. This is not to say we take the macro-economic situation lightly, as it would be unreasonable to believe that we will not be affected in some way. We are therefore accelerating our move to all-IP technology to reduce our costs and prepare for tougher times. As the cost reductions largely come from more efficient ways of working, our strategy and unique capabilities should be unaffected.

Weakening demand for replacement phones is, however, impacting Sony Ericsson, especially in Western Europe. The JV is adjusting to the deteriorating market conditions with significant cost reduction activities which will restore its capability for profitable growth.

Benefiting from long-term trends

Despite the current macro-economic environment, the fundamentals of our industry are sound and the underlying demand drivers remain intact. Today, mobile communication is just as essential to any nation's infrastructure as water, transportation or electricity.

The socio-economic contributions of mobile communications are well demonstrated with the importance of broadband increasing. The US Senate Appropriations Committee estimates that for every USD 1 invested in broadband networks, USD 10 are returned to society. The returns could be even higher with mobile broadband networks as they are cheaper and faster to build than fixed networks.

Ericsson plays a vital role in bringing the benefits of mobile broadband to the majority of people around the world. People in many parts of the world will soon be able to accomplish things that were never possible before – share ideas and information whenever and wherever they want, get medical advice and e-learning, stay in touch with family and friends and much more.

In many ways, 2008 was the year of mobile broadband. Data traffic increased dramatically in mobile broadband networks built by Ericsson, particularly for operators using bundled tariffs or a flat fee structure. We delivered software enhancements that tripled peak data rates, enabling a user experience and cost similar to fixed broadband. Further enhancements are in the works.

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A new radio standard, Long Term Evolution (LTE), which offers even greater speeds, is now the first truly global mobile standard. However, GSM and WCDMA systems will coexist for some time and we have developed a new, more energy-efficient radio base station that also supports multiple standards.

What's more, our services business gained market share and we now manage a variety of operator networks, serving some 250 million subscribers worldwide.

Trusted partner

Being a trusted partner means working closely with our customers to fully understand their strategic needs and intentions. Customers tell us that we earn our competitive advantage by actively listening, sharing and exploring ways to cooperatively develop the most efficient solutions. Our mobile communications infrastructure, technology leadership, and telecom services expertise are highly rated by our customers in independent studies. Trust in Ericsson helps us to outperform the market and places Ericsson well ahead of the competition.

In closing, I am very excited about the potential of the telecommunications industry to improve the quality of life in societies around the world. I take great pride in Ericsson's role in making this happen.

Carl-Henric Svanberg

President and CEO

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FIVE-YEAR SUMMARY

SEK million	2008	2007	2006	2005	2004
Income statement items					
Net sales	208,930	187,780	179,821	153,222	131,972
Operating income	16,252	30,646	35,828	33,084	26,706
Financial net	974	83	165	251	-540
Net income	11,667	22,135	26,436	24,460	17,836

YEAR-END POSITION

Total assets	285,684	245,117	214,940	209,336	186,186
Working capital	99,951	86,327	82,926	86,184	69,268
Capital employed	182,439	168,456	142,447	133,332	115,144
Net cash	34,651	24,312	40,728	50,645	42,911
Property, plant and equipment	9,995	9,304	7,881	6,966	5,845
Stockholders' equity	140,823	134,112	120,113	101,622	80,445
Minority interests	1,261	940	782	850	1,057
Interest-bearing liabilities and post-employment benefits	40,354	33,404	21,552	30,860	33,643

OTHER INFORMATION

Earnings, per share, basic, SEK	3.54	6.87	8.27	7.67	5.54
Earnings, per share, diluted, SEK	3.52	6.84	8.23	7.64	5.54
Cash dividends per share, SEK	1.85₁	2.50	2.50	2.25	1.25
Stockholders' equity per share, SEK	44.21	42.17	37.82	32.03	25.40
Number of shares outstanding (in millions)					
at end of period, basic	3,185	3,180	3,176	3,173	3,167
average, basic	3,183	3,178	3,174	3,169	3,166
average, diluted	3,202	3,193	3,189	3,181	3,179
Additions to property, plant and equipment	4,133	4,319	3,827	3,365	2,452
Depreciation of property, plant and equipment	3,108	3,121	3,007	2,804	2,434
Acquisitions/capitalization of intangible assets	1,287	29,838	18,319	2,250	1,950
Amortization of intangible assets	5,006	5,433	4,237	3,269	4,452
Research and development expenses	33,584	28,842	27,533	24,059	23,421
as percentage of net sales	16.1%	15.4%	15.3%	15.7%	17.7%

RATIOS

Operating margin	7.8%	16.3%	19.9%	21.6%	20.2%
Operating margin excluding Sony Ericsson	8.0%	12.5%	16.7%	20.1%	18.6%
EBITDA margin	11.9%	20.8%	24.1%	25.4%	25.5%
Cash conversion	92%	66%	57%	47%	80%
Return on equity	8.2%	17.2%	23.7%	26.7%	24.2%
Return on capital employed	11.3%	20.9%	27.4%	28.7%	26.4%
Equity ratio	49.7%	55.1%	56.2%	49.0%	43.8%
Capital turnover	1.2	1.2	1.3	1.2	1.2
Inventory turnover	5.4	5.2	5.2	5.1	5.7
Trade receivables turnover	3.1	3.4	3.9	4.1	4.1
Payment readiness, SEK million	84,917	64,678	67,454	78,647	81,447
as percentage of net sales	40.6%	34.4%	37.5%	51.3%	61.7%

STATISTICAL DATA, YEAR-END

Number of employees	78,740	74,011	63,781	56,055	50,534
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of which in Sweden	20,155	19,781	19,094	21,178	21,296
Export sales from Sweden, SEK million	109,254	102,486	98,694	93,879	86,510

1) For 2008, as proposed by the Board of Directors.
For definitions of the financial terms used, see Financial Terminology.

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LETTER FROM THE CHAIRMAN

Dear shareholder,

This year was marked by a series of dramatic macro-economic events which has created a difficult time for the world economy. However, Ericsson remains well positioned and strong relative to its peers and I can assure you that all Ericsson employees are working hard to bring value to customers – the ultimate path to success for the Company and in turn for you.

Ericsson's situation today is quite different from what it was during the market downturn earlier this decade. The Company now has a healthy balance sheet and strong cash position. In addition, Ericsson refinanced maturing loans and secured new loans before the financial market collapse – a decision that now offers benefits in terms of greater liquidity, making it possible to pursue opportunities created by the market situation.

Ericsson's strategy to leverage its leading position and technological prowess to invest in future growth areas remains unchanged. However, adjustments to the global macro-economic environment will be necessary in the near term and the Company's cost base will be reduced to maintain margins. Utmost care will be given to preserve Ericsson's longer-term prospects and technology leadership.

The Board work in 2008 had a significant focus on strategic matters. A major decision was taken to form a joint venture, merging Ericsson's mobile platform activities and STMicroelectronics' NXP-Wireless unit, to create a world-leading company in semiconductors and platforms for mobile applications. The JV will build on the current relationship and will have a strong combined offering and a broad customer base.

Operator and consumer sensitivity to the macro-economy is an important factor for Ericsson, closely monitored by the Board. The main impact observed so far has been a weakening demand for new mobile phones and the Sony Ericsson management is aggressively addressing this development, with significant cost reductions underway to restore profitability.

The debate around executive compensation has recently intensified following the macro-economic developments. Benchmarking with similar global companies shows that we have a conservative, but still competitive compensation scheme that rewards performance and aligns employee interests with the interests of shareholders.

Our principles for employee remuneration – performance, competitiveness, fairness – mirrors Ericsson's core values of respect, professionalism and perseverance. I am confident that these principles are appropriate and reasonable even during these uncertain times.

The demand for mobile communications should only increase with technological advancements lowering costs for affordability to more and more consumers. By making mobile communications available to everyone, Ericsson is fundamentally contributing to socio-economic development in emerging markets and to a better environment globally. I am particularly proud of this accomplishment and encourage the Company to continue on this path.

I sincerely appreciate your support during the year.

Michael Treschow

Chairman of the Board

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BOARD OF DIRECTORS REPORT

This Board of Directors Report is based on Ericsson's consolidated financial statements, prepared in accordance with IFRS. 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. 63).

Also non-IFRS measures are used to provide meaningful supplemental information to the IFRS results. Non-IFRS measures are meant 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 21.

This report includes forward looking statements subject to risks and uncertainties. Actual developments could differ materially from those described or implied. Please see Forward-looking Statements (p. 164), Risk Factors (p. 135) and Uncertainties in the future (p. 215).

