

ERICSSON LM TELEPHONE CO  
Form 20-F  
March 31, 2015  
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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**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Fiscal Year Ended December 31, 2014**

**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**

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**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:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
American Depositary Shares (each representing one B share) B Shares *	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:**

**None**

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

B shares (SEK 5.00 nominal value)	3,043,295,752
A shares (SEK 5.00 nominal value)	261,755,983
C shares (SEK 1.00 nominal value)	0

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

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

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   

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

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

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Ericsson Annual Report on Form 20-F 2014

**FORM 20-F 2014 CROSS-REFERENCE TABLE**

This document comprises the English version of our Swedish Annual Report for 2014 and our Annual Report on Form 20-F for the year ended December 31, 2014. Reference is made to the Form 20-F 2014 cross-reference table on pages i to vi hereof and the Supplemental Information beginning on page 142, which contains certain other information required by Form 20-F. Only (i) the information in this document that is referenced in the Form 20-F 2014 cross-reference table, (ii) the Supplemental Information, (iii) the section entitled Forward-looking statements and (iv) the Exhibits required to be filed pursuant to the Form 20-F shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statement on Form F-3 filed on April 23, 2012 (File No. 333-180880) and any other document filed by us pursuant to the Securities Act of 1933, as amended, which incorporates by reference the 2014 Form 20-F. Any information herein which is not referenced in the Form 20-F 2014 cross-reference table or filed as an exhibit thereto shall not be deemed to be so incorporated by reference.

This annual report includes financial measures that were not calculated or presented in accordance with IFRS, and we refer to these measures as non-IFRS financial measures. Reconciliations of these non-IFRS financial measures to the most directly comparable IFRS financial measures can be found on pages 155-156 of this annual report.

Market data and certain industry forecasts used herein were obtained from internal surveys, market research, publicly available information and industry publications. While we believe that market research, publicly available information and industry publications we use are reliable, we have not independently verified market and industry data from third-party sources. Moreover, while we believe our internal surveys are reliable, they have not been verified by any independent source.

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

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

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\* (Incorporated herein by reference to Exhibit 1 to the Annual Report on Form 20-F for the year ended December 31, 2011 filed by the registrant on April 4, 2012 (File No. 000-12033).)

\*\* (Incorporated herein by reference to Exhibit 15.2 to Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2013 filed by the registrant on June 19, 2014 (File No. 000-12033).)

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Ericsson Annual Report on Form 20-F 2014

**ERICSSON IN BRIEF**

Ericsson is a driving force behind the Networked Society – a world leader in communications technology and services. The Company’s long-term relationships with every major telecom operator in the world allow people, businesses and societies to fulfill their potential and create a more sustainable future. Ericsson’s services, software and infrastructure – especially in mobility, broadband and the cloud – are enabling the telecom industry and other sectors to do better business, increase efficiency, improve the user experience and capture new opportunities. With more than 115,000 professionals and customers in more than 180 countries, Ericsson combines global scale with technology and services leadership. Investments in research and development ensure that Ericsson’s solutions – and its customers – stay in the forefront. The Company provides support for networks with more than 2.5 billion subscribers. Approximately 40% of the world’s mobile traffic is carried through networks delivered by Ericsson.

Founded in 1876, Ericsson has its headquarters in Stockholm, Sweden. The Ericsson share is listed on Nasdaq Stockholm and NASDAQ New York.

**Global presence**

Ericsson is a global company supporting more than 500 operator customers and an increasing number of non-operator customers. The Company has been present in many countries, such as China, Brazil and India, for more than 100 years. The ten largest customers, half of which are multinational, account for 47% of Ericsson’s net sales.

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**2014 IN REVIEW**

Examples of what Ericsson has achieved, and of business highlights from around the world during 2014.

**January March**

**Ericsson and Samsung reached cross-license agreement.** The agreement includes global cross licensing of patents relating to GSM, UMTS and LTE standards for networks and handsets. (Jan. 27)

**Ericsson announced the acquisition of Azuki Systems.** The acquisition helps Ericsson to deliver on the Networked Society's demand for TV Anywhere services – on any screen, any time, across any network. (Feb. 6)

**Ericsson announced the industry's first coordinated network-wide software launch.** A software-driven network evolution enables operators to respond to quickly changing network requirements. (Feb. 12)

**Century Link, a large US operator, signed a contract with Ericsson for operations and business support systems (OSS & BSS) software suite Service Agility.** The solution enables quick delivery of new applications to customers. (Feb. 24)

**Ericsson and Royal Philips jointly launched an innovative connected LED street lighting solution which integrates telecom equipment into light poles.** The Zero Site provides energy-efficient public lighting and improved network performance in dense urban areas. (Feb. 24)

**Ericsson announced several operator trials of the Radio Dot System.** Radio Dot System is a small-cell architecture for enterprise buildings and public venues. (Feb. 24)

**At the Mobile World Congress in Barcelona, Ericsson showed innovations and its technology and service capabilities.** Ericsson leads the way with solutions that drive the development in mobility, broadband and the cloud, creating the foundation for eco-systems and transformation across industries. (Feb. 24)

**Ericsson was awarded a five-year network transformation contract by Vodafone.** The contract includes products and services and is a part of Vodafone's growth plan, called Spring. (Feb. 26)

**April June**

**Ericsson completed the acquisition of Red Bee Media, a media services company in the UK.** The acquisition, announced in 2013, strengthens Ericsson's broadcast services business and expands the customer list. (May 12)

**New Ericsson Campus in Silicon Valley to drive innovation.** Ericsson will bring together approximately 2,000 R&D staff to accelerate the development of IP, TV and media innovation. (May 28)

**Ericsson announced OSS and BSS software suite Cloud Manager 2.0.** It supports operators in the transformation to virtualized network infrastructure. (June 2)

**Ericsson won a long-term managed services agreement with T-Mobile for Service Agility, the pre-integrated OSS and BSS software suite.** The solution allows T-Mobile to create, launch, deliver and manage services efficiently while at the same time reduce overall operational costs. (June 2)

**Taiwanese operator Far EasTone selected Ericsson as the major supplier for its LTE radio and core network.** The contract also includes network optimization and 4G Cell Broadcast System for disaster warning services. (June 5)

**July   September**

**Through a seven-year contract for managed services with operators in Romania, Ericsson is responsible for operations of networks and OSS systems and network maintenance.** Ericsson helps Romtelecom (extended contract) and Cosmote (new contract) to improve network quality and quality of service. (July 1)

**Live, over-the-air demonstration of pre-standard 5G technology achieves 5 Gbps speeds in the 15 GHz frequency band.** Faster speeds, lower latency and better performance in urban areas address the mobile data growth and next-generation machine-to-machine applications. (July 1)

**Ericsson prepared Telefonica network for the 2014 FIFA World Cup in Brazil.** Ericsson's Key Event Experience solution for events with high mobile traffic when network capacity is key, was used for the first time. (July 17)

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**Ericsson acquired MetraTech to accelerate cloud and enterprise billing capabilities.** The acquisition broadens Ericsson's software portfolio with billing-platform based on metadata architecture. (July 29)

**MTV, a Finnish media company, selected Ericsson for broadcast and media services, including media management and payout.** The five-year agreement and establishment of a purpose-built media hub in Helsinki strengthens Ericsson's broadcast and media services business. (Aug. 13)

**Ericsson was awarded its Fifth Emmy® award for its JPEG2000 interoperability technology.** JPEG2000 is a compression standard for broadcast applications for IP networks, distributing high picture quality content for live events. (Aug. 18)

**Australian operator Telstra selected Ericsson for its next generation optical transport equipment and services.** The agreement supports the introduction of software defined networking (SDN) and network functions virtualization (NFV) functionality. (Aug. 18)

**Ericsson opened its first of three Global ICT Centers.** The Swedish center houses the company's complete portfolio and enables Ericsson's cross-functional teams to work more efficiently, using the latest cloud technology. (Sept. 8)

**Ericsson completed the small-cell portfolio with launch of RBS 6402 Indoor Picocell to address approximately 10 million commercial buildings worldwide.** This is the first indoor picocell to deliver 300 Mbps LTE speeds with carrier aggregation. (Sept. 9)

**Ericsson introduced MediaFirst, an end-to-end cloud-based TV platform.** MediaFirst is offered as software as a service for creation, management and delivery of Pay TV. (Sept. 11)

**Ericsson announced the discontinuation of modems development and the shift of parts of Modems workforce to radio network R&D.** Ericsson took over the LTE thin modems operations when the ST-Ericsson JV was broken up in 2013. (Sept. 18)

**Ericsson was selected by T-Mobile to provide equipment and services to expand its nationwide 4G LTE network, improve in-building, highway and rural performance.** The contract includes LTE-Advanced and seamless service continuity for voice calls between LTE and Wi-Fi on select T-Mobile smartphones. (Sept. 23)

**Ericsson announced Software 15A, introducing a new software model for networks, similar to the software model in the IT industry.** The software model includes predefined software value packages and a software subscription component. (Sept. 23)

October December

**Ericsson completed the acquisition of the business of Ambient, a US-based smart grid communications provider.** The Ambient platform enables multiple smart grid applications and technologies on a single infrastructure. (Oct. 1)

**Network functions virtualization (NFV) successfully demonstrated with Japanese operator NTT DOCOMO.** NFV enhances network flexibility, speeds up service introduction and increases resilience. (Oct. 14)

**Ericsson strengthened its position in the cloud market.** Ericsson announced the acquisition of Fabrix Systems (Sept. 12), Sentilla (Oct. 16) and the majority stake in Apcera (Sept. 22) as well as a partnership with Guardtime (Sept. 3). (Sept Oct.)

**Ericsson signed a five-year global framework agreement with international operator Telenor.** The agreement covers hardware, professional services, support and maintenance for 2G, 3G and 4G networks. (Oct. 27)

**Ericsson reports on ICT use in cities.** The reports show that cities with low ICT maturity are improving their ICT maturity faster than high performing cities and that the internet facilitates smart choices in city life. (Nov. 10)

**Ericsson's Capital Markets Day provided an update on the progress on its Networked Society strategy.** With a clear strategic agenda, Ericsson is transforming, with the aim to becoming a leading ICT company. (Nov. 13)

**Reliance Communications and Ericsson signed a seven-year nationwide managed services contract.** This expansion contract covers operation and management of wireline and wireless networks and field maintenance and operational planning of mobile networks. (Dec. 5)

**Vodafone, Netherlands, was the first operator in the world to commercially deploy Ericsson Radio Dot System at Dutch Radboud University.** Ericsson Radio Dot System allows quick indoor deployment and efficient integration into macro-network. (Dec. 10)

**Ericsson signed a framework agreement with Ethio Telecom for network transformation regarding 2G/3G mobile communication equipment and related services.** Products and services (such as design, planning, deployment, tuning, and optimization) will be used to transform the network and add capacity. (Dec. 16).

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**LETTER FROM THE CEO**

We are on a journey of transformation. Our industry is changing and we are changing to stay relevant to our customers and to capture opportunities both in our core business and in our targeted growth areas.

**Dear reader**

**Value creation**

Our sales of SEK 228 billion were stable for the full year 2014, with an operating margin of 7.4%. Growth in the Middle East, Europe and Asia compensated for a sales decline in North America and the operating margin improved in our core business. We improved cash flow from operating activities during the year and generated a full-year cash flow of SEK 18.7 billion, exceeding our cash conversion target of more than 70%. Our strong financial position has over the years secured our financial flexibility and enabled us to implement our strategy and to deliver consistent returns to our shareholders.

Going into 2015, we aim to continue to grow faster than the market combined with best-in-class margins and strong operating cash flow. In doing so, we will not only drive shareholder value creation but also generate value for our customers, employees and for society at large.