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, the Company, and similar all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries. Unless otherwise noted, numbers in parentheses refer to the previous year (i.e. 2007).

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SUMMARY	

Increased sales by 11 (4) percent despite financial turmoil

Operating margin was 11.4 (16.3) percent excluding restructuring charges and 7.8 (16.3) percent including restructuring charges.

Net income attributable to shareholders of the Parent Company was SEK 11.3 (21.8) billion, and earnings per share (diluted) were SEK 3.52 (6.84).

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Cash flow from operating activities was SEK 24.0 (19.2) billion. Cash flow before financing activities was SEK 15.4 (-8.3) billion including acquisitions/divestments (net) of SEK 0.6 (-26.2) billion (cash flow effect).

A cash conversion rate of 92 (66) percent was achieved, well above the target of at least 70 percent.

Strong performance in strategically important areas

A significant number of new or expanded agreements to supply network equipment and/or related services to operators globally were announced. The aggregate value of these agreements was the highest in five years.

Leveraged mobile systems scale advantages:

The Company increased its mobile systems market share, especially in emerging markets.

Strengthened position in fixed broadband access and IP routing:

The Company strengthened its position within the Networks segment with a newly formed product area headquartered in Silicon Valley.

Networks margins have started to improve:

A more favorable balance between new networks relative to expansions and upgrades.

Higher proportion of software sales:

Sales of software and Intellectual Property Rights (IPR) continues to gain importance.

Increased market share in Professional Services:

New managed services contracts, in particular, contributed to the increased market share.

Maintained top tier in mobile phones:

With challenging business conditions, Sony Ericsson achieved breakeven results for the full year, excluding restructuring charges.

Good progress in Multimedia:

The Company continues to invest for a leading market position in networked media and IP-based applications and services.

Divestments and new joint venture:

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During the year, the PBX part of the Enterprise business was divested. Plans to form a joint venture for mobile platforms and semiconductors with STMicroelectronics were announced.

Solid financial position

Although Ericsson is well positioned and remains strong among its peers, there are several challenges to overcome in the near future. It is difficult to predict how consumer spending will change and the effect this may have on operator activities. The macro-economic development is negatively impacting Sony Ericsson but so far, Ericsson's infrastructure-related business has hardly been affected. However, it is likely that in due course this business will also be affected. Cost adjustment plans have been decided and actions are already underway in preparation for such a development.

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VISION AND STRATEGY

Ericsson's vision of an all-communicating world is rapidly becoming a reality as the convergence of telecommunications, Internet and media industries gains momentum.

By helping operators to develop and improve their networks to efficiently handle multimedia capabilities, Ericsson is creating a world in which any person can have affordable access to information, entertainment, social communities and more, whenever and wherever wanted. In the course of making people's lives easier and more productive Ericsson is spurring socio-economic development which brings the Company's vision ever closer to reality.

Our strategy is driven by the competitive dynamics of the network equipment market and Ericsson's position, the combination of which gives rise to three strategic imperatives:

Economies of scale and scope are prerequisites for sustainable value creation. Industry standards govern product design and functionality, making it difficult for equipment suppliers to differentiate on product capabilities alone.

The bargaining power of equipment suppliers depends primarily on their installed base. Operators not only look for the best products but also for long-term business partnerships that they can rely on to deliver end-to-end solutions for lower total cost of ownership, or the ability to minimize time-to-market, or the strength of professional services capabilities, or access to world-class subject matter experts. If the incumbent supplier is performing well, operators are reluctant to seek alternatives.

Primary end-to-end suppliers with well-entrenched local presence, backed up by global resources and a proven track record, have a competitive advantage.

Attainment of the strategic imperatives is essential to the success of Ericsson but the business model creates high fixed costs and requires significantly high working capital to sales. With this in mind along with the Company's ambition to be **the prime driver in an all-communicating world**, operations have been divided into segments that create competitive advantage and best meet the needs of Ericsson's global customer base.

Networks technology leadership, a broad product portfolio and scale enable Ericsson to excel in meeting the coverage, capacity and network evolution needs of fixed and mobile operators.

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Services expertise in network design, rollout, integration, operation and customer support within a global structure with robust local capabilities enable Ericsson to better understand and respond to the unique challenges of each customer and capitalize on the trend to outsource a broader range of activities to network equipment suppliers.

Multimedia innovative application platforms, service delivery and revenue management solutions combined with leading content developer and application provider relationships enable Ericsson to uniquely help customers create exciting new and differentiated multimedia services.

Phones The complementary strength of Sony Ericsson further enhances Ericsson's consumer perspective for superior end-to-end offerings.

The synergies generated by the combined strengths of the segments differentiate Ericsson through a continuous focus on **operational excellence** to better leverage an economy of scale in technology development as well as in product and service delivery and customer support.

The three strategic imperatives show Ericsson's business dynamics and their effects on results. With its scale advantage secured by being the primary supplier to more operators, the Company plans to balance growth with margins, focus on leveraging expanded primary supplier relationships and return to higher profitability levels.

BUSINESS FOCUS 2008

Reaching more people

Ericsson helped to bring telecommunications to many consumers that previously could not afford service or lived outside the coverage area. The Company implemented alternative energy solutions for radio base stations in remote areas. Ericsson radio technology requires fewer cell sites for high-quality coverage. In these ways, Ericsson uses technology to reduce network operators' total cost of ownership, which enables them to expand coverage and reach more consumers in new geographic areas.

Increasing speed and capacity

Ericsson is at the forefront of broadband technology development with solutions to meet the growing broadband traffic demand from business and residential customers. During the year, the Company introduced a

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100 GbE (gigabit Ethernet) transport enhancement to existing WDM (Wavelength Division Multiplexing) solutions and deployed a nationwide optical WDM network in Germany, that enables 40 Gbps (gigabit per second) connections. The first commercial 21 Mbps (Megabit per second) mobile broadband services were launched and the Company demonstrated the world's first end-to-end HSPA solution with speeds of up to 42 Mbps. The world's first commercially available LTE-capable mobile platform was introduced, with peak data rates of up to 100 Mbps in the downlink and up to 50 Mbps in the uplink. With four times the bandwidth of existing systems, the world's first 10 Gbps Gigabit Passive Optical Network (GPON) system for IPTV was demonstrated.

Expanding Ericsson's role

Ericsson is to supply, build, integrate, operate and manage broadband communications infrastructure for Saudi Arabia's high-tech flagship, King Abdullah Economic City. The sole-supplier agreement with Emaar, developer of the smart-city project, breaks new ground in Saudi Arabia as Ericsson's first GPON-enabled IPTV contract; the first contract where Ericsson provides systems integration and network rollout services for fiber optic solutions and fixed-network IMS. The contract brings together products from Ericsson's major acquisitions Entrisphere, Marconi, Redback and Tandberg Television and the Company's telecom services portfolio.

Preparing for the future

Each year, Ericsson's ConsumerLab conducts more than 40,000 interviews, representing opinions and behavior of over 1 billion people. This valuable insight on consumer trends is incorporated into product development, sales and marketing, and is provided to operators for them to better understand their customers' needs. The Company also works with entrepreneurial developers to bring new multimedia services to the mobile environment. Internally, the Ericsson strategy function is working with scenarios for market and technology developments with a mid-term, i.e. five-year horizon, as well as a longer term, i.e. 10-15 year view.

GOALS AND RESULTS

Our ultimate goal is for the Company to generate growth and a competitive profit that is sustainable over the longer term. Ericsson aims to be the preferred business partner to its customers. As the market leader, the

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Company develops superior products and services that provide competitive advantages. In addition, when Ericsson's network equipment and associated services are combined with multimedia solutions and mobile handsets from the Sony Ericsson joint venture, the scope of Ericsson's operations extends to complete end-to-end telecommunication solutions.

The Company performance is monitored according to three fundamental metrics: value creation, customer satisfaction and employee satisfaction. We believe that highly satisfied customers along with empowered and motivated employees help to assure an enduring capability for competitive advantage and value creation. The Company's objective is to have a faster than market sales growth, a best-in-class operating margin and a healthy cash conversion.

Shareholder value creation

Although margins remain below recent historic levels, the Company is strengthening its market position and continues to perform better than its peers. A strong balance sheet, flexible operational model and strengthened industry-leading position provide the means for handling any near-term macro-economic pressure. In the longer term, the increased market share and footprint enlarges the opportunity for future sales of expansions and upgrades.

Management has several metrics by which they measure the Company's progress relative to its ambitions:

Increase sales at a rate faster than the market growth. Although the mobile systems market is likely to have exceeded the expectation of slight or no growth in USD terms, Ericsson's networks' sales grew much faster, at 10 percent. Ericsson's Professional Services sales grew by 13 (19) percent in local currencies, compared with an estimated market growth of approximately 10 percent.

Deliver best-in-class operating margin, i.e. better than the main competitors. Operating margin for the Group, excluding Sony Ericsson and excluding restructuring charges, was the highest among its main publicly listed competitors, based on their reported and estimated results.

Generate cash conversion of over 70 percent. The cash conversion for 2008 was 92 (66) percent. Reflecting an increased focus on cash flow, this longer-term target (i.e. 3-5 years) was first communicated during 2007.

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Customer and employee satisfaction

Every year, a customer satisfaction survey is independently conducted in which approximately 9,300 (9,000) employees of some 380 (380) fixed and mobile operators around the world are polled to assess their satisfaction with Ericsson compared to its main peers. Ericsson maintained a level of excellence.

Every year, also an employee survey is independently conducted. In 2008, 90 percent of employees participated in the survey. The results show that Ericsson has maintained a level considered excellent by external benchmarking. The Human Capital Index, which measures employee contribution in adding value for customers and meeting business goals, was the same as for 2007. See graphs below.

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BUSINESS RESULTS

Group sales grew 11 (4) percent, driven by higher Networks and Professional Services sales. Fluctuations in foreign exchange rates had a rather significant negative effect on reported sales during the first nine months of the year although the trend shifted in the fourth quarter, resulting in a limited effect for the full year.

GROUP SALES

SEK billion	2008	2007	Percent change
Sales	208.9	187.8	11%
of which Networks	142.0	129.0	10%
of which Professional Services	49.0	42.9	14%
of which Multimedia	17.9	15.9	13%

In an increasingly challenging macro-economic environment, the Company adjusts its cost base continuously. The cost reduction targets launched in 2008 were exceeded. In February 2008, a cost reduction plan of SEK 4 billion in annual savings was announced, including estimated charges of the same size. All activities with related charges were launched by the third quarter, and it was announced that further charges would be made in the fourth quarter. Charges for the full year 2008 amounted to SEK 6.7 billion in total. This has resulted in annual savings of approximately SEK 6.5 billion from year end. We will continue to reduce costs, across all parts of the company at the same pace as in 2008 with restructuring charges of SEK 6-7 billion, targeting annual savings of SEK 10 billion from the second half of 2010, with an equal split between cost of sales and operating expenses.

Our strategy for these further cost reductions is to leverage the synergies between different technologies, in-house and acquired, and take advantage of the opportunities from the transformation to all-IP. The number of software platforms will be reduced and the re-use of hardware increased. In addition, certain activities will be moved to low-cost countries. This will result in a reduction in the number of consultants and other temporary staff, consolidation of R&D sites and layoffs. As the savings are largely the result of more efficient ways of working, the Company's strategy will remain intact and Ericsson's unique capabilities should not be affected.

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Networks*Segment Networks*

SEK billion	2008	2007	Percent change
Sales	142.0	129.0	10%
of which network rollout	21.5	18.5	16%
Operating income	11.1	17.4	36%
Operating margin	8%	13%	
Operating margin*	11%	13%	

* excl. restructuring charges

Mobile network buildouts, especially in high-growth markets, continue to represent the majority of sales. Sales of mobile broadband solutions increased during the year, driven by consumer need for higher speeds and better coverage. WCDMA deployments have intensified in general, especially in certain regions like the Americas, which has affected the business in a favorable way. Ericsson's market share, as a percentage of operator spending for GSM/WCDMA, remains in the mid-forties. GSM sales were flat and WCDMA sales increased.

Networks business continues to grow where network buildouts and break-in contracts are predominant and price competition is most intense.

Although margins have started to improve, the proportion of buildouts of new networks in high-growth markets, including accelerating volumes in India, remains high and continues to pressure Networks margins.

While some parts of the network equipment market declined this year, the mobile broadband equipment market continues to show good growth.

Mobile packet core, mobile softswitching and backhaul transmission also showed good growth, driven by the migration to all-IP.

With 3G subscribers providing significantly higher Average Revenue Per User (ARPU) than 2G, operators will most likely keep their mobile broadband plans and continue to invest.

The majority of circuit-switched core network sales are now from softswitch solutions with healthy and stable margins. Ericsson is established as a clear technology and industry leader in the global softswitch market. The Company has advanced its market position even further with the introduction of a new-generation softswitch, based on blade cluster technology. Ericsson has the largest installed base of softswitches, providing a solid business from telephony and multimedia communications. The future growth areas in core networks will increasingly be the next-generation User and Service Management and IP Multimedia Subsystem (IMS) based applications.

Sales of optical and microwave transmission systems to fixed as well as mobile operators grew in line with the market. The Company's ambition to grow faster than the market remains. Thus Ericsson is investing in sales and marketing to enable it to sell a broader portfolio.

Ericsson's MINI-LINK micro-wave radio systems, complemented with the wireline access and optical portfolio, is an essential part of mobile broadband rollout, thus enabling increased sales of fixed network products by leveraging Ericsson's strong mobile position.

Operators are evolving from legacy circuit-switched networks to IP, in both fixed and mobile networks, due to need for increased flexibility and cost savings. Ericsson's routing technology and solutions from Redback enable operators to migrate to IP, allowing them to fully leverage investments in legacy technology.

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Redback is the platform for Ericsson to combine and focus all of its IP efforts under one organization, headquartered in Silicon Valley. IP technology gives operators lower cost and is reinforced in all mobile and fixed standardization bodies. As a result, operators continue to evolve from legacy TDM and ATM networks to IP, in both fixed and mobile networks. Redback Networks returned to growth, now in more diverse market segments mainly as a result of synergies with Ericsson's sales and marketing organization. This indicates a growing acceptance of Redback technology in additional market segments, which expands the addressable market and creates an environment conducive to revenue acceleration.

We remain optimistic regarding growth opportunities for all-IP networks with IP routing, IMS, broadband access and transmission. The Company continues to invest in these areas, with the ambition to be the first vendor to combine fixed and mobile networks on one platform offering operators significant savings and new revenue opportunities.

Professional Services*Segment Professional Services*

SEK billion	2008	2007	Percent change
Sales	49.0	42.9	14%
of which managed services	14.3	12.2	17%
Operating income	6.3	6.4	
Operating margin	13%	15%	
Operating margin*	16%	15%	

* excl. restructuring charges

Professional Services sales were particularly encouraging, growing at 14 percent to SEK 49.0 billion. Growth measured in local currencies amounted to 13 percent compared with an estimated market growth of some 10 percent. Managed services sales grew by 17 percent to SEK 14.3 (12.2) billion, as the Company continued to win contracts for network operations and hosting services. Ericsson is a clear leader in Managed Services and at year end 2008, Ericsson-managed network operations served approximately 250 (185) million users.

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Ericsson won several breakthrough managed services deals during the year, including an agreement with Mobily in Saudi Arabia (one of the largest managed services contracts in the Middle East), managed operations for TDC in Denmark (the largest Nordic full-scope managed services contract), and managed operations for the shared network between 3UK and T-Mobile (Mobile Broadband Network Limited, MBNL) in the UK. In addition, more than 1,000 systems integration projects were carried out during the year, including a prime integrator contract for Telefonica across Latin America for a revenue assurance solution, end-to-end IPTV integration for OTE, Greece, telecom management transformation consulting for T-Mobile, Germany, and a number of IMS and softswitch integrations.

Operating margin is stable in the mid-teen range despite the higher proportion of managed services. This is mainly due to successful transformation of operations undertaken to the Ericsson ways of working and continuous cost optimization with a focus on operational excellence.

Common challenges faced by operators today are business growth, operational efficiency and network evolution towards IP. In a converging communications world, new complexity in business models must also be added to the challenges.

This creates services opportunities for Ericsson. Services expertise and experience, in combination with technology leadership and business understanding enable partnering with customers to take on a prime integrator role in complex deployment and transformation projects. The Company also support operators in creating an efficient environment for consumer service delivery through network and systems integration expertise. The largest opportunity in meeting operator challenges is in managed services, providing efficiency gains and cost control.

During the year, more than 60 percent of the Professional Services business was recurring. As the professional services market develops there are many opportunities for project business, but operators are also seeking longer-term partnerships to build competitive edge. Combined with an increasing managed services market, this will help sustain a healthy level of recurring business for Ericsson.