The pace of change in the market is increasing as the telecom, IT and media industries converge into a broader ICT industry. At the same time, ICT is starting to transform other industries. Both operators and vendors are deciding on different strategic routes depending on the assets they have. We are now at an inflection point where the Networked Society is starting to take shape around us. The transformation to the Networked Society, where anything that benefits from being connected will be connected, is driven by broadband, mobility and cloud.

The pace of change within the Company is also increasing as we take action to secure continued leadership in this transforming market. We are investing not only in our core areas of mobile infrastructure and telecom services, but also in targeted growth areas. We are streamlining our portfolio, with an increased focus on software and professional services. We are also investing in new competence to make sure that we can keep our technology and services leadership and be a trusted business partner to our customers.

Let me give you a few examples from recent years. We have reduced the number of hardware platforms, reduced the number

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of software stacks, made strategic investments and acquisitions in our targeted growth areas, divested our handset operations and discontinued our modem development. This streamlining of operations has made us stronger as a company and improved earnings in our core business.

However, our profit is not yet on the level where we want it to be. Current company transformation uncovers opportunities to leverage global skills and scale to increase efficiencies and reduce cost further. Therefore a global cost and efficiency program was presented at our Capital Markets Day in November. The ambition with the program is to achieve savings of approximately SEK 9 billion, including SEK 4.5 billion in operating expense savings, with full effect during 2017.

We aim to improve operating income by monetizing our footprint, building success in targeted growth areas and by efficiency improvements.

**Excel in core and establish leadership in targeted areas**

Our strategy builds on a combination of excelling in our core business and establishing leadership in targeted growth areas. We are market leaders in both mobile infrastructure and telecom services with a large installed base to build on. We continue to invest in R&D and services capabilities, relentlessly innovating and shaping the market as we move towards 5G.

At the same time, we invest in five targeted growth areas that are adjacent to our core business: IP Networks, Cloud, OSS and BSS, TV and Media and Industry and Society. They all have a high share of software and professional services, a high degree of recurring business and a higher growth rate than the core business.

We made good progress in these targeted areas during 2014, with sales growth above 10%, and we continued to invest both in our own R&D and in selected acquisitions and partnerships:

The partnership with Ciena will support our Service Provider-SDN and IP Optical convergence ambitions.

The acquisition of a majority stake in Apcera strengthens our position in enterprise cloud.

The acquisition of MetraTech improves our cloud and enterprise billing capabilities within BSS.

Our acquisitions of Azuki Systems, Red Bee Media and Fabrix Systems extend our leadership in TV and media.

**Investing in the future**



During 2014, we invested SEK 36 billion in R&D which adds up to a total investment of SEK 166 billion over the past five years. Our technology leadership is built on our investments in R&D and evidenced by more than 37,000 granted patents, one of the strongest patent portfolios in the industry. Our expanding licensing business is based on our continued ambition to generate value from our intellectual property (IPR) portfolio.

We have a holistic approach to capital and resource allocation across the Company, where investments in services capabilities go hand in hand with investments in R&D and sales capabilities as well as in acquisitions and partnering.

#### **Sustainability and corporate responsibility**

Sustainability and corporate responsibility remained important during 2014, and we continue to lead the industry in working with sustainable development and responsible business practices to ensure positive triple-bottom-line (economic, environmental and social) growth in society. We focus our efforts where we can make the biggest difference. This involves improving the accessibility and affordability of mobile communication and improving energy performance and optimizing the use of materials in our products, solutions and in our own activities.

We are helping to address and minimize climate change and we are also tackling challenges and opportunities provided by urbanization for example through the Ericsson Industry & Society product portfolio. We are also emphasizing the importance of responsible business practice and employee engagement. We address growing challenges in areas such as responsible sourcing, health and safety, privacy and human rights with transparency and seek to build trust among our stakeholders. We have made visible progress during 2014, and will continue to ensure that technology is a force for positive, lasting change.

#### **Long-term fundamentals**

The long-term fundamentals in the industry remain attractive and the transformation journey that accelerated during 2014 will continue throughout 2015, and beyond. Going forward, I am convinced Ericsson has what it takes to generate sustainable value for shareholders and customers, and to continue to lead and shape the industry.

**Hans Vestberg**

President and CEO

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**THIS IS ERICSSON**

Technology and services leadership, combined with business expertise, global scale and skills, allows Ericsson to generate customer and shareholder value. The ability to transform is critical in the ICT industry (information and communication technology) and Ericsson strives to become a leader in this industry.

Over the past 100 years, Ericsson has continuously evolved its business portfolio, entered into new and adjacent markets, developed new products and solutions and adapted to new ways of working.

Ericsson reported four business segments in 2014: Networks, Global Services, Support Solutions and Modems<sup>1)</sup>, each of which is responsible for a full profit & loss statement and for the development and maintenance of its specific portfolio of products, solutions and services.

The core assets of the Company are technology and services leadership and global scale and skills. Long-term customer relationships and the fact that Ericsson has remained in the forefront in a competitive, fast-moving market for more than 100 years, show the ability to deliver customer value. Approximately 40% of the world's mobile traffic goes through networks delivered by Ericsson. The progress of the strategy implementation to extend the business to adjacent customer segments is visible in an increasing share of sales to non-operator customers.

1) Development of modems was discontinued in 2014.

**The ambition is to grow faster than the market**

Ericsson's ambition is to grow sales faster than the market, which is estimated, by the Company, to grow at a compound annual growth rate (CAGR) of 3-5% from 2013 to 2017.

A growth faster than the market is based on excelling in the core business ( Radio, Core and Transmission and Telecom Services ) and establishing leadership in the targeted areas of IP Networks, Cloud, OSS and BSS, TV and Media as well as Industry and Society, while at the same time increasing the share of recurring revenues and intellectual property rights (IPR) revenues.

**Best-in-class margins and strong cash flow**

A market-leading position, global presence, regional and local competence as well as close customer relationships provide a solid foundation for profitable growth. A market-leading position is an enabler of the aim to create shareholder value by growing sales faster than the market and generating industry best-in-class margins and generating strong cash flows.

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A strong financial position, focus on profitable growth and operational efficiencies and the ambition to improve earnings in the core business remain the cornerstones of Ericsson's financial ambitions, while continuously monetizing the footprint and making cost efficiency improvements. By industrializing, centralizing and automating, as well as leveraging a less capital intensive business mix, the ambition is to have strong operating cash flow development. A strong cash flow generation has enabled increased dividends, and also provided the financial strength to invest. Over the last five years, the annual total shareholder return has averaged 10%.

The financial strategy includes unlocking additional values through a global cost and efficiency program, reaching an annual run-rate saving of SEK 9 billion during 2017, compared to 2014. Efficiency measures include structural enhancements, supply efficiencies and an accelerating transformation of the service delivery organization.

**TRANSFORMATION**

Ericsson has always been at the forefront of transformation driven by ever-changing market conditions and major technological disruptions. This technological and financial capability to adapt and the will to change are major competitive strengths.

The ongoing market transformation is reflected in Ericsson's business mix. Over the past 15 years, the business has evolved from being hardware-centric to becoming software-and services-centric. In 2014, 66% of Ericsson's business was related to services and software, compared with 34% in 1999. With the share of software and services likely to continue to increase, Ericsson's competitive hardware will still remain important as a performance differentiator.

**Operator segmentation drives change in strategy**

A clear customer segmentation is taking place, as operators take different roles in the transforming ICT market. Ericsson works closely with operators to support their different strategic ambitions, providing solutions and services that grow their business and meet their operational priorities.

In simple terms, network infrastructure consists of three layers: the network forms the base; the platforms represented by IT platforms and operations and business support systems (OSS and BSS) is the second layer, and the applications and services are at the top. Network performance, efficient processes and structured OSS and BSS implementations which enable

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the proactivity, flexibility and performance that the business portfolio requires have moved into focus, driven by high data volumes, demanding applications and new service offerings for consumers.

Operator segmentation will have a significant impact on Ericsson's ambitions and strategies. The ambition is to identify where value can be created and growth can be captured. The transformation drives new requirements on the networks. This is a major reason as to why Ericsson has chosen a strategy to invest in the targeted areas of IP Networks, Cloud, OSS and BSS, TV and Media, as well as Industry and Society.

Ericsson sees three strategic operator segments emerging:

Network developer

Service enabler

Service creator

For all three operator segments, connectivity is, and will continue to be, the foundation for their businesses and the key factor for differentiation as user demand for performance of applications and app coverage, increases.

**Network developer: Network performance**

The operators who have chosen to address user demands through network performance and efficiency are the Network developers. They concentrate on the broadband experience through internet connectivity and communication services.

For these customers, the network performance is key, and Ericsson addresses operators' demands with solutions for high performance network architecture. The Network developers use external service platforms to address the increased demand of applications and services, but their own ambitions are focused on high quality connectivity, cost-efficiency and on operating the network as a utility service with a good return on capital investment.

**Service enabler: Capable network platforms**

The operator segment, represented by the service enablers, focuses on establishing systems and platforms that enable new enterprise practices such as IT cloud services and business processes, as well as services to enrich the consumer experience. In terms of applications and services they use external service producers.

Their focus, on top of a well-performing network, is on billing, customer care and service assurance. Service enablers provide functionality on capable platforms that are easy for other industries to integrate into their respective business processes. They are capitalizing on mobile broadband growth by introducing new pricing and revenue models such as targeted offerings based on usage patterns, capacity, service bundles, multi-device plans and real-time features such as top-up plans. Ericsson addresses these needs with its OSS and BSS platforms and professional services offering which cater for the control and management of the operations and the identification of new revenue streams.

The large majority of the operators are thus represented by Network developers and Service enablers, but they only represent a smaller share of current total network investments.

**Service creator: New services**

The largest share of current investments can be related to the group of operators representing the Service creators, who have the ambition to create intelligent networks to allow the creation of new services. In addition to network performance and consumer experience, these operators

take the lead in providing innovative new services.

They are active participants in the establishment of new ecosystems in adjacent markets, such as utilities, transport and public safety. Their strategic focus is broader than that of the other two roles as, in addition to connectivity and customer experience, they focus on expanding business in applications and services to increase the share of profits from other industries.

Service creators are increasing their investments in the development of new businesses in media and entertainment, cloud and IT services, machine-to-machine (M2M) communications and enterprise offerings, as well as in specific industry solutions. Still, they would not compromise on the IT systems part, such as the OSS and BSS platforms, to orchestrate the traffic flows.

The user experience is increasingly determined by the actual performance of applications or app coverage, and the network needs not only to provide access but to also safeguard and optimize the actual performance of the applications used. Ericsson's strategy is to offer solutions that fit the demands of the Service creators and to develop these offerings to enable an expansion of market position and value creation, and to capture growth.

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**THE STRATEGIC DIRECTION**

As a market leader, Ericsson strives to lead industry transformation through mobility. In order to stay relevant in the future, and to generate further shareholder and customer value, Ericsson continues to implement the Networked Society strategy.

Ericsson's ambition is to grow sales faster than the market which the Company estimates to increase by CAGR 3-5% (2013-2017). Growth is expected to be achieved primarily through organic growth, but also in combination with acquisitions and partnerships. The Company believes that the track record of moving into new areas and markets is reflected in the current market position and global scale. The strategy is to excel in the core business, establish leadership in targeted areas and expand business in new areas.

**Excel in Core business**

Ericsson's two core businesses are Radio, Core and Transmission and Telecom Services

The Networked Society is Ericsson's vision of a society where everything that benefits from being connected will be connected. The demand for increased mobility, better broadband and secure access to cloud-based services are the enablers of the Networked Society and thus the network infrastructure forms the foundation for business with operator customers.

Radio, Core and Transmission networks are based on industry standards which ensures global interoperability across all devices and all subscriptions. To enable value creation, the network is, and will be, based on a high-performance common infrastructure that offers seamless connectivity and delivers relevant services and content.

The rising number of smartphone subscriptions and changing user behavior drive the demand for better coverage, speed and capacity. Operators are responding by differentiating their services and adapting them to new business models.

Initially, Telecom Services business was highly dependent on the network infrastructure

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business and was dominated by the installation of network equipment. As competition in the operator market intensified and operators needed to focus on their core skills, Ericsson identified an expanded market opportunity in services. An evolution of capabilities was initiated, in order to match the market demand. Ericsson developed new business models, more independent of the network infrastructure business, and acquired small and medium-sized local service and consulting companies. The successful implementation of this business strategy resulted in a significant shift in business mix. In 2014, 42% of sales was derived from services.

**Establish leadership in targeted areas**

To capture growth, Ericsson will continue to reallocate capital and resources to areas beyond its core business. The targeted areas where the strategy is to establish leadership positions include IP Networks, Cloud, OSS and BSS, TV and Media as well as Industry and Society.

Ericsson is expanding into targeted areas because they:

address markets that are expected to grow faster than the core business

are adjacent to the core business

have a significant share of software and services

have a larger share of recurring sales and tie up less working capital.

Through solutions, network competence as well as service and business capabilities, Ericsson offers tools for its customers to differentiate themselves.

The Company will also expand its market exposure to new customers by re-using products, solutions and services skills in selected industries. Ericsson believes it can generate value by targeting customers in new industries, either because they have similar business models to telecom operators, or gain from mobile broadband and the larger opportunity for connectivity. Ericsson believes mobility is helping industries reinvent the way they create value and today, the Company engages directly with customers in three selected industry verticals – utilities, transport and public safety. The ambition is to address these adjacent industry verticals in a focused manner, using the existing product offering, core technology expertise, network competence and skills.

**Expand business in new areas**

In order to stay in the forefront, the long-term strategy also includes expanding into new areas. The ambition is to develop new areas into value creative businesses with cutting-edge offerings that are competitive and profitable.

Ericsson selectively invests in, explores, expands, and may also discontinue, business in new areas. In line with the strategy, the modems development was discontinued in 2014, and the capital was reallocated to areas which are expected to have stronger growth potential.

**Managing the transition**

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In the transformation process, Ericsson will remain true to its core values of professionalism, respect and perseverance. The ability to implement the strategy depends on the Company's ability to leverage on its current assets namely the technology and services leadership and its global scale and skills.

Ericsson believes that the strategy to become a leader in the ICT industry allows the Company to be in the midst of the market transformation as telecom, IT and media come together and form the foundation for the Networked Society.

The strategy implies that the Company needs to make progress on the present and the future at the same time, thus both in the core business and in the targeted areas.

The ability to implement the strategy is key to staying relevant and will be reflected in future earnings development and in the ability to create shareholder value.



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**CORE BUSINESS**

Ericsson is a market leader in its core business areas. The strategy is to excel in the core business, to improve earnings and to continue to lead and innovate. The ambition is to leverage on its installed base and make further investments in R&D to maintain a strong position. The core business areas are called Radio, Core and Transmission and Telecom Services .

**CORE BUSINESS**

**RADIO, CORE & TRANSMISSION**

In Radio, Core and Transmission, Ericsson supports its customers in the new ICT landscape by leveraging the advantages of technology leadership, a position which has resulted in a competitive portfolio of radio networks and core networks. Ericsson continues to invest in new capabilities to support customers in the transformation of their networks.

The offering includes high-performance networks that meet demanding customer requirements. The network equipment market which Ericsson is exposed to is estimated by the Company to increase sales by CAGR 2-4% (2013-2017).

The strategy is to excel with a leading portfolio for high-performance networks, by building on scale and operational efficiency to

contribute to the best user experience for consumers

maximize business innovation and business efficiency for customers

maximize earnings for Ericsson.

Ericsson wants to remain number one in solutions for operator networks and lead the transition to the network architecture that will enable the Networked Society.

**Maintain performance leadership**

By the end of 2020, Ericsson estimates that the number of mobile subscriptions will increase to 9.5 billion (from 7.1 billion in 2014) and that around 55% of the traffic that users will generate will be video. High network performance is a key competitive advantage when offering solutions to operators in their transition from circuit-switched to IP-based networks.

The capability to provide high-performance networks enables Ericsson to compete on quality and value, which is often reflected in a price premium. The Company believes that, with a user-centric approach, it can meet operator expectations on network performance, regarding speed, quality, personalization, simplicity and fast response time.

**Radio**

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Over time, Ericsson believes that, even if the strategy implies that the business will comprise large infrastructure projects, capacity upgrades and the number of small-cell projects, which are an effect of network densification and indoor coverage build, are expected to increase as a share of total revenues.

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The increasing demand for small-cell solutions is based on arguments such as spectrum efficiency, reduced total cost of ownership (TCO) and improved user experience.

The key priority is that the software solutions and the functionality in the small-cell environment is the same as in the macro network, to allow for a viable business case for the operator. To meet this demand, Ericsson offers integrated solutions that enable the operator to implement an intelligent heterogeneous network that uses the available spectrum efficiently. This network combines small-cell networks and operator Wi-Fi networks with a densified and improved macro network. The result is a dense multi-layered network, where traffic flows seamlessly. Capacity is where the user needs it, especially indoors where an estimated 70% of mobile traffic is generated.

### **Transmission**

Ericsson also offers backhaul solutions that match operators' demands on cost-efficiency, scalability with low complexity, and that are resilient to failures with fast recovery times. Ericsson's backhaul solutions use technologies such as microwave and optical fiber transmission, which are the major transmission solutions available to meet the capacity requirements set by the increased LTE and video traffic. Currently, microwave is the dominating transmission technology for mobile backhaul worldwide, with major arguments being that it enables cost-efficient and fast roll out of mobile broadband. The Company expects the share of microwave backhaul to remain high in the future, connecting around 50% of all radio sites in 2020.

### **Core network**

The IP-based core network portfolio allows operators to use their complete network as a single business resource as opposed to the fragmentation and complexity of most legacy networks. Operators continue to evolve their communication services, by implementing solutions such as IMS, which is also used for providing voice over LTE (VoLTE).

### **Preparing for the next generation; 5G**

The 5G mobile network is an evolution of the LTE networks, but with new frequencies, technologies and expanded business opportunities. 5G implementation in commercial mobile networks is expected in 2020, but Ericsson has already achieved speeds of 5 Gbps in live, over-the-air demonstrations. The next-generation network, 5G, addresses the relentless growth in mobile data demand, and is an efficient enabler of tailored mobile accesses to multiple industries.

With 5G, the network performance will be further enhanced to support demands on low latency in real time applications.

Ericsson is at the forefront of the development of this global standard.

An important aspect of the next-generation mobile technology, is that it is also an enabler of increased sustainability and improved efficiency in industry and society. The new global standard will be flexible and reliable for multiple industries and use cases.

## **CORE BUSINESS**

### **TELECOM SERVICES**

Ericsson wants to be an end-to-end business partner for network operators and other customers as the Networked Society becomes a reality. The global scale, skilled workforce, business understanding and extensive experience of managing carrier-class projects and multi-vendor networks make Ericsson the largest telecom services provider in the world, supporting operators in creating competitive, attractive and appealing offerings, while providing managed services to networks that serve more than 1 billion subscriptions worldwide. Ericsson addresses a telecom

services market that is estimated by the Company to show a sales CAGR of 4.6% (2013-2017).

Ericsson pioneered managed services. The Company had a first mover advantage and the possibility to build scale, and continues to be the undisputed leader. The significant experience gained through 15 years in the managed services business has enabled the buildup of a best-practices pool. This is a significant competitive advantage enabling the Company to provide sophisticated methods, tools and processes as competitive capabilities for operators. Multi-vendor capability means that services can be provided to customers regardless of which vendor network they have as an installed base. The Company has different sets of skills covering everything from network equipment to

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software-support processes and the expertise required to design and manage end-to-end solutions ranging from mobile access networks and OSS, to service deployment platforms and BSS. Ericsson wants to further strengthen the number one position in telecom services and be a leading provider of professional services in ICT. The strength of the services business also proves the value of combining local capabilities with global scale.

**Telecom services evolution**

The current core offerings are directed to network operators. It includes professional services and network rollout. Professional services include: consulting and system integration (CSI), managed services, network design and optimization services and customer support. IT managed services are also included in the portfolio. Ericsson's ambition is to simplify the management of every element in the operator network. This includes not only access and core, but also IT systems and the applications and services layer. The Company believes that any area in the operator network is addressable, but the business opportunity depends on the maturity of the network and the operations, the geographical location and the competitive situation of the operator.

**Services-led transformation**

With everything being connected, the demand for professional services increases.

The Ericsson transformation is expected to be led through these types of services. The strategy is to reuse telecom services capabilities and scale to grow in other industry domains and in new areas. This implies industrializing, globalizing and introducing new processes, methods and tools, so that Ericsson's customers can deliver high performance services to their users.

Ericsson is also strengthening its CSI competences further. CSI specialists focus on helping operators transform their business strategy and processes to improve efficiency, thereby creating a competitive advantage. Analysis, integration design, product customization and solution management are usually part of the offered scope of CSI services.

The demand for consulting and integration is rapidly advancing as the Company builds skills and scale to expand the offering to become a trusted transformation partner in every part of the operator's network.

As the network transforms, its complexity increases. With the increased complexity, the need and demand for professional services offerings including consulting and systems integration, network design and optimization as well as managed services has evolved. Network design and optimization is currently one of the fastest growing segments within professional services because of this complexity.

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**CORE BUSINESS**

**BUSINESS MIX AND CYCLES**

This section describes the business mix and business cycles of the core business.

**Business mix in mobile infrastructure**

The profitability in Radio, Core and Transmission depends on scale and the sustainability of the market leadership but also on the existing business mix. The combination of high quality hardware and software-based functionality as well as services offerings is Ericsson's main competitive advantage in enabling high network performance.

Despite a decreasing share of total revenue, hardware remains a core element of the strategy. The Company strives to gradually increase software sales as the core business evolves and this, in combination with continuous operational efficiency improvements, will also affect the profitability development. In 2014, software sales account for around 40% of total software and hardware sales.

Software is an important link to new functionality and to high-performance networks both of which are key to capturing future growth opportunities, and enabling profitability improvements. Ericsson is leading the transformation of pricing models in the telecom industry by adapting the software pricing model to standard ICT and having an evolved transparent business model for infrastructure software sales. The Company believes that the way software is priced is critical to profitability, and the model will also facilitate customers' cost predictability through improved transparency.

**Business cycles in mobile infrastructure**

The most traditional business model is in network infrastructure with its embedded software; delivering and rolling out physical networks including all necessary hardware and software. When Ericsson builds coverage there is a large share of hardware, and the project often includes network rollout services. The initial buildout or rollout phase is capital-intensive and has a lower-than-average gross margin. However, when the network is up and running and demands for capacity expansions arise, profitability increases, driven by an increased share of software sales and higher-margin hardware through network densification. In the expansion phase, the network rollout services, which were essential in the rollout phase, make way for professional services.

**Business mix in telecom services**

Large network-infrastructure projects were, and will continue to be, a key element of Ericsson's business. When building network coverage across one or more geographical areas, the offering often includes network rollout services. A larger share of network rollout, as a share of total services sales, is usually dilutive to profitability. Thus, balancing the business mix between network rollout and professional services' customer support, network design and optimization, consulting and systems integration (CSI), network managed services' is central to the profitability.