An overall enabler of growth and efficiency is our continuous work to improve processes, methods and tools. This, together with a strategically dimensioned and staffed services delivery organization, is what brings excellence to our operations. During the year, two new global service delivery centers were opened, another evolutionary step in Ericsson's strategy for developing global and local service and delivery capabilities, ensuring business readiness for the global market with increasing focus on emerging markets.

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Multimedia*Segment Multimedia*

SEK billion	2008	2007	Percent change
Sales	17.9	15.9	13%
Operating income	-0.1	-0.1	13%
Operating margin	-1 %	-1%	
Operating margin*	1 %	-1%	

* excl. restructuring charges

Multimedia sales increased by 16 percent for comparable units, i.e. excluding divestment of the enterprise PBX operations. Revenue Management and Service Delivery & Provisioning continued to show good growth while the mobile platform business was starting to experience effects of the weakening handset market. Operating income includes a SEK 0.8 billion gain from the divestment of shares in Symbian. The segment is operating on a breakeven level due to investments to build a leading position in IPTV, Consumer & Business Applications and Multimedia Brokering.

This was a year of consolidation and focusing the organization in a number of prioritized areas. As part of this effort, the PBX part of the enterprise offering was divested. The retained parts provide solutions to operators to address the enterprise segment. In addition, the Company announced plans to form a joint venture with STMicroelectronics, in order to establish a world leader in mobile platforms and wireless semiconductors. With these changes, the segment is now focusing exclusively on multimedia solutions for network operators and service providers.

TV Solutions made good progress with new business development, especially with the launch of the world's first IMS-integrated IPTV middleware – an end-to-end IPTV solution that supports ease of integration and delivers vendor choice for operators. Ericsson was selected by Hellenic Telecommunications Organization (OTE SA) to act as the end-to-end IPTV systems integrator, solutions provider and business consultant.

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The multimedia market is quickly evolving with converging industries (telecom, media and Internet), technologies and payment options. End-to-end revenue management solutions must handle convergent technologies including IP-based broadband services, a variety of business models and partner relationships, as well as be payment-option agnostic. Ericsson acquired LHS to form a strong constellation of prepaid and postpaid solutions to capture this opportunity. Ericsson's solutions for real-time charging and mediation, and billing and customer care solutions, make it a leader in revenue management and significantly strengthen the overall multimedia offering.

Within segment Multimedia, Revenue Management (including LHS), Service Delivery & Provisioning and TV solutions account for the majority of sales and generate good growth and margins. TV solutions (including Tandberg Television) have now established Ericsson in the TV space. The strategy is to leverage these leading positions and invest in new areas for future growth, such as IPTV, Consumer & Business Applications and Multimedia Brokering.

Sales opportunities for Multimedia show a positive trend and even though the segment is well established, Ericsson continues to invest in R&D in new business opportunities which affects profitability in the near term.

Phones

See Sony Ericsson Mobile Communications under Partnerships and joint ventures.

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Regional overview*Sales Per Region and Segment 2008*

SEK billion	Net- works	Prof. Services	Multi- media	Total	Percent change
Western Europe	25.6	18.6	7.4	51.6	2%
CEMA ¹⁾	38.4	9.8	4.9	53.1	9%
Asia Pacific	49.8	10.5	3.0	63.3	16%
Latin America	16.1	5.5	1.4	23.0	25%
North America	12.1	4.6	1.2	17.9	34%
Total	142.0	49.0	17.9	208.9	11%
Share of total	68%	23%	9%	100%	
Percent Change	10%	14%	13%	11%	

1) Central and Eastern Europe, Middle East and Africa.

Western Europe sales decreased by 2 (1) percent with increased sales of professional services and mobile broadband network equipment still more than offset by lower sales of GSM. The high demand for mobile broadband and professional services is expected to continue as is the decline for GSM. The macro-economic development is affecting consumer spending with a weakening demand for replacement handsets. Mobile phone usage appears to be unaffected, requiring operator spending to maintain network quality of service.

In Central and Eastern Europe, Middle East and Africa (CEMA), sales grew by 9 (5) percent driven by continued 2G buildouts in many markets while a strong growth in Russia was driven by ongoing 3G rollouts. Many countries within the CEMA region have low penetration levels, similar to the rural areas of other emerging markets in Latin America and Asia Pacific. Most of Central and Eastern Europe have GSM penetration levels on par with Western Europe. Although initial deployments of 3G are rapidly spreading throughout the region, GSM is expected to remain the predominant technology for the foreseeable future due to affordability of handsets.

Asia Pacific became Ericsson's largest region with a sales increase of 16 (14) percent even though political unrest in certain countries within the region negatively affected sales growth. The Company expanded its leading position in India which is now Ericsson's largest and fastest growing market. The Chinese market rebounded after the Olympic Games and 3G licenses are to be awarded in the beginning of 2009 with rollouts expected to start shortly thereafter. Although Chinese suppliers have increased their domestic market share, Ericsson has maintained its strong market position in China. Japan and Indonesia also showed strong development and are now among Ericsson's largest markets.

Latin American sales increased 25 (12) percent. Growth was driven by a combination of GSM enhancements and 3G buildouts. Professional Services also contributed strongly to the growth. Mexico and Brazil showed especially strong development with no signs of slow-down. The strong growth reported from the region over the last couple of years is not sustainable and will eventually moderate to more normal levels.

North American sales increased by 34 (15) percent and have stabilized at a higher quarterly level following the reduction of GSM spending in 2007. The recorded slower growth in the fourth quarter is mainly an effect of a tough year-over-year comparison despite positive effects of the increasing USD exchange rate. The full-year effects from changes in currency exchange rates were limited. Mobile broadband is now well established with good consumer take-up, which is driving continued rollouts as well as capacity enhancements.

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FINANCIAL RESULTS OF OPERATIONS*Abbreviated Income Statement with Reconciliation IFRS Non-IFRS Measures*

	IFRS 2008	Restructuring charges	Non-IFRS measures 2008	IFRS 2007
Total SEK billion				
Net sales	208.9		208.9	187.8
Cost of sales	-134.6	2.5	-132.1	-114.1
Gross income	74.3	2.5	76.8	73.7
Gross margin %	35.5%		36.8%	39.3%
Operating expenses	-60.6	4.2	-56.4	-52.0
Opex as % of sales	29%		27%	28%
Other operating income and expenses	3.0		3.0	1.7
Share in earnings of JV and associated companies	-0.4	0.9	0.5	7.2
Operating income	16.3	7.6	23.9	30.6
Operating margin %	7.8%		11.4%	16.3%
Less share in Sony Ericsson	-0.5	0.9	0.4	7.1
Operating income excl Sony Ericsson	16.8	6.7	23.5	23.5
Operating margin % excl Sony Ericsson	8.0%		11.3%	12.5%

Non-IFRS measures are used in the income statement to provide meaningful supplemental information to the IFRS results. Since there were significant restructuring costs during 2008, but with relatively little benefit and consequently a significant impact on reported results and margins, and as there were insignificant restructuring charges in 2007, 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.

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Sales grew 11 percent to SEK 208.9 (187.8) billion

The sales growth was driven by strong demand across the portfolio and across all regions, with the exception of Western Europe. Fluctuations in currency exchange rates had a limited effect on reported sales for the full year.

Gross margin decreased to 36.8 (39.3) percent, excluding restructuring charges

The decline is due to a business mix with high proportion of network rollout projects which often also include significant third party content. A higher proportion of managed services sales with lower than group average gross margins contributed to the decline.

Excluding restructuring charges, operating income declined by 22 percent to SEK 23.9 (30.6) billion with an operating margin of 11.4 (16.3) percent

The main reasons are the decline in gross income, and a negative contribution from Sony Ericsson of SEK 0.5 billion, compared with SEK 7.1 billion in 2007.

Excluding also the result in Sony Ericsson, operating margin decreased less, to 11.3 (12.5) percent, reflecting the significant difference in the Sony Ericsson contribution compared to 2007.

Earnings per share (EPS) diluted SEK 3.52 (6.84) down 49 percent*Earnings Per Share (EPS)*

	2008	2007
EPS diluted	3.52	6.84*

* A reverse split was made in June 2008. Comparative numbers are restated.

EPS declined substantially as EPS includes restructuring charges. Based on Ericsson's strengthened market position relative to its peers, the Board considers the underlying earnings capacity and the financial position to be strong and proposes a dividend also for 2008, however reduced to SEK 1.85 (2.50) per share.

FINANCIAL POSITION*Consolidated Balance Sheet (Abbreviated)*

December 31, SEK billion	2008	2007
ASSETS		
Non-current assets, total	87.2	87.0
Current assets, total	198.5	158.1
<i>of which trade receivables</i>	75.9	60.5
<i>of which inventory</i>	27.8	22.5
Total assets	285.7	245.1
EQUITY AND LIABILITIES		
Equity	142.1	135.0
Non-current liabilities, total	39.5	32.4

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Current liabilities, total	104.1	77.7
<i>of which trade payables</i>	23.5	17.4
Total equity and liabilities¹⁾	285.7	245.1

1) Of which interest-bearing liabilities and post-employment benefits were SEK 40.4 billion (SEK 33.4 billion in 2007).

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Net cash SEK 34.7 (24.3) billion

The improved net cash position is largely a result of the favorable cash flow from operations reflecting working capital efficiency improvements. Payment readiness was considerably strengthened from SEK 65 billion at the end of 2007 to SEK 85 billion at year end.

Working Capital SEK 100 (86) billion

Results of ongoing efforts to improve working capital efficiencies relating to receivables, inventories and payables have been partly offset by strong movements in currency translation effects. The improvement of cash contributed to the increase in working capital.

Days Sales Outstanding (DSO) 106 (102) days

High sales in the second half of the year as well as payment terms in network buildout contracts with retention of payments until provisional and final acceptance have led to an increase in DSO. The Company has initiated a number of actions to improve such terms. However, adjusted for currency effects, DSO showed a slight decrease compared to 2007.

Payable days 55 (57) days

The slight deterioration is mainly a reflection of the vendor mix, with shorter payment cycles related to subcontracted service providers for network rollout services, in combination with a higher proportion of such contracts.

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Inventory Turnover (ITO) 5.4 (5.2) times

Overall inventory turnover was improved slightly, with faster turnover in both product supply and customer order work in process, partly offset by the higher proportion of work in progress inventory.

Return on Equity (ROE) 8.2 (17.2) percent

The return on equity, including restructuring charges, developed unfavorably. This development is a major reason for the continued efforts to improve profitability through continued focus on a more competitive product portfolio, harvesting of market share gains and of acquisitions made as well as continued cost reductions.

Return on Capital Employed (ROCE), excluding restructuring charges, 16 (21) percent

The decline is mainly a result of an increase in capital employed in combination with the reduced gross margin and the lower Sony Ericsson result which have reduced the operating income. ROCE improvements are being addressed in the Company's restructuring and capital efficiency activities.

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Debt maturity profile

Ericsson's cash position of SEK 75 billion is currently deemed to be sufficient to cover any short- and medium-term cash needs including debt repayment of USD 483 million and EUR 471 million maturing in 2009 and 2010 respectively. During the year, maturing debt was refinanced with the European Investment Bank (EIB) with a SEK 4 billion loan maturing in 2015, to support R&D activities. In addition to cash in the balance sheet, there is an undrawn committed credit facility of USD 2 billion (maturing 2014) in place as a liquidity reserve.

Credit Ratings

The Company's credit rating was maintained at solid investment grade by both Moody's and Standard & Poor's.

On March 3, 2009, Standard & Poor's changed outlook from negative to stable.

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 or expenses, results of operations, liquidity, capital expenditures or capital resources.

CASH FLOW

Cash Flow (Abbreviated) January - December

SEK billion	2008	2007
Net income reconciled to cash	26.0	29.3
Changes in operating net assets	-2.0	-10.1
Cash flow from operating activities	24.0	19.2
Cash flow from investing activities	-8.5	-27.5
Cash flow before financing activities	15.5	-8.3
Cash flow from financing activities	-7.2	6.3
Cash conversion ¹⁾	92%	66%

1) Cash flow from operating activities divided by net income reconciled to cash.

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Cash flow from operations SEK 24.0 (19.2) billion

The improvement from last year is largely attributable to a more favorable development of net operating assets which grew substantially less than Net Sales, as a result of increased focus on working capital management. In 2008 Ericsson received SEK 3.6 (3.9) billion in dividends from Sony Ericsson.

Cash flow from investing activities SEK 8.5 (27.5) billion

During 2008, the Company divested/acquired operations with less than SEK 1 (26) billion net cash received. This is partly offset by short-term investments of SEK 7.2 (3.5) billion related to cash management.

Cash flow from financing activities SEK 7.2 (6.3) billion

The negative cash flow is largely attributable to the dividend paid to shareholders. Maturing borrowings were largely refinanced through a new loan with the European Investment Bank (EIB) to support R&D activities.

Cash conversion 92 (66) percent

The cash conversion rate relates income adjusted for non-cash items to operating cash flow. The cash conversion rate was favorably impacted by non-cash items related to provisions in combination with a high cash flow from operations and a dividend payment from Sony Ericsson related to 2007.

Restricted cash

In certain countries, there are legal or economic restrictions on the ability of subsidiaries to transfer funds to the Parent Company in the form of cash dividends, loans or advances. Such restricted cash amounted to SEK 8.2 (5.8) billion.

Capital expenditures (capex)

We continuously monitor the Company's capital expenditures and evaluate whether adjustments are necessary in light of market conditions and other economic factors. Capital expenditures are typically investments in test equipment used to develop, manufacture and deploy network equipment. However, capital expenditures in 2008 came mainly from investments needed to support the growing services business and establish stronger presence in certain markets.

The table summarizes annual capital expenditures during the five years ending December 31, 2008.

CAPITAL EXPENDITURES 2004 2008

SEK billion	2008	2007	2006	2005	2004
Capital expenditures	4.1	4.3	3.8	3.4	2.5
of which in Sweden	1.6	1.3	1.0	1.0	1.1
as percent of net sales	2.0%	2.3%	2.2%	2.2%	1.9%

We do not expect capital expenditures in relation to sales to differ significantly in 2009, remaining at roughly 2 percent.

In addition to normal capital expenditures, there is a commitment to invest USD 1.1 billion to establish a new joint venture with STMicroelectronics.

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We believe the facilities that the Company now occupies are suitable for its present needs in most locations. As of December 31, 2008, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

With a net cash position at year-end of SEK 34.7 (24.3) billion, we expect the Company to be able to cover all capital expenditure plans and customer financing commitments for 2009 by using funds generated from operations with no additional borrowing required.

RISK MANAGEMENT

The Board is actively engaged in risk management in conjunction with the annual strategy process, where risks related to set long-term objectives are discussed and strategies formally approved by the Board. Risks related to annual targets for the Company are also reviewed by the Board as the targets are presented for approval and then monitored continuously during the year. Certain transactional risks require specific Board approval, e.g. borrowing or customer finance in excess of pre-defined limits.

The general economic downturn during 2008 and the consequences for the business were assessed in both strategy and target setting. Due to the increased difficulties of forecasting customer demand, a continued focus on cost management and a strong liquidity were emphasized.

For Ericsson's long-term performance, the following industry fundamentals were analyzed and risks and opportunities evaluated:

A rapid technological development.

Trends in subscriber and traffic growth, introduction and adoption of new types of services and devices, and effects of changes in tariffs and subscription plans.

A changing competitive landscape, with consolidation among customers and vendors and new suppliers becoming stronger.

Convergence of the telecom, datacom and media industries, resulting in new types of competition and customers.

Regulatory impact regarding e.g. radio frequencies, licenses, and roaming charges.
Activities that were in focus this year include:

To capitalize on the acquisitions made and the broader product portfolio created.

In partnership with leading customers move forward in network convergence and full service broadband.

To ensure competence in key technology areas and systems integration.

To safeguard continued technology leadership.

To improve margins by various actions.

To improve capital efficiency and ensure satisfactory cash flow.

Risks are categorized as operational risks or financial risks. The Company also manages risks related to financial reporting and to compliance with applicable laws and regulations. The approach to risk management reflects the scale and diversity of the Company's business activities and balances central coordination and support with delegated risk management responsibilities.

For more information on risks related to our business, see also Risk Factors on page 135.

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Operational risk management

Risk management is integrated within the Ericsson Group Management System and is based on the following principles:

Risks are dealt with on three levels to ensure operational effectiveness, efficiency and business continuity in the strategy process, in annual target setting, within ongoing operations by transaction (e.g. customer bids/contracts, acquisitions, investments, R&D projects).

Risks are subject to various process controls, such as decision tollgates and approvals.

In the strategy and target setting processes, a balanced scorecard approach is used to ensure a comprehensive assessment of risks and opportunities across several perspectives: financial, customer/market, product/innovation, operational efficiency and employee empowerment.