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**Business cycles in managed services**

The managed services business model is different from the other services offerings as Ericsson takes over aspects of a customer's business operation as a long-term commitment, over several years. The business model includes three phases of which the initial phase, the transition, is coupled with lower profitability, as it involves significant costs up front when staff and expertise are transferred from the customer to Ericsson. In the second phase, the transformation, Ericsson introduces its global processes, methods and tools and implements a global delivery model. In the third phase, Ericsson focuses on optimization and industrialization by simplifying, implementing and consolidating resources, processes, methods and tools to allow for improved profitability.

The Company has reached a good balance of contracts in the transition, transformation and optimization phases with currently about 70% in the optimization phase which have a beneficial effect on earnings and cash flow. Over time, the Company has advanced on the learning curve, which means that global synergies can be obtained, and thereby the initial phases can be shortened. This limits the negative impact on cash flow in the transition phase when going into new contracts.

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**TARGETED AREAS**

Global presence, software skills as well as the heritage of end-to-end and multi-technology expertise form a sound foundation for Ericsson's business in targeted areas. The ability to implement the strategy depends on the capabilities to transform the targeted areas to value creative core businesses in the long term.

To remain relevant in the future market, Ericsson is investing in five targeted areas: IP Networks, Cloud, OSS and BSS, TV and Media as well as Industry and Society.

The Company intends to implement the strategy by building on existing capabilities in the core business and leveraging its technology and services leadership combined with global scale and skills.

The objective is to establish top three leadership positions in these targeted areas.

Ericsson already has a number one position in some of these areas, such as in OSS and BSS and in IPTV and media delivery, and intends to further strengthen the offering.

The targeted areas combined represented a market of USD 110-130 billion in 2013, with an estimated sales CAGR of about 10% (2013-2017).

The targeted areas thus have a higher growth rate than the core business. They also have some characteristics that are important—a high degree of software and professional services, more recurring revenues and less working capital. Since the target areas are adjacent to the core business, Ericsson believes that its global services expertise and software skills form a sound foundation for the business in these areas.

The introduction of new pricing models for software sales, with an up-front payment of a permanent license, usually supplemented by a support and maintenance contract is expected by Ericsson to imply a higher degree of recurring revenues.

The targeted areas play a significant role in the evolution of customers' networks to match the demands of the Networked Society. As the targeted areas require a high degree of services and have a high degree of software, they also support the development of the business mix to one where services and software clearly dominate.

Currently, a majority of the total business in targeted areas relates to services. Approximately half of the sales growth up until 2020 is estimated to be derived from the targeted areas. Income from these areas is expected to be accretive to operating margin over time.

Ericsson believes the combined strength of the product and professional services portfolio will be a competitive advantage.



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**TARGETED AREA**

**IP NETWORKS**

Ericsson believes it can build on a leading position in mobile backhaul and packet core networks to grow the footprint in IP Networking for operators, where the Company wants to take a top three position. The market for IP Networks is expected to grow sales by CAGR 3-5% (2013-2017).

The market for IP Networks is driven by technology disruption and the prevailing IT paradigm. An evolved network architecture has become a critical enabler of the fast introduction of new services and of the efficient handling of the increasing amount of data traffic. The legacy telecom networks were designed to deliver a limited number of services, such as voice and text messages, while the new IP-based multi-service networks create opportunities for operators to unlock the full potential of mobility, video and the cloud. It allows for increasingly virtualized network features, adding flexibility and paving the way for cooperation with new partners.

The network needs to be aware of consumers, services, devices, location in order to scale bandwidth and connections, while being much simpler to operate and maintain. This is enabled through unified management and orchestration including capabilities such as service provider software defined networking (SDN) and service awareness. With the support of Service Provider SDN, operators can orchestrate network resources on different layers for different purposes under the same management system.

IP networking solutions and Service Provider SDN are the key enablers to building a future network that is smart, simple, scalable and capable of delivering superior performance.

**TARGETED AREA**

**CLOUD**

Ericsson intends to use its network experience and competence to create compelling cloud solutions and strives to be number 1 in operator telecom cloud. The strategy includes the development of a broad range of offerings.

The IT paradigm and technology disruption drives the demand for cloud solutions to enable more flexible access to real time services. Ericsson strives to ensure that products are ready for deployment in any type of cloud environment, and that applications are suitable for moving to virtualized environments.

Network functions virtualization (NFV) offers a way to rationalize and simplify operations as well as speed up innovation, primarily for parts of the core and transport networks. The technology enables the network to allocate resources to IP-based services and applications according to capacity demand. Through NFV, combined with software defined networking (SDN), the hardware and software are decoupled and the

functionality is virtualized.

An architecture built on cloud allows the operator to instantly deploy, modify and scale services and applications, and it enables an easier adaption of network characteristics and resources to serve the dynamic and real-time nature of new services. The virtual infrastructure is thus extended beyond the traditional computing and storage resources.

NFV and SDN together open up the opportunity for operators to implement services more quickly and flexibly and to reduce opex and to some extent capex.

Ericson recently added telecom cloud transformation as a CSI (consulting and systems integration) offering to enable operators to provide high-performance services in the virtualized network.

In 2014, Ericsson acquired a majority stake in Apcera to strengthen the cloud offering for the Enterprise IT market and entered into partnership with Guardtime to deliver secure clouds.

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**TARGETED AREA**

**OPERATIONS AND BUSINESS SUPPORT SYSTEMS (OSS AND BSS)**

Ericsson has a complete end-to-end OSS and BSS software offering and consulting, systems integration and IT managed services capabilities. OSS and BSS systems allow operators to manage the network, provide high-quality user experience and quickly introduce new services and charge for them.

The fragmented OSS and BSS market is expected by the Company to increase sales by CAGR 5 - 7% (2013 - 2017). Ericsson believes that its software expertise and real-time network experience are competitive advantages in this market.

The ambition is to extend the installed OSS and BSS base while also expanding the service offerings for transformation.

The OSS and BSS software offerings are based on a modular architecture, which means that the products are configurable and easily integrated and thereby also less expensive to maintain. Focus is on process-oriented, pre-integrated software suites to differentiate the offering and to speed up time to market.

Ericsson supports the transformation of OSS and BSS through these software suites combined with consulting and systems integration services, so that operators can adapt to rapidly changing and competitive markets. Through simplified processes and better business efficiency, Ericsson helps operators reduce total cost of ownership.

Most importantly though, OSS and BSS transformations can provide competitive advantages for operators through better targeted offerings to their customers, better user experience and improved customer service.

In Ericsson's role as a consolidator of operators' OSS and BSS systems, scale is an important foundation for generating profitability.

As the number of connected devices increases, so does the number of individualized subscriptions and price plans, and this increase will require real-time processing. Based on Ericsson's real-time data expertise, its charging and billing software suite allow for quick introduction of new pricing models and offerings that enable value creation.

The software suite allows operators to provision, and charge for, the user services in an efficient way. It also offers operational efficiency through efficient data monetization including charging and billing, policy management and actionable insight via telecom analytics.

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The OSS system provides the foundation for an integrated solution for network services and over-the-top (OTT) services, as well as big data and analytics. This means that the OSS and BSS solutions enable the operators to manage user interactions and capitalize on the revenue streams that data generates, through offering efficient management of the operators' customers as well as of their networks.

The software suite and related services match the key operator success factors of user experience, business efficiency and innovation.

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**TARGETED AREA**

**TV AND MEDIA**

Ericsson's ambition is to be the transformation partner of choice as the TV and Media industry undergoes change. The connectivity and capability of broadband is redefining the user, business and technology aspects of digital entertainment.

Ericsson has over 20 years of experience of content creation, exchange, distribution and delivery of TV. Ericsson expects the TV and Media market to have a sales CAGR of 11-13% (2013-2017).

Ericsson aims to enable the evolution of TV by creating innovative solutions that enable content owners, broadcasters, TV service providers, and network operators to efficiently deliver, manage and monetize new TV experiences. The Company does this by combining a product portfolio that spans the TV value chain, complemented by systems integration and broadcast managed services.

The offering includes a software portfolio of TV platforms, end-to-end video delivery network solutions for video compression that enable new consumer services such as digital TV, High Definition (HD) and 3D.

Ericsson launched the Ericsson MediaFirst TV Platform in 2014, a software-defined platform for the creation, management and delivery of next generation Pay TV. It is an end-to-end cloud-based platform for TV service providers.

Ericsson's media delivery network (MDN) solution empowers IP network owners with a suite of tools to efficiently manage video traffic, and ensure user experience while enabling new revenues. With network control and efficiency from content to consumer, it positions operators for fast time-to-market and monetization.

The broadcast market is in the midst of a technology disruption, caused by the over-the-top (OTT) companies, and the need for operational efficiency, which drives demand for outsourcing of broadcast services and for IP transformation. Ericsson has expanded its established model for network and IT managed services to deliver broadcast services. These services capabilities enable broadcasters to make significant capex and opex savings through automating processes and standardization in processes, methods and tools, while applying Ericsson's global delivery model and services capabilities. Ericsson assumes responsibility for technical platforms, which means that the broadcaster can reduce time to market and minimize business continuity risks.

Ericsson's solutions address the demands of the traditional broadcasters, as well as those of new entrants. Both customer segments face the challenge of adapting to a fast-changing and complex technological landscape. The combination of products and consulting, systems integration, training, and broadcast managed services allow Ericsson to advise, guide, support, implement and manage its customers' transformation in the evolution of TV.

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**TARGETED AREA**

**INDUSTRY AND SOCIETY**

There is a high demand for connectivity and intelligent systems in markets such as utilities, transport and public safety. Ericsson believes that many of the demands in these market segments, which it refers to collectively as Industry & Society, can be met with the Company's existing portfolio.

Ericsson's capabilities, combined with its proven record of commercializing advanced ICT solutions, provides a solid foundation for bringing innovative capabilities into industry verticals while providing efficiencies of scale.

The ambition is to strengthen the number one position in solutions for operators to become a leading professional services provider in three adjacent selected industry verticals; initially utilities, transport and public safety.

The rapid uptake of connected devices and self-service applications is changing the way companies do business. The mobile network is fundamental to this development. Under the designation of Industry and Society, the industry verticals of utilities, transport and public safety play an important role in Ericsson's strategy to grow in adjacent industries, reusing and extending the current portfolio of both products and services.

These selected industries are rapidly transforming driven by mobility and evolving technologies entering the market, such as smart grids, intelligent transport systems and multimedia services. The technology shifts offer new business opportunities for Ericsson.

Ericsson's technology and services leadership form the foundation on which to expand the business by addressing new customers across the selected industry-vertical industries. The Company brings innovative thinking, a deep understanding of a wide variety of communications technologies and experience in designing, deploying and managing services globally for the Networked Society.

One of the innovative offerings is the Connected Vehicle Cloud which targets the global automotive industry's existing and future demands for scalability, security and flexibility in the provisioning of connected car services to drivers and passengers.

The selected industries are also facing increased demand on sustainability and efficiency demands that Ericsson can address by leveraging its technology leadership in its core business.

The telecom network and related services that Ericsson offers, including network infrastructure and professional services, meet communication needs that the industry verticals require, and helps to fulfill requirements of high reliability and high speed. The need for broadband connectivity is becoming critical, and, in Ericsson's view, proprietary networks are no longer necessary to cater for the vast needs in specific industries.

The resources in technology, consulting, systems integration and managed services on a global scale enables Ericsson to address adjacent industries. The selected industries can benefit from Ericsson's mobility expertise and services innovation, while the Company expands its footprint into new high-growth markets and brings disruptive change into the rapidly transforming industries.

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## **RESOURCE ALLOCATION**

Ericsson reallocates capital and resources to support the strategy. Investments in services capabilities goes hand in hand with investment in product development, sales capabilities and in acquisitions and partnering.

Ericsson has always been a company driven by innovation in technology and business. The Company's long-term leadership in technology and services is a result of continuous efforts to invest in the ability to deliver customer value and to be relevant in the future.

### **R&D investment**

R&D investments are the foundation for maintaining a technology leadership position. Investments in R&D keep the product portfolio and customers in front of a rapidly transforming market and to safeguard, secure and improve technology leadership. Ericsson will continue to invest a substantial part of R&D in the core area of Radio, Core and Transmission, to further enhance the capabilities in areas such as small cells and 5G. R&D investments in software are significant, as mobile networks are increasingly software-centric.

Ericsson will prioritize R&D investments in targeted areas to win technology leadership positions in these areas. R&D investments in the targeted areas will help the company expand the positions in areas such as IP Networks and Cloud.

Continuous focus will also be on finding better ways to do things internally, including how to further improve R&D agility. Lean and agile workflows in R&D has enabled Ericsson to bring innovations faster to the market and to increase operational efficiency.

During 2014, Ericsson opened its first ICT center in Sweden where R&D engineers can work beyond borders more easily and efficiently, bringing innovation and providing industry-leading cloud-enabled technology faster to the market. Two additional ICT centers are expected to be opened in 2015 – one in Canada and another in Sweden.

### **Investment in services capabilities**

In Telecom Services, the global knowledge base enables Ericsson to develop new solutions that can be reused to offer benefits to customers. Locally, in each region, Ericsson professionals work with customers to develop innovative, scalable solutions. Best practices are shared across regions, boosting quality and efficiency. When a successful customer solution is proven in one region, it can be rolled out globally. Ericsson has invested in common global processes, methods and tools to enable synergies and efficiency gains to safeguard the global scale advantage.

### **Acquisitions and partnering**

Ericsson has made specific acquisitions to strengthen the offerings in the targeted areas. In core areas, especially in Radio, Core and Transmission, the acquisition activities have mainly been related to consolidation activities and to create synergies to extend the leadership position. The strategy to establish leadership in targeted areas includes investing to accelerate growth and to improve Ericsson's competitive position through small bolt-on acquisitions and strategic partnering agreements.

The ambitions of M&A and partnering activities are to fill portfolio gaps, to improve scale and skills and, above all, to strengthen the ability to create value. The activities address both product and services companies. In 2014, Ericsson invested in companies like Red Bee Media, MetraTech and Apcera and also partnered with Guardtime in the area of secure cloud.

### **Investment in sales competence**

Investment in new competence is required for new solutions in the targeted areas, not only for R&D but also in sales resources as well as in service delivery resources to allow for economies of scale.

In 2014, Ericsson increased investments in sales capabilities particularly for Cloud and IP. Industry and Society customers were first addressed in three regions to learn how to sell and deliver in this customer segment. After the initial phase, sales processes and ways of working are reused in other regions to get scale.





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**THE IPR PORTFOLIO**

Licensing of intellectual property rights (IPR) contributes to a fair return on R&D investments and is a key element in Ericsson's growth strategy.

The royalty-based IPR (Intellectual Property Rights) licensing business is a key element in the strategy to capture growth. Higher IPR revenues have an accretive impact on profitability.

Aligning with the strategic direction and ambition to grow faster than the market, these revenues are expected to continue to increase. The IPR strategy is to enlarge IPR licensing revenues by expanding the technology licensing portfolio to cover other products and by broadening Ericsson's customer base beyond handset manufacturers and into new industries.

The Company has created a licensing portfolio, representing the value of technology knowhow and R&D. The portfolio includes both technology and patent licensing. The defensive value of the IPR portfolio protects the sales of Ericsson's products and services as cross-licensing agreements are signed with other major IPR holders. The offensive value allows Ericsson to commercialize and obtain a fair return on the IPR portfolio. Both these values are direct returns of the investments made in R&D. Over the past five years, annual R&D investments have been on average 33 billion and revenues from the IPR licensing business has increased over time but decreased slightly in 2014, to SEK 9.9 billion.

In technology licensing, Ericsson provides specifications to proprietary technologies such as different interfaces, while the patent licensing includes giving access to essential patents for different technology standards.

Ericsson complies with its commitment, to standardization bodies, to license essential patents on fair, reasonable and non-discriminatory (FRAND) terms, which implies that accumulated costs are kept at a reasonable level. Ericsson's view is that owners of essential patents should be compensated proportionally to their technology contribution to the standard. An example of a cross-licensing agreement is the multi-year license agreement between Samsung and Ericsson. The agreement covers patents for 2G, 3G, and 4G standards for networks and handsets.

Ericsson's innovative portfolio is the result of the work of 25,000 R&D engineers. Most of the patents developed within the R&D organization are in wireless technology. Ericsson is involved in industry-wide standardization processes regarding mobile technologies and standards. By addressing the issue of spectrum by improving spectral efficiency with new technologies or features, and taking part in the industry decision-making regarding new suitable frequency bands, Ericsson has helped to render the development of many new technologies and patents. With more than 37,000 patents granted, the Company has one of the industry's strongest patent portfolios.

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**BUSINESS STRUCTURE**

**The strategic direction is to:**

*Excel in core business*

Radio, Core and Transmission and Telecom Services.

*Establish leadership in targeted areas*

IP Networks, Cloud, OSS & BSS, TV and Media and Industry & Society.

*Expand in new areas*

with future possibilities and growth.

**To best reflect the business focus, Ericsson reported four business segments 1) in 2014**

Radio, Core and Transmission, as well as IP Networks and Cloud report into Networks, while Telecom Services report into Global Services. The product and software deliveries of OSS and BSS, TV & Media, report into Support Solutions, while services related to these areas report into Global Services. Industry and Society reports into Global Services. Many of the areas therefore have elements of both product and services.

Each business segment contains various shares of sales from the targeted areas. Sales in targeted areas showed a growth of more than 10% in 2014.

1) Modems segment did not contribute material revenues, as development of modems was discontinued in 2014. Read more in the Board of Directors Report on page 38.

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**SEGMENT NETWORKS**

Ericsson provides the network infrastructure needed for mobile and fixed communication, including 2G, 3G and 4G radio networks, and IP core and transport networks.

Within segment Networks, the strategy is to lead the radio evolution, grow IP networking and transform to cloud core.

Networks delivers products and solutions needed for mobile and fixed communication, including 2G, 3G and 4G radio networks, IP and transmission networks, core networks and cloud.

The main offerings include:

The multi-standard RBS 6000 radio base station supports all the major mobile technologies including GSM/EDGE, CDMA, WCDMA/HSPA and LTE in a single cabinet.

The IP and transmission solutions are based on the SSR 8000 portfolio. The SSR 8000 is a high-capacity platform that improves network performance and supports service differentiation in fixed and mobile networks. The momentum for the multi-application router, has continued with 146 contracts signed since its launch in December 2011.

The Ericsson Blade Server platform includes functionality for handling network control in fixed and mobile core networks. The IP Multi-media Subsystem (IMS) solutions enable operators to offer communication in new ways, such as Voice over LTE (VoLTE), high-definition video calling and conferencing, multi-party chat with presence information, and screen sharing, while reducing costs. IMS enables Voice over LTE (VoLTE), High Definition Video and the Ericsson Cloud System.

The Ericsson Cloud System is a platform for providing cloud services and to enable virtualization of network functions according to NFV, and where Service Provider SDN enables the distribution of the virtualized functionality.

Optimized transmission/backhaul products includes microwave and optical transmission solutions for mobile and fixed networks. The transmission network constitutes the links between the core network and access nodes.

Networks' major business models have so far been based on network coverage and network capacity expansions and upgrades. The revenue mix consists mainly of hardware and software. Gross margins are affected by the business mix between sales of upgrades and expansions and coverage or new build-outs. Network coverage build-out, which is mainly hardware related, is to a large extent done on site, supported by Ericsson's network rollout services, while upgrades and expansions usually involve software and professional services, and are often delivered remotely. The Company is transforming its business model to be more software based, with an increasing share of royalty and license-based revenues.

GSM/EDGE technology has by far the widest reach today, covering more than 85% of the global population. The areas yet to be reached by GSM/EDGE are in some countries that are sparsely populated. Demand for WCDMA/HSPA is driven by increased user demand for internet access, the growing affordability of smartphones and regulatory requirements to connect the unconnected. In terms of capacity and demand for superior network performance, mobile data traffic continued to grow rapidly in 2014. The rising number of smartphone subscriptions is a key driver for mobile data traffic growth, together with the fact that users are consuming more data per subscription—mainly driven by video. Total

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smartphone subscriptions reached 2.7 billion during 2014, and the number of subscriptions for mobile PCs, tablets and mobile routers reached 300 million. The majority of mobile broadband subscribers are connected using 3G/WCDMA networks, but increasing numbers are gaining 4G/LTE access. Ericsson expects LTE to keep expanding from 400 million subscriptions in 2014, reaching around 3.5 billion in 2020.

2G/GSM/EDGE networks are still an important part of the ecosystem and a complement to 3G/WCDMA/HSPA and 4G/LTE coverage.

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**SEGMENT GLOBAL SERVICES**

Ericsson's approximately 65,000 services professionals around the world deploy, operate and evolve networks and related support systems. Global Services includes professional services and network rollout.

The business strategy within Global Services is to extend and excel in the core business: network roll-out, customer support and managed services, while growing the business in consulting and systems integration as well as in IT managed services and broadcast services.

The Company's global set of processes, methods and tools are major competitive advantages and support the strategy to benefit from the global scale in targeted areas and especially in broadcast services and media services and in the selected industry verticals of transport, public safety and utility industries. The telecom services business, represented 43% of net sales in 2014 (43% in 2013). Within Global Services, Managed Services and Consulting & Systems Integration continue to drive growth.

Through approximately 65,000 services professionals and four global service centers, which offer a universal approach to managed services based on years of innovation and global best practice, Ericsson deploys, operates and evolves networks and related support systems. The Company delivers managed services, product-related services, consulting and systems integration services and broadcast services.

The ambition is to support operators to improve their revenues, increase their operational efficiency and to transform their networks. Ericsson strives to create value by combining technical, services and customer experience expertise.

The offerings include:

Network managed services for designing, building, operating and managing the day-to-day operations of the customer's network or solution; maintenance; network sharing solutions; plus shared solutions such as hosting of platforms and applications. Complex issues are handled, such as convergence, quality and capacity management, so that operator resources can focus on strategy, marketing and customer care.

IT managed services, whereby Ericsson assumes responsibility for aspects such as application life-cycle management, application development, quality assurance and day-to-day operations and maintenance for both applications and infrastructure.

Broadcast services for TV and media companies. Services include responsibility for technical platforms and operational services related to TV content management, play out and service provisioning of a TV broadcaster's business. Ericsson has the capability to consult, integrate and manage business operations for TV and media, reusing skills, methods and tools from network managed services. Broadcast services help to enhance the efficiency of the business operations of content owners and broadcasters, providing significant operational and capital savings through assuming responsibility for technical platforms, enabling speeding time to market and minimizing business continuity risks. The investment in Red Bee Media in 2014 further enhanced the broadcast services capabilities.

Product-related services: Services to expand, upgrade, restructure, or migrate networks; network-rollout services; customer support; and network optimization services. Network design and optimization services ensure that networks can handle high levels of data traffic while maintaining service quality and user experience.

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Consulting and systems integration (CSI): technology and operational consulting; integration of multi-vendor equipment; design and integration of new solutions and transformation projects. CSI services assist operators in driving business transformation and ensuring competitiveness while facing the challenges of this new environment. Ericsson is expanding the established model for network and IT managed services to adjacent areas such as cloud services, TV and media, and selected industry verticals. The Company also offers services related to the planning, building and optimizing of OSS including service fulfillment and service assurance.