In the strategy process, objectives are set for the next five years. Risks are then assessed and strategies developed to achieve these objectives. To ensure that actions are taken to realize the strategies, focus areas are identified to be included in the near-term target setting and planning for the coming year.

Each risk is owned and managed by an operational unit that is held accountable and monitored through unit steering groups and Group Management.

Approval limits are clearly established with escalation according to defined delegations of authority. Certain types of risk, such as information security/IT, corporate responsibility, physical security, business continuity and insurable risks are centrally coordinated. A crisis management council is established to deal with ad hoc events of a serious nature, as necessary.

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Financial risk management

The Company has an established policy governing its financial risk management. This is carried out by the Treasury function within the Parent Company and by a Customer Finance function. These are both supervised by the Finance Committee of the Board of Directors. The policy governs identified financial risk exposures regarding:

Foreign exchange risks, as the Company has significant transaction volumes and assets and liabilities in currencies other than SEK. The largest foreign exchange exposure was towards the USD and related currencies, with approximately 43 percent of sales and approximately 32 percent of spending exposure in 2008. A variety of hedging activities are used to manage foreign exchange risks.

Interest rate risks, as the values of cash and bank deposits, borrowings and post-employment liabilities as well as related interest income and expenses are exposed to changes in interest rates.

Credit risks in trade and customer finance receivables, including credit risk exposures in identified high-risk countries, as well as credit risks regarding counterparties in financial transactions.

Market risks in securities included in pension plan assets.

Liquidity and financing risks, where the Company's Treasury function manages the Company's liquidity through monitoring of its payment readiness and refinancing needs and sources.

During 2008, there have not been any defaults in the payment of principal or interest, or any other material default relating to the indebtedness of Ericsson. For further information on financial risk management, see Notes to the Consolidated Financial Statements Note C14, Trade Receivables and Customer Finance, Note C19, Interest-Bearing Liabilities and Note C20, Financial Risk Management and Financial Instruments.

Financial reporting risks

To ensure accurate and timely reporting that is compliant with financial reporting standards and stock market regulations, the Company has adopted accounting policies and implemented financial reporting and disclosure processes and controls. The Company must also comply with the Sarbanes-Oxley act.

Compliance risks

The Company has implemented a number of Group policies and directives to ensure compliance with applicable laws and regulations, including a Code of Business Ethics, covering among other areas: labor laws, trade embargoes, environmental regulations, corruption, fraud and insider trading. Regular training is conducted in this area in the form of seminars as well as e-learning on internal training web sites, where employees take courses and tests and get certificates for passed courses.

Internal audits are routinely conducted regarding compliance with policies, directives and processes as well as in the areas of trade compliance, fraud, IT, security, health and safety, environment and supply chain management.

OTHER INFORMATION

Employees

Employee headcount at year end was 78,750 (74,011). Most of the additions were due to outsourcing agreements with operators as a result of the growing managed services business. During the year, 3,415 (6,657) employees left the Company while 8,144 (16,887) joined the Company. Please see Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management .

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Credit ratings

Both Moody's and Standard & Poor's (S&P) credit rating agencies maintained Ericsson's credit rating during 2008. At year end, ratings of Ericsson's creditworthiness were Baa1 for Moody's and BBB+ for S&P, both of which are considered to be Investment Grade.

ERICSSON CREDIT RATINGS YEAR END 2006 2008

	2008	2007	2006
Moody's	Baa1	Baa1	Baa2
Standard & Poor's	BBB+	BBB+	BBB

RESEARCH AND DEVELOPMENT

A robust R&D program is essential to Ericsson's competitiveness and future success. With most R&D invested in mobile communications network infrastructure, Ericsson's program is one of the largest in the industry. The efficiency of the R&D activities has been improved, enabling a faster time to market for products and increased investment in new areas such as multimedia solutions while decreasing R&D as a percentage of sales. A further reduction of approximately SEK 3-4 billion is planned for 2009, including the transfer of Ericsson's mobile platforms operations into the new joint venture with STMicroelectronics.

RESEARCH AND DEVELOPMENT PROGRAM

	2008	2007	2006
Expenses (SEK billion) ¹⁾	30.9	28.8	27.5
As percent of sales	14.8%	15.4%	15.3%
Employees within R&D at December 31 ²⁾	19,800	19,300	17,000
Patents ²⁾	24,000	23,000	22,000

1) Excluding restructuring charges.

2) The number of employees and patents are approximate.

During 2009, R&D expenses, including the amortization of intangible assets from acquisitions but excluding Ericsson's mobile platform activities and restructuring charges, are expected to be approximately SEK 27-28 billion. Currency translation effects could affect the actual level of reported spending.

PARTNERSHIPS AND JOINT VENTURES

Sony Ericsson suffered from weakening demand for mid to high-end phones in markets where it has a higher than average market share, especially in Western Europe. Units shipped and ASP (Average Sales Price) decreased which caused sales to decline. Weaker exchange rates for certain currencies (e.g. SEK, GBP, BRL) relative to the EUR also contributed to the lower sales.

The Sony Ericsson gross margin declined significantly reflecting lower volumes and lower prices. Also the operating margin was impacted by this. Despite the breakeven results and necessary restructuring charges, Sony Ericsson has a healthy balance sheet with a strong net cash position of EUR 1,072 million.

Income before taxes was EUR 92 (1,574) million, excluding restructuring charges. A EUR 480 million operating expense reduction program has been initiated with full effect expected by the end of 2009. Restructuring charges are estimated to EUR 300 million of which EUR 175 million were taken during 2008.

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Ericsson's share in Sony Ericsson's income before tax was SEK 0.5 (7.1) billion. SEK 3.6 billion was contributed to Ericsson's cash flow in the form of dividend payments related to 2007.

The joint venture results are accounted for in accordance with the equity method.

SONY ERICSSON RESULTS 2006-2008

	2008	Percent change	2007	2006
Units sold (millions)	96.6	-7%	103.4	74.8
Sales (EUR m.)	11,244	-13%	12,916	10,959
Income before tax (EUR m.)	-83		1,574	1,298
Net income (EUR m.)	-73		1,114	997
Ericsson's share of income before tax (SEK billion)	-0.5		7.1	5.9

For more information on transactions with Sony Ericsson, please see also Notes to the Consolidated Financial Statements Note C30, Related Party Transactions.

New joint venture. STMicroelectronics and Ericsson agreed to establish a joint venture which will have one of the industry's strongest product offerings in semiconductors and platforms for mobile devices. The businesses being combined are already major suppliers to four of the industry's top five handset manufacturers, who together represent almost 80 percent of handset shipments. The joint venture will have 8,000 employees with pro forma 2008 sales of USD 3.6 billion.

The 50/50 joint venture, to be called ST Ericsson, will be headquartered in Geneva, Switzerland. Of the almost 8,000 employees, some 5,000 will be from ST-NXP Wireless and approximately 3,000 will be from Ericsson's mobile platforms operations.

The joint venture will acquire relevant assets from the owner companies. After these acquisitions, the joint venture will have a cash position of about USD 0.4 billion. Ericsson contributes USD 1.1 billion net to the joint venture, out of which USD 0.7 billion is paid to ST. The joint venture is expected to become operational during the first quarter of 2009.

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Acquisitions and divestments

In total, the Company has spent SEK 40.7 billion net in acquisitions/divestments during the last three years (2006–2008).

Acquisitions were insignificant in 2008, SEK 26.3 billion in 2007 and SEK 18.1 billion in 2006. Divestments were made for SEK 0.6 billion in 2008, SEK 0.1 billion in 2007 and SEK 3.1 billion in 2006. For more information, please see Notes to the Consolidated Financial Statements Note C26 Business Combinations.

Material contracts and contractual obligations

Material contractual obligations are outlined in the following table. Operating leases are mainly related to offices and production facilities. Purchase obligations are related mainly to outsourced manufacturing, R&D and IT operations and to components for our own manufacturing. Except for those transactions previously described in this report, Ericsson has not been a party to any material contracts over the past three years other than those entered into during the ordinary course of business.

CONTRACTUAL OBLIGATIONS 2008¹⁾

(SEK billion)	Total	Payment due by period			
		<1 year	1–3 years	3–5 years	>5 years
Long-term debt ²⁾³⁾	27.4	4.4	5.5	3.7	13.8
Capital lease obligations ⁴⁾	2.2	0.2	0.4	0.3	1.3
Operating leases ⁴⁾	13.9	3.4	4.9	2.7	2.9
Other non-current liabilities	1.6		0.1		1.5
Purchase obligations ⁵⁾	13.1	13.1			
Trade Payables	23.5	23.5			
Commitments for customer financing ⁶⁾	3.8	3.8			
Total	85.5	48.4	10.9	6.7	19.5

1) Obligations regarding pensions are not included. Please see Notes to the Consolidated Financial Statements Note C17, Post-Employment Benefits.