Services for Industry and Society; reusing existing portfolio for non-telecom customers in the areas of utilities, transport and public safety.

The product mix is divided between network rollout services and professional services of which managed services is a significant part. The proportion of network build outs as well as managed services deals in the transition phase affects the gross margin of Global Services. As sales are based on various services offerings the challenge is to manage and optimize cost of sales. R&D investments are limited. Unlike the professional services business, rollout services of extensive networks are working-capital intensive.

Each year, Ericsson manages more than 1,400 major projects for network build, expansion or migration for all major standards of mobile and fixed networks worldwide. On average, 100 of these are large, complex turnkey projects. The Company provides managed services to networks that serve more than 1 billion subscribers in approximately 100 countries. These networks are typically multi-vendor, multi-technology environments, with more than half the equipment from non-Ericsson sources.

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**SEGMENT SUPPORT SOLUTIONS**

The Support Solutions segment focuses on software for operations and business support systems (OSS and BSS), as well as TV and media management, and m-commerce.

The portfolio is designed around measurable performance improvement in an operator's business processes, with software that is scalable, configurable and provides end-to-end capabilities.

The offerings includes:

Operations support systems (OSS) and business support systems (BSS) solutions for telecom operators. The growth of mobile broadband is leading operators to develop their OSS and BSS solutions in order to monetize the increasing amount of data traffic that flows in the networks, while at the same time managing the increasing complexity of networks and services. OSS software solutions; support operators' management of existing networks and the introduction of new technologies and services, through software products for service enablement, fulfillment and assurance as well as telco analytics, orchestration and cloud management. Business Support Systems (BSS) handle revenue management (prepaid, post-paid, convergent charging and billing), mediation and customer care solutions. BSS manages how services are delivered and paid for. Products for revenue assurance and billing and revenue management help maintain customer relationship and keep track of revenues

TV & Media solutions: a suite of standards-based products for the creation, management and delivery of evolved TV experiences on any device over any network. Ericsson's TV platforms enabling TV service providers to deliver on the TV Anywhere future are powering more than 110 TV services for over 18 million subscribers. Through the acquisition of Tandberg Television in 2007 and Microsoft's Mediaroom in 2013, Ericsson is now the leader in the video compression IPTV and business, with multi-screen solutions for TV

M-Commerce; solutions to enable mobile financial services for domestic and international money transfer, payment transactions and services between mobile subscribers and operators and other service providers.

Industry and Society; solutions for the industry and society market, Ericsson adapts existing solutions for new applications. The service enablement platform has been used to create the Connected Vehicle Cloud and billing-as-a-service products are reused for connected devices applications.

Sales are dominated by software and the business is R&D-intensive, with limited working capital. In order to be profitable, continuous centralization and harmonization of R&D is important in order to keep the product portfolio together. Ericsson is executing on recent acquisitions, while transforming the business model from one that is based on a revenue intake from traditional telecom software licenses to one that puts emphasis on recurring software sales based on subscription-base software as a service (SaaS) offerings.

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**REGIONAL DEVELOPMENT**

Ericsson is a global company, with customers in more than 180 countries. The Company has been present in many countries, such as China, Brazil and India, for more than 100 years.

The expertise and local knowledge gained through working closely with customers create global scale, which is an important pillar of the business success.

It is important to find a beneficial mix between different businesses and regions in order to secure a good balance between growth and profitability. The differing nature of the businesses as well as regions reflects Ericsson's global position and the ambition to be regionally diversified is part of the overall strategy to mitigate the impact from imbalances and dependencies.

Ericsson has ten geographical regions which vary in size and where the maturity of the operators and the markets differ. The solutions-based go-to-market approach is built on close cooperation between business units and regions. Each region is organized the same way. The relationship between the regions and the business units is such that the business units develop the products and the regions cultivate relationship with its customers and address customers' needs. This also spurs innovation, as it allows the regions to identify local needs and when these are translated into solutions, the innovations can be spread globally.

To manage the extensive managed services business in an efficient way, services are delivered locally from the ten regions and globally from four Global Service Centers where large-scale activities are concentrated. The Global Service Centers are located in India, China, Mexico and Romania.

Over the past five years, the North American region has increased the share of total Group sales, driven by intense operator activity.

Ericsson is a market leader both in telecom services and mobile broadband infrastructure in the North American market. After a couple of years with major LTE network buildouts, the business in North America was driven by network quality and capacity expansion business in 2014. This was a consequence of the increase in user demand for mobile data. Business slowed down during the latter part of 2014 as operators focused on cash flow optimization. The overall market fundamentals are strong with continued need for capacity investments and densification, driven by video and the introduction of new services such as VoLTE. This market is in the forefront when it comes to network development and LTE usage, and several of the targeted areas, such as OSS and BSS, IP, Cloud as well as TV and Media, have a strong potential.

Ericsson has established a position in 4G in China, as mainland China has started a large scale roll out of LTE and over 1.2 billion LTE-subscriptions are expected by the end of 2020. Sales in 2014 were driven by delivery of 4G/LTE coverage type of contracts, primarily to one Chinese customer. Future capacity sales will be dependent on subscriber uptake in the LTE networks.

Ericsson has a strong installed base in Europe, partly as a result of the modernization projects of European networks in 2011–2013, which was a prerequisite for the transformation. In 2014, business in Europe was driven by investments in network quality and capacity combined with managed services. Vodafone started to invest in a multi-year project Spring to increase coverage and capacity in several European countries. Operator consolidations continued to be on the agenda partly driven by an increasing need for network investments. Business in Russia developed favorably during the year driven by mobile broadband infrastructure investments.



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**ERICSSON 24/7 GLOBAL PRESENCE**

Ericsson is a global player, with customers in more than 180 countries. The Company has been present in many countries, such as China, Brazil and India, for more than 100 years. The go-to-market organization is based in 10 geographical regions.

**NORTH AMERICA, 8%**

Sales declined, driven by lower network sales as a result of large mobile network coverage projects coming to an end, and increased operator focus on cash flow in the second half of the year. Sales in Support Solutions and Professional Services continued to grow, driven by OSS and BSS modernization.

**MEDITERRANEAN, 5%**

Sales decreased as the European modernization projects came to an end while managed services contributed positively to sales.

**LATIN AMERICA, +3%**

Sales increased, driven by mobile broadband coverage projects and network quality investments, partly offset by currency restrictions.

**WESTERN AND CENTRAL EUROPE, +7%**

The European modernization projects came to an end in 2014. Sales growth was increasingly driven by investments in network quality and capacity during the year.

**NORTHERN EUROPE AND CENTRAL ASIA, +6%**

Sales increased, driven primarily by mobile broadband deployments in Russia with sales of SEK 6.7 (5.6) billion. Professional Services sales grew, driven by network design and optimization services. TV & Media business showed positive development.

**NORTH EAST ASIA, +1%**

Sales increased in mainland China and Taiwan as a result of delivering on previously awarded 4G/LTE contracts. The increase was partly offset by reduced network investment levels in Korea and Japan.

**MIDDLE EAST, +22%**

Sales growth was driven by mobile broadband investments related to new licenses and growth in data traffic in both advanced and developing markets.

**SUB-SAHARAN AFRICA, 13%**

Sales declined but recovered in the second half of the year, mainly driven by operator focus on network traffic and quality management. This resulted in a continued demand for managed services.

**INDIA, +25%**

Sales growth was driven by mobile broadband infrastructure investments. Increased smartphone penetration drove growth in mobile data usage.

**SOUTH EAST ASIA AND OCEANIA, 0%**

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Sales remained flat. Growth in major rollout projects in Australia compensated for a decline in Indonesia where major 3G projects peaked in 2013.

### **OTHER, 2%**

Includes revenues generated across all regions through licensing, broadcast services, power modules, Ericsson-LG Enterprise and other businesses. Sales declined somewhat due to exit of the telecom and power cable businesses in 2013 as well as lower IPR revenues. Broadcast services grew, driven by the acquired Red Bee Media business that was fully consolidated in 2014.

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**THE PEOPLE**

Ericsson's People Strategy is clear – to attract the best, to develop the best, and to establish a high performing organization of engaged employees.

Right from the start, the ingenuity and professionalism of the people have taken Ericsson forward in a world of continuous technical and societal developments. The Company and the employees share the vision of a sustainable Networked Society, and the continuous transformation of the business builds a culture of creativity and innovation.

Ericsson's future success largely depends on the ability to attract, develop, motivate and retain the talent needed to uphold and develop the business. Competition for skilled professionals in the ICT industry remains intense. To help Ericsson reach its full potential and maintain its leading position, the People Strategy has three objectives: attract the best talent, develop the best talent, and establish a high performing organization of engaged employees.

**Attracting the best talent**

The Ericsson brand is well known in the ICT space. To attract the talent and skills needed to transform the business, strong efforts are being made to reach out even further. Ericsson is active in the global social media with the 'You + Ericsson' concept, telling powerful people stories and presenting global opportunities. Through the employee referral program, the Company engages its top talent to attract other top talent from the marketplace. Ericsson is continuously working with universities all over the world to increase the exposure to new talent in the different markets in which the Company operates. To attract exceptional talent, Ericsson takes a holistic approach to becoming an employer of choice across the world, with the consistent Ericsson values, but the Company also brings local nuances to meet local needs. Ericsson wants to be recognized as the Company that fulfills both the personal and career ambitions of a potential employee.

**Continuous focus on competence**

In order to stay relevant and remain a pioneer and a thought leader in the Networked Society, Ericsson needs to keep continuous focus on competence. The Company has a strategic approach to learning, using a two-tier framework. Top-down, the process identifies gaps for strategic competences in relation to a specific position or geography. These targeted gaps are being closed through development and deployment of global learning programs. Ericsson has structured formal and on the job training programs to build competences in emerging technology areas and in best practices with a special focus on sales, services and product development teams. Bottom-up, each employee together with his or her manager identifies competence gaps and develop an annual development plan so that they continue to grow and advance.

Ericsson invests in impactful and innovative ways of learning that can be accessed by everyone at all times, such as collaborative learning through a new virtual campus with live experts sharing knowledge or through Ericsson Play, a new mobile video sharing and learning platform. Certifications and assessments support the learning program to ensure that competence is obtained. The comprehensive career and competence model, supported by online and classroom training from Ericsson Academy and on-the-job development, helps employees to build their careers and develop capabilities that contribute to the Company's continued success.

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**Engagement and leadership**

The level of engagement from the people remains very high. The last employee survey had a 93% response rate. The Employee Engagement Index measures employees' overall motivation and commitment to the Company's success. Ericsson's score for 2014 is 78% which puts the Company amongst the top-scoring ICT companies included in this benchmark. One of the contributing factors to the high score was leadership. Strong leaders are essential for Ericsson to keep the technology and services leadership amid evolving business conditions. Therefore, the Company applies a rigorous talent planning process and run structured leadership programs at all levels. The leadership pipeline is under continual review to ensure that the right leadership capabilities are developed to take the business forward.

**Diversity of thought**

With customers in more than 180 countries around the world, Ericsson strives for the leadership teams and employee base to be as diverse as the world around. The Company's definition of diversity extends beyond gender, race, religion, ethnicity, age and other established categories to focus on diversity of thought, the prime driver of the innovative culture.

In Ericsson's experience, diverse teams are the most productive and stable. The diversity is supported by a truly inclusive workplace, in which people are valued for the different perspectives, ideas and experiences that they bring.

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**SUSTAINABILITY AND CORPORATE RESPONSIBILITY**

By advocating Technology for Good, Ericsson aims to lead the industry in providing significant and measurable contributions to a sustainable Networked Society.