2) Including interest payments.

3) See also Notes to the Consolidated Financial Statements Note C20, Financial Risk Management and Financial Instruments.

4) See also Notes to the Consolidated Financial Statements Note C27, Leasing.

5) The amounts of purchase obligations are gross, before deduction of any related provisions.

6) See also Notes to the Consolidated Financial Statements Note C14, Trade Receivables and Customer Financing.

Ericsson is party to certain agreements which include provisions that may take effect, be altered or cease to be valid due to a change in control of the Company, as a result of a public takeover offer. Such provisions are not unusual for certain types of agreements such as joint-venture agreements, financing agreements and certain license agreements. However, none of the agreements that Ericsson currently has in effect would entail any material consequences due to a change in control of the Company. With a net cash position at year end of SEK 34.7 (24.3) billion, we expect the Company to be able to cover all capital expenditure plans and other financing commitments for 2009 by using funds generated from operations with no additional borrowing required.

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LEGAL AND TAX PROCEEDINGS

In the fall of 2007, Ericsson was named as a defendant in three putative class action suits filed in the United States District Court for the Southern District of New York. The complaints allege violations of the United States securities laws principally in connection with Ericsson's October 2007 profit warning. In February 2008, the Court consolidated the three putative class actions into one. In June 2008, Ericsson filed a motion to dismiss the complaint. In December, the Court granted the defendant's motion and dismissed the case in its entirety. In early January 2009, the plaintiffs appealed the Court's decision to dismiss the case.

Following issuance of the 2007 third-quarter profit warning, the NASDAQ OMX Stockholm brought an inquiry to determine whether the Company appropriately issued the profit warning and made appropriate disclosure at the November 20, 2007, management briefing. The Financial Services Authority (FSA) in England initiated a similar inquiry. Ericsson has cooperated fully with the inquiries. In March 2008, the Disciplinary Committee of NASDAQ OMX Stockholm announced that Ericsson's statements at the November 20, 2007, analyst meeting did not violate the exchange's listing regulations. FSA has, in January 2009, informed Ericsson that they do not intend to take formal action in relation to the matters.

In October 2005, Ericsson filed a complaint with the European Commission requesting that it investigate and stop US-based Qualcomm's anti-competitive conduct in the licensing of essential patents for 3G mobile technology, claiming Qualcomm was violating EU competition law and failing to meet the commitments Qualcomm made to international standardization bodies that it would license its technology on fair, reasonable and non-discriminatory terms. At the same time, Broadcom, NEC, Nokia, Panasonic Mobile Communications and Texas Instruments each filed similar complaints. The European Commission opened a first-phase investigation in December of 2005 and in August 2007, it decided to conduct an in-depth investigation of the case as a matter of priority.

Together with most of the mobile communications industry, Ericsson has been named as a defendant in two class action lawsuits in the United States where plaintiffs allege that adverse health effects could be associated with the use of mobile phones. The cases are currently pending in the federal court in Pennsylvania and the Superior Court of the District of Columbia. In September 2008, the federal court in Pennsylvania dismissed plaintiffs' claims as preempted by federal law. Plaintiffs are appealing this decision to the Third Circuit Court of Appeals. The District of Columbia case is stayed pending the outcome of the appeal.

In January 2009, Ericsson settled a patent infringement lawsuit brought by Freedom Wireless Inc. against Ericsson and its US-based customers of prepaid wireless products and services alleging that Ericsson's pre-paid service and charging system products infringed the three patents-in-suit. The settlement was reflected in the accounts of December 31, 2008.

In April 2007, an Australian company, QPSX Developments Pty Ltd., filed a patent infringement lawsuit against Ericsson Inc. and other defendants in the United States District Court for the Eastern District of Texas alleging that Ericsson infringed a patent related to asynchronous transfer mode (ATM) technology. QPSX accused a number of Ericsson products of infringement, including its WCDMA Radio Network Controllers. A trial is scheduled for November 2010.

In July 2008, the Svea Court of Appeal upheld the December 2006 judgment of the Stockholm City Court to acquit all current or former employees of the Parent Company who had been indicted by the Swedish National Economics Crimes Bureau for evasion of tax control. The Svea Court of Appeal's judgment was not appealed and thus has become final and binding.

For income tax purposes, Swedish fiscal authorities have disallowed deductions for sales commission payments via external service companies to sales agents in certain countries. Most of these taxes have already

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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. Also this judgment has been appealed.

CORPORATE RESPONSIBILITY

The Company's strong social, environmental and ethical standards helps to manage risks, create value and deliver a competitive advantage. Moreover, the commitment generates positive business impacts that benefit society.

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

Ericsson publishes a separate Corporate Responsibility Report which provides additional information about its approach, priorities and performance.

The following priority areas have been identified as being the most relevant to the business strategy and sustainability performance.

CR priority areas

Responsible Business Practices

Ericsson supports the UN Global Compact and endorses its ten principles regarding human and labor rights, anti-corruption and environmental protection. Through the UN Global Compact, the Company is publicly committed to supporting universal values for conducting business.

The Ericsson Group Management System (EGMS) includes policies and directives in this area: the Code of Business Ethics, the Code of Conduct, anti-corruption measures and the Group-wide certified Environmental Management System.

The EGMS is reinforced by training, workshops and monitoring. This includes a global assessment program run by an external assurance provider. Assessments include CR-specific areas.

Supply Chain

All suppliers must comply with the Code of Conduct to ensure the quality and integrity of the supply chain. The Company performs regular audits and works with suppliers to instill changes when incidents of non-compliance arise, and is committed to measurable and continuous improvements.

An incident in Bangladesh highlighted the complexities of meeting Code of Conduct standards in a global supply chain with tens of thousands of suppliers. In May 2008, substandard labor and environmental practices were revealed at a local radio tower supplier used by Ericsson in Bangladesh. Code of Conduct auditors were immediately sent to investigate. Since then, the two main suppliers in Bangladesh have shown good progress in meeting our standards. Another supplier was put on hold until sufficient improvements were made.

During 2008, Ericsson significantly increased the number of audits and assessments globally, trained more auditors, and strengthened the focus on local sourcing activities.

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Climate Change and the Environment

Ericsson's most material environmental impact is energy consumption by its products in operation. The Company develops energy-efficient products and services, and green site solutions, which run on a variety of renewable power sources. In 2008, a radio base station power-saving feature was deployed, which can put parts of the network in sleep mode during low traffic periods. The Ericsson Tower Tube, an energy-efficient site concept, was the winner in the Technology Design category of the 2008 *Wall Street Journal* Technology Innovation Awards.

In 2008, Ericsson set a new group-level target to reduce its life-cycle carbon footprint by 40 percent over the next five years, starting with a 10 percent reduction in 2009. The footprint will include total CO₂ emission from:

Ericsson in-house activities, such as production, transports, sites and business travel by air.

The lifetime use of the products sold by Ericsson during the year (portfolio energy-efficiency improvement).

Ericsson ranked second on the Carbon Disclosure Project (CDP) Swedish Index.

We believe that the Company is in compliance with all material environmental, health and safety laws and regulations which pertain to its operations and business activities. For electronic waste, Ericsson has set even more ambitious targets on a global level than required by the EU Directive on Waste Electrical and Electronic Equipment (WEEE).

Ericsson is also in compliance with the EU Directive on Restriction of Hazardous Substances (RoHS) and the EU regulation Registration, Evaluation, Authorization and limitation of Chemicals (REACH).

Meeting the Millennium Development Goals

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. To further this end, Ericsson is committed to helping achieve the UN Millennium Development Goals (MDGs), eight goals to eliminate extreme poverty by 2015. As an example, Ericsson is engaged in a public-private partnership with pan-African mobile operators MTN and

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Zain and Columbia University's Earth Institute to deliver voice and Internet communications to more than 500,000 people in 10 countries in rural sub-Saharan Africa as part of the Millennium Villages Project.

Employees

In 2008, 90 percent of employees took part in the annual employee opinion survey. By understanding how employees perceive their work environment, the workforce satisfaction and performance can be further developed. During 2008, Ericsson established a group-level program for improved reporting on health and safety issues and performance. Employees periodically acknowledge that they understand the Code of Business Ethics.