In the Networked Society, Ericsson is the leading advocate of Technology for Good, the transformative power of mobility, broadband and cloud solutions to help tackle global sustainable development challenges. In the Company's sustainability and corporate responsibility work, Ericsson has two main focus areas: to reduce risks, and to create positive impacts for people, business and society. The below areas are integrated in the Ericsson business:

Conducting business responsibly

Environment, energy and climate change

Creating positive socio-economic impacts

**Conducting business responsibly**

Embedding responsible business practices into the Ericsson operations ensures that the Company is running the business responsibly and capable of managing risks on a global scale. No matter what country or environment Ericsson operates in, global policies apply in terms of sound business practices, social responsibility and environmental protection.

Ericsson is committed to upholding the ten UN Global Compact Principles in the areas of human rights, labor standards, the environment and anti-corruption as well as to the UN Guiding Principles on Business and Human Rights (UNGP).

Ericsson's key areas of commitment and actions are the respect for human rights in the ICT field, fostering anti-corruption, applying responsible sourcing practices, improving environmental performance and upholding high standards for labor rights as well as occupational health and safety.

The Company has a strong global governance process through the Ericsson Group Management System (EGMS) that supports efforts to create business value and minimize negative impacts. The robustness of the processes have systematically been improved over time.

In 2014, Ericsson updated its Code of Business Ethics to align it with the UNGP, with particular focus on human rights. Ericsson's most salient human rights issues are the right to privacy and freedom of expression. Human rights focus is growing in many of the Company operations. One example is through Ericsson's Sales Compliance Board, which provides a cross-functional forum for handling, for example, human rights risks as part of the sales process. In 2014, more than 300 cases were reviewed and 6% of the cases reviewed by the Sales Compliance Board were rejected.

In 2014, at the request of the Sales Compliance Board, Human Rights Impact Assessments of Iran and Myanmar were conducted and still ongoing in Iran, in accordance with the UNGP.

In the area of Occupational Health and Safety, 22 workplace fatalities were reported. Of these 1 was an Ericsson employee while suppliers reported 21, including 1 public fatality.

**Environment, energy and climate change**

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Substantial greenhouse gas reductions can be achieved in a wide variety of ways by using ICT in different sectors. During 2014, Ericsson reduced societal carbon emission by implementing ICT-enabled solutions such as smart meters and smart transport solutions.

Ericsson's second Energy and Carbon report, published in 2014, analyzes the ICT sector's own environmental impact in terms of energy use and greenhouse gas emissions. The report shows that, while the expansion of ICT is stimulating economic growth and development, the resulting increase in carbon emissions is expected to be marginal, compared to the substantial reduction of greenhouse gases that can be achieved.

Ericsson and UN-Habitat produced a report in 2014, *The Role of ICT in the New Urban Agenda*, describing how ICT supports the sustainable cities of the future and offered recommendations to policymakers on the creation of an ICT-enabling environment to bridge digital divides.

The Company's latest generation of network infrastructure equipment provides better performance than previous generations, while consuming less energy. The work on improving energy efficiency continues across the entire portfolio, to enable an increased connectivity of cities, industries and societies. The carbon

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footprint of Ericsson's own activities has steadily decreased. Progress is on track towards the five-year target of reducing CO<sub>2</sub> emissions per employee by 30% and keeping absolute CO<sub>2</sub> emissions at 2011 levels, despite forecast growth in sales and number of employees.

**Creating positive socio-economic impacts**

Mobility, broadband and the cloud can greatly enable socio-economic development. But for people to benefit, affordability and accessibility are key. Ericsson has been actively involved in advocating the role of ICT in the Sustainable Development Goals (SDGs) for the post-2015 agenda that seek to address such challenges.

In 2014, the Task Force on Sustainable Development for the Broadband Commission on Digital Development, chaired by Ericsson President and CEO Hans Vestberg, produced a report, *Means of Transformation*, offering practical guidance for governments on leveraging ICT in support of the SDGs.

Ericsson's objective to positively impact 2.5 million people directly through Technology for Good initiatives by 2016 was achieved in 2014. The bar has now been raised even higher, aiming to positively impact 4.8 million by the end of 2015.

In 2014, Ericsson focused on using ICT to transform humanitarian response and scaling solutions for greater impact. Ericsson and the International Rescue Committee announced a partnership using mobile technology to improve the frontline response of humanitarian workers in health, natural disasters and conflict-driven humanitarian crisis.

Ericsson Response is the global Ericsson employee volunteer initiative formed in the year 2000 to provide communications expertise, equipment and resources to assist humanitarian relief organizations.

In 2014, active missions assisting the Emergency Telecommunications Cluster focused on: continuing support to the Philippines in the aftermath of the 2013 typhoon; collaborating with the World Food Programme in war-torn South Sudan to provide communications and expertise to support long-term humanitarian efforts in refugee and Internally Displaced Persons (IDP) camps; and in Iraq, by deploying volunteers to facilitate communications for humanitarian workers in IDP camps.

Ericsson and operators in the Middle East launched the Refugees United service for the nearly 1.4 million Syrian refugees residing in Iraq, Jordan and Turkey at the launch of service. Another key focus was Ebola infection-prevention in Guinea, Liberia and Sierra Leone. Ericsson worked with multiple partners to support community health workers with about 1,400 mobile devices, with specific health apps, and provided UN and humanitarian workers with emergency telecoms support through Ericsson Response.

The Company also seeks to scale its impact in other key focus areas, including:

**Education** – as lead technology partner in Connect to Learn, a global education initiative with the Earth Institute at Columbia University and Millennium Promise. The program is now in 16 countries, engaging 12 mobile operators, benefiting about 45,000 students. In 2014, the program was launched in Myanmar in partnership with the UK Department for International Development, through the Girls Education Challenge with the aim of reaching 14,000 marginalized girls over the next two years.

**Financial inclusion** – Ericsson's m-commerce solutions can enable many of the approximately 2.5 billion people who are unbanked globally to access financial services. In 2014, ASBANC, Peru's National Bank Association, recognized Ericsson's global scale and integrated solution as well as its commitment to Technology for Good, and selected Ericsson as a partner to design and implement its Mobile Money project, the country's largest private initiative for financial inclusion.





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**LETTER FROM THE CHAIRMAN**

**Dear shareholders**

For the fourth time, it is my pleasure, as Chairman of the Board of Ericsson, to reflect on another year of performance and progress. As a Board, we are deeply involved both in helping develop a long-term strategic vision and responding to more immediate opportunities and challenges.

The ability to balance today's reality with a rapidly evolving future has always been part of Ericsson's culture, and has sustained its success for more than a century. Never before has this culture been more important. Customers face numerous challenges, and by adapting the product and services portfolio to meet their needs, Ericsson can take advantage of the many business opportunities that are emerging. In a sense, business has always been this way, but the rate and scale of change in today's macro environment are exceptional.

The task of ensuring long-term development in this environment is both exciting and challenging. As a Board, we must consider what this industry will look like 10 or perhaps 20 years from now, so that investments and resources can be allocated responsibly. Ericsson's ambition is to lead future developments and it is satisfying to see Ericsson positioning itself effectively as a leader in the transformative Networked Society.

In 2014, Ericsson and the Board concentrated on three major areas: strategy, governance and talent management.

In its strategic work, the Board always invests considerable time evaluating several strategic alternatives. In 2014, this led to an important decision: that Ericsson should exit the modem business – a long journey is now completed. To strengthen Ericsson's position in its targeted areas, the Board decided on several strategic acquisitions.

The Board is committed to maintaining Ericsson's high standards of corporate governance, sustainability and responsible business practice. Ericsson is a large global company and it is essential that high standards are met across markets. Ericsson aims high: every part of the company is required to meet demanding financial, social and environmental standards. Ericsson works constantly to uphold these standards, and as a result has won and retains the trust of its stakeholders.

Companies are only as good as the people they hire. The Board is appreciative of CEO and President Hans Vestberg and his leadership team for their dedication in attracting and developing some of the best talent in our industry, a vital component in securing Ericsson's leading position. The Company is naturally interested in succession planning, particularly at executive levels but also in technology and commercial management. Ericsson's values of respect, professionalism and perseverance require good talent management.

Ericsson's capital structure is another of the Board's major responsibilities and an area of great interest to shareholders and the capital market. In approaching this responsibility, the Board carefully considers the previous year's earnings and balance sheet, coming years' business plans, and projections of economic development. Maintaining industry leadership requires significant R&D investment as well as continued focus on developing our core business, and expanding into new and targeted areas. With all this taken into account, the Board's proposal is to increase the dividend from SEK 3.00 in 2013 to SEK 3.40 per share for 2014.

As a leader in an industry that is leading change across all industries, Ericsson is an extraordinary company. It is a privilege to be part of Ericsson's journey and a pleasure to serve as the Chairman.

**Leif Johansson**

**Chairman of the Board of Directors**

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**BOARD OF DIRECTORS REPORT**

**Full-year highlights**

Sales were SEK 228.0 (227.4) billion, flat compared with 2013.

Operating income was SEK 16.8 (17.8) billion, with an operating margin of 7.4% (7.8%). Gross margin improved due to a higher share of capacity business, offset by increased operating expenses and currency hedge losses.

Segment Networks showed an operating margin of 12% (10%) driven by improved business mix and earlier actions to improve commercial and operational efficiency.

Cash flow from operating activities was SEK 18.7 (17.4) billion. Cash conversion was 84%, above the target of 70%.

The Board of Directors proposes a dividend for 2014 of SEK 3.40 (3.00) per share.

**Business in 2014 <sup>1)</sup>**

In 2014, Ericsson showed stable sales development with a solid operating margin. A sales decline in North America of 8% was compensated by growth in the Middle East, Europe and Asia. Operating margin improved in the core business, driven by a higher share of capacity sales and efficiency enhancements. This was partly offset by currency hedge losses, investments in targeted areas as well as losses related to the modems operations. (Reported operating margin decreased in 2014.)

The more than 100 IPR licensing agreements signed to date show the value of Ericsson's R&D investments and enable industry players to continue to innovate and bring exciting products to the market. In 2014, IPR revenues showed a steady positive development. Ericsson remains committed to licensing its standard-essential patents on fair, reasonable and non-discriminatory (FRAND) terms.

At the Capital Markets Day (CMD) in November, Ericsson outlined the progress on its Networked Society strategy, with focus on market development, growth agenda, transformation and profitability. In line with the strategy, the Company has invested into the targeted areas: IP networks, Cloud, TV & Media, Industry & Society and OSS & BSS. Sales in targeted areas showed a growth of more than 10% in 2014.

Ericsson continues to proactively identify efficiency opportunities in the Company. The cost and efficiency program presented at the CMD, with the ambition to achieve savings of approximately SEK 9 billion, with full effect during 2017, is progressing. Activities for the discontinuation of the modems business are included in the program and are ahead of plan.

Ericsson improved the cash flow from operating activities, and generated a cash flow of SEK 18.7 (17.4) billion. For the third consecutive year, the Company exceeded its cash conversion target of more than 70%. This resulted in a solid balance sheet, enabling Ericsson to continue to implement its strategy and to deliver consistent returns to its shareholders.

The Board of Directors proposes a dividend for 2014 of SEK 3.40 (3.00) per share, an increase of 13%.

- 1) The figures in this section are IFRS figures. However, commentary is based on non-IFRS figures, unless stated otherwise.

See Financial results of operations on page 35 for the reconciliation of non-IFRS figures.

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**Financial highlights****Financial results of operations <sup>1)</sup>**

In this Board of Directors' report, unless otherwise indicated, commentary on sales, gross margin, operating income and net income reflects adjustments made on full year 2013 for the initial payment from Samsung following the January 2014 licensing agreement with Samsung. The table below presents the reconciliation between reported IFRS figures and the non-IFRS figures upon which the comments are based.