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 currently co-sponsors about 40 different ongoing research projects related to electromagnetic fields, radio waves and health; it has supported over 90 studies since 1996. Independent expert groups and public health authorities, including the World Health Organization (WHO), 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.

Ericsson Response

Ericsson Response is a global employee volunteer initiative to rapidly roll-out communication solutions and provide telecommunications experts to assist disaster relief operations. Efforts are coordinated through the UN Office for the Coordination of Humanitarian Affairs, UN World Food Programme and the International Federation of Red Cross and Red Crescent Societies (IFRC).

In 2008, Ericsson Response provided support to Save the Children in Southern Sudan. After heavy flooding in Panama, communication support was provided to relief workers through IFRC and the Panamanian Red Cross. Ericsson Response continued to support the UN in establishing operations in the Central African Republic.

Sam's Corporate Sustainability Assessment

Ericsson is actively involved with a number of organizations that share the sustainability goals which gives the Company a deepened understanding of our markets. These include:

The Business Leaders Initiative on Human Rights (BLIHR) which seeks to find practical applications of the Universal Declaration of Human Rights within a business context.

The UN Global Compact. A signatory since its inception, Ericsson also supports its Caring for Climate Initiative.

The Global e-Sustainability Initiative (GeSI), a multi-stakeholder ICT industry initiative to find ways to apply technologies to more sustainable development.

The Prince of Wales's Corporate Leaders Group on Climate Change, working toward an international framework to tackle climate change.

Ericsson is also actively engaged in related standardization activities.

CORPORATE GOVERNANCE

In accordance with the Swedish Code of Corporate Governance, a separate Corporate Governance Report including an Internal Control section has been prepared. There have been no amendments or waivers to Ericsson's Code of Business Ethics for any Director, member of management or any other employee.

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The corporate bodies involved in the governance of Ericsson are: The shareholders, the Board of Directors, the President and CEO, the Group Management and the external auditors. The Board of Directors works according to a work procedure that outlines rules regarding the distribution of tasks between the Board and its Committees and between the Board, its Committees and the President and CEO. The external auditors examine the financial reports and certain aspects of the internal controls over financial reporting.

Ericsson's operations are governed by the Ericsson Group Management System, consisting of:

Management and control elements, i.e. objective setting and strategy formulation, Group policies and other steering documents.

Group-wide standard business processes, including operational processes and IT tools.

Organization and corporate culture.

Changes to the Board membership

The Board of Directors is elected each year at the Annual General Meeting (AGM) for the period until the next AGM. Three employee representatives are appointed by the trade unions for the same period of time. At the AGM on April 9, 2008, all board members were re-elected except for Katherine M. Hudson who had declined re-election. Roxanne S. Austin was elected as new member of the Board of Directors.

Board remuneration

Members of the Board who are not employees of the Company have not received any compensation other than the fees paid for Board duties as outlined in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management. The 2008 AGM resolved that Board members may choose to receive part of their fees, exclusive of committee work, in the form of synthetic shares, as further described in Note C29. Members and Deputy Members of the Board who are employees (i.e. the CEO and the employee representatives) have not received any remuneration or benefits other than their normal employee entitlements, with the exception of a small fee paid to the employee representatives for each Board meeting attended.

Executive remuneration

Principles for remuneration and other employment terms for top executives were approved by the 2008 AGM. The proposed remuneration policy for Group Management for 2009 remains materially the same as for 2008. See Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

As of December 31, 2008, 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.

Long-Term Variable Compensation program

The Board of Directors' proposal for implementation of a Long-Term Variable Compensation (LTV) program for 2008 and transfer of shares in connection therewith was approved by the AGM.

PARENT COMPANY

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

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The Parent Company is the owner of the majority of Ericsson's intellectual property rights. It manages the patent portfolio, including patent applications, licensing and cross-licensing of patents and defending of patents in litigations.

The Parent Company has 7 (7) branch offices. In total, the Group has 62 (55) branch and representative offices.

Net sales for the year amounted to SEK 5.1 (3.2) billion and income after financial items was SEK 19.4 (14.7) billion. During the fourth quarter, shares in Symbian Ltd. were sold.

Exports accounted for 70 (59) percent of net sales. No consolidated companies were customers of the Parent Company's sales in 2008 or 2007, while 46 (46) percent of the Parent Company's total purchases of goods and services were from such companies. Major changes in the Parent Company's financial position for the year include decreased investments in subsidiaries of SEK 6.8 billion, mostly attributable to write-downs of investments caused by payment of dividends of approximately the same amount; decreased current and non-current receivables from subsidiaries of SEK 3.1 billion; increased other current receivables of SEK 1.5 billion; increased cash and bank and short-term investments of SEK 13.6 billion. Current and non-current liabilities to subsidiaries decreased by SEK 9.2 billion and other current liabilities increased by SEK 5.6 billion. At year end, cash and bank and short-term investments amounted to SEK 59.2 (45.6) billion.

Ericsson's Annual General Meeting 2008 resolved on a 1:5 reverse split of the Company's shares in which five shares of the company's A and B shares, respectively, were consolidated into one share of Class A and one share of Class B, respectively. In the third quarter, as decided at the Annual General Meeting, a stock issue and a subsequent stock repurchase was carried out. 19.9 million of Ericsson Class C shares were issued and later repurchased as treasury stock. These shares have been converted into Ericsson Class B shares.

As per December 31, 2008, Ericsson had 3,246,351,735 shares. The shares were divided into 261,755,983 Class A shares, each carrying one vote, and 2,984,595,752 Class B shares, each carrying one-tenth of one vote. The two largest shareholders at year end were Investor and Industrivärden holding 19.42 percent and 13.28 percent respectively of the voting rights in the Company.

In accordance with the conditions of the Stock Purchase Plans and Option Plans for Ericsson employees, 5,232,211 shares from treasury stock were sold or distributed to employees during the year. The quotient value of these shares was SEK 26.2 million, representing less than 1 percent of capital stock, and compensation received amounted to SEK 83.4 million. The holding of treasury stock at December 31, 2008, was 61,066,097 Class B shares. The quotient value of these shares is SEK 305.3 million, representing 2 percent of capital stock and related acquisition cost amounts to SEK 589.8 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 1.85 (2.50 in 2007, adjusted for the reverse split) per share be paid to shareholders duly registered on the record date April 27, 2009, 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 within the Parent Company on the record date, the Board of Directors proposes that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 6,005,750,710
Amount to be retained by the Parent Company	SEK 35,948,343,168
Total non-restricted equity of the Parent Company	SEK 41,954,093,878

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As a basis for its proposal for a dividend, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company's and the Group's need for financial resources as well as the Parent Company's and the Group's liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 50 (55) percent and a net cash amount of SEK 34.7 (24.3) billion.

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

The proposed dividend does not limit the Group's ability to make investments or raise funds, and it is 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

Ericsson and STMicroelectronics completed the JV deal

On February 3, 2009, Ericsson and STMicroelectronics announced the closing of their agreement merging Ericsson's mobile platform operations and STMicroelectronics' unit ST-NXP Wireless unit into a 50/50 joint venture, to be called ST Ericsson. The deal was completed on the terms originally announced on August 20, 2008.

ST Ericsson will be accounted for according to the equity method. Ericsson's share of income before tax will be reported in item Share in earnings of joint ventures and associated companies included in Operating income.

Ericsson to divest its TEMS-branded business to Ascom

On March 23, 2009, Ericsson announced that it has entered into an agreement to divest the TEMS-branded product business, tools for air interface monitoring and radio network planning, to Ascom. The purchase price is CHF 190 million, excluding net of assets and liabilities.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2008

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 income statements, statements of recognized income and expense and cash flow statements present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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, 2008, 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, included in item 15(b) of the Annual Report on Form 20-F. 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

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

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

Stockholm, April 28, 2009

PricewaterhouseCoopers AB

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ERICSSON ANNUAL REPORT ON FORM 20-F 2008

CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK million	Notes	2008	2007	2006 ¹⁾
Net sales	C3, C4	208,930	187,780	179,821
Cost of sales		-134,661	-114,059	-104,875
Gross income		74,269	73,721	74,946
Gross margin %		35.5%	39.3%	41.7%
Research and development expenses		-33,584	28,842	27,533
Selling and administrative expenses		-26,974	23,199	21,422
Operating expenses		-60,558	52,041	48,955
Other operating income and expenses	C6	2,977	1,734	3,903
Share in earnings of joint ventures and associated companies	C12	-436	7,232	5,934
Operating income		16,252	30,646	