**Reconciliation IFRS Non-IFRS measures**

	IFRS		Adjustment initial Samsung IPR payment <sup>1)</sup>		Non-IFRS	
	2014	2013	2014	2013	2014	2013
Net sales	228.0	227.4		2.1	228.0	225.3
Cost of sales	145.6	151.0			145.6	151.0
<b>Gross income</b>	<b>82.4</b>	<b>76.4</b>	<b>0.0</b>	<b>2.1</b>	<b>82.4</b>	<b>74.3</b>
Operating expenses	63.4	58.5			63.4	58.5
Other operating income and expenses	2.2	0.1			2.2	0.1
Share in earnings of associated companies	0.1	0.1			0.1	0.1
<b>Operating income</b>	<b>16.8</b>	<b>17.8</b>	<b>0.0</b>	<b>2.1</b>	<b>16.8</b>	<b>15.7</b>
Financial items	1.0	0.7			1.0	0.7
Taxes	4.7	4.9		0.5	4.7	4.4
<b>Net income</b>	<b>11.1</b>	<b>12.2</b>	<b>0.0</b>	<b>1.6</b>	<b>11.1</b>	<b>10.6</b>

1) The initial payment from Samsung in Q4 2013 was SEK 4.2 billion of which SEK 2.1 billion relates to 2013. The adjustment impacts segments Networks and Support Solutions.

Reported sales were flat and amounted to SEK 228.0 (227.4) billion. Strong sales growth in China, the Middle East and India was offset by lower sales in North America and Japan, where several larger mobile broadband coverage projects were completed.

During the year, the SEK has weakened towards a number of currencies, including the USD, which has had a gradual positive impact on sales.

Reported sales for segments Networks and Global Services were flat compared with 2013, while Support Solutions reported sales grew by 3%.

IPR and licensing revenues amounted to SEK 9.9 (10.6) billion. For 2013, IPR revenues included an initial payment of SEK 4.2 billion from Samsung for patent licensing.

The mix of sales by commodity was: Software 24% (24%), hardware 34% (34%) and services 42% (42%).

Restructuring charges amounted to SEK 1.5 (4.5) billion and were mainly related to the continued implementation of the service delivery strategy. Implementation started on the cost and efficiency program announced in November 2014. As part of the continuous business transformation, annual restructuring normally generates charges of approximately SEK 2 billion. In addition, the cost and efficiency program is expected to generate approximately SEK 3-4 billion in restructuring charges in 2015-2017.

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With current visibility, total restructuring charges for 2015 are estimated at approximately SEK 3.4 billion.

Gross margin increased to 36.2%, due to a business mix with a higher share of capacity sales, lower restructuring charges and efficiency enhancements. The Global Services share of Group sales was flat at 43%, where the share of Network Rollout sales declined to 12% (14%) as a result of fewer large coverage projects.

Total operating expenses increased to SEK 63.4 (58.5) billion due to increased organic expenses in targeted areas and acquisitions such as Microsoft Mediaroom as well as inclusion of the modems operations.

In line with the strategy to establish leadership in targeted areas, the Company has increased its R&D activities, primarily in IP and Cloud. In addition, the modems operations were taken over from the ST-Ericsson joint venture. This resulted in total R&D expenses of SEK 36.3 (32.2) billion in 2014.

Other operating income and expenses decreased to SEK 2.2 (0.1) billion of which SEK 2.8 (0.5) billion relates to negative currency hedge effects. They derive from the hedge contract

1) The figures in this section are IFRS figures. However, commentary is based on non-IFRS figures, unless stated otherwise.

See above table for the reconciliation of non-IFRS figures.

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balance in USD, which has further decreased in value. The SEK has weakened towards the USD between December 31, 2013 (SEK/USD rate 6.46) and December 31, 2014 (7.79).

Operating income increased slightly to SEK 16.8 billion, positively impacted by an improved gross margin. (Reported operating income decreased slightly in 2014.) Operating income was negatively impacted by higher operating expenses, and negative effects from hedge contracts. Operating margin was 7.4%.

Financial net amounted to SEK 1.0 ( 0.7) billion. The difference is mainly attributable to foreign currency revaluation effects.

The tax rate for 2014 was 30% compared with 29% in 2013. Tax costs were SEK 4.7 ( 4.9) billion.

Net income increased to SEK 11.1 billion, for the same reasons as for the increase in operating income. (Reported net income decreased in 2014.)

EPS diluted was SEK 3.54.

**Cash flow**

Cash flow from operating activities was positive at SEK 18.7 (17.4) billion.

Total investing activities amounted to SEK 7.5 (11.1) billion. Investments in property, plant and equipment were SEK 5.3 (4.5) billion, representing 2% of sales. Acquisitions and divestments, net, were SEK 4.4 (2.7) billion. The acquisitions are strategic investments made to strengthen the position in targeted areas. In 2014, approximately SEK 8 billion of debt outstanding was repaid:

A SEK 4 billion EIB loan, with original maturity in 2015, was repaid.

A USD 300 million bond, with original maturity in 2016, was repaid.

A EUR 219 million bond matured and was repaid in full.

**Working capital**

Days sales outstanding (DSO) increased to 105 (97) days mainly due to geographical mix and negative currency effects. Inventory turnover days increased to 64 (62) days due to a larger share of projects and negative currency effects.

Accounts payable days increased to 56 (53) days.

Provisions amounted to SEK 4.4 (5.4) billion at year end, reflecting implementation of previous years' efficiency programs and headcount reductions.

**Financial position**

The average maturity of long-term borrowings as of December 31, 2014, was 5.7 years, compared with 5.1 years at the end of 2013.

The net cash decreased from SEK 37.8 billion to SEK 27.6 billion as a result of increased post-employment benefits of SEK 10.6 billion due to lower discount rates.

Ericsson has an unutilized Revolving Credit Facility of USD 2.0 billion.





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**Employees**

In 2014, the net number of employees increased by 3,715. At the end of 2014, the total number of employees was 118,055 (114,340) of which 19,251 joined Ericsson during the year. 15,536 employees left Ericsson, reflecting the natural attrition rate and ongoing Company transformation.

**Research and development, patents and licensing**

In line with the strategy to establish leadership in targeted areas, the Company has increased its R&D activities, primarily in IP and Cloud. In addition, the modems operations were taken over from the ST-Ericsson joint venture. This resulted in total R&D expenses of SEK 36.3 (32.2) billion.

**Research and development, patents and licensing**

	2014	2013	2012
Expenses (SEK billion)	36.3	32.2	32.8
As percent of Net sales	15.9%	14.2%	14.4%
Employees within R&D as of December 31 <sup>1)</sup>	25,700	25,300	24,100
Patents <sup>1)</sup>	37,000	35,000	33,000
IPR revenues, net (SEK billion)	9.9	10.6	6.6

1) The number of employees and patents are approximate.

**Seasonality**

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

**Most recent five-year average seasonality**

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	22%	8%	0	23%
Share of annual sales	22%	24%	24%	30%

**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 material effect on the Company's financial condition, revenues, expenses, result of operations, liquidity, capital expenditures or capital resources.

**Capital expenditures**

For 2014, capital expenditures were SEK 5.3 (4.5) billion, representing 2% of sales. Expenditures are largely related to test sites and equipment for R&D and network operation centers as well as manufacturing and repair operations.

Investments are being made in three new global ICT centers, of which two are in Sweden and one is in Canada. The centers will support R&D and services in developing and verifying solutions more efficiently and bringing innovation faster to the market. The first center, in Linköping,

Sweden, was opened in 2014.

Apart from these investments, Ericsson believes that the Company's property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations.

Annual capital expenditures are normally around 2% of sales. This corresponds to the needs for keeping and maintaining the current capacity level. The Board of Directors reviews the Company's investment plans and proposals.

As of December 31, 2014, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

The Company believes it has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2015.

**Capital expenditures 2010 - 2014**

<b>SEK billion</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Capital expenditures	5.3	4.5	5.4	5.0	3.7
<i>Of which in Sweden</i>	2.4	1.9	1.3	1.7	1.4
Share of annual sales	2.3%	2.0%	2.4%	2.2%	1.8%

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### **Business results Segments**

#### **Networks**<sup>1)</sup>

Sales were flat. Sales declined in North America, where two large LTE coverage projects were completed. In addition, operators in the US increased their focus on cash flow optimization during the second half of the year, with reduced network investments as a consequence. The decline in the North American business was partly offset by increased mobile broadband sales in the Middle East. Large LTE network deployments continued in mainland China.

In 2014, operators increased their focus on improving network performance as a key differentiator. This, in combination with continued data traffic increase, and introduction of new services such as VoLTE, led to increased capacity business in Radio, IMS and IP.

Operating income improved significantly compared with last year due to increased capacity business, earlier actions to improve commercial and operational efficiency and lower restructuring charges. This was partly offset by a negative effect from currency hedges of SEK 2.1 (0.5) billion and higher operating expenses, mainly in IP and Cloud. Restructuring charges amounted to SEK 0.4 ( 2.2) billion.

#### **Global Services**

Sales for Global Services were flat compared with 2013 despite strong development in Managed Services and in Network Design and Optimization.

There was continued momentum for Professional Services with double-digit sales growth during the second half of the year. Sales in targeted areas developed positively and in line with plan. Network Rollout sales declined, primarily due to a lower share of coverage projects.

Global Services operating income was flat compared with 2013. The Network Rollout margin gradually improved during the year due to the declining dilutive effect from the European network modernization projects.

Professional Services operating margin declined to 12% (14%), partly due to negative currency hedge effects and partly due to the high share of managed services contracts in the transformation phase.

Restructuring charges declined to SEK 0.8 ( 2.0) billion. Implementation of the service delivery strategy to move local service delivery resources to global centers continued, but at a slower pace during the first half of the year.

#### **Support Solutions**<sup>1)</sup>

Reported sales grew by 3%, driven by growth in OSS and in TV & Media through the Mediaroom acquisition. Regions North America and North East Asia showed strong growth while Latin America and Sub-Saharan Africa declined, primarily due to lower BSS sales.

Operating income declined slightly, partly due to lower sales in legacy systems and partly due to acquired operating expenses.

**Modems**

Ericsson took over the LTE thin-modem operations as part of the breakup of the joint venture with STMicroelectronics in 2013. Since the integration, the modems market developed in a direction that reduced the addressable market for thin modems. In addition, there is strong competition, price erosion and an accelerating pace of technology innovation. Success in this evolved market requires significant R&D investments. In 2014, Ericsson announced the discontinuation of further development of modems and the shift of approximately 500 R&D resources to Networks to pursue growth opportunities in the radio business.

Operating income was SEK 2.0 billion. The discontinuation of the modems business will lead to a significant reduction in costs. Good progress has been made in 2014, and activities are ahead of plan. End-of-life agreements have been signed with existing customers.

1) The figures in this section are IFRS figures. However, commentary is based on non-IFRS figures, unless stated otherwise.

See Financial results of operations on page 35 for the reconciliation of non-IFRS figures.

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**Business results Regions**

**North America:** Sales declined, driven by lower network sales as a result of large mobile network coverage projects coming to an end, and increased operator focus on cash flow in the second half of the year. Sales in Support Solutions and Professional Services continued to grow, driven by OSS and BSS modernization.

**Latin America:** Sales increased, driven by mobile broadband coverage projects and network quality investments, partly offset by currency restrictions.

**Northern Europe and Central Asia:** Sales increased, driven primarily by mobile broadband deployments in Russia with sales of SEK 6.7 (5.6) billion. Professional Services sales grew, driven by network design and optimization services. TV & Media business showed positive development.

**Western and Central Europe:** The European modernization projects came to an end in 2014. Sales growth was increasingly driven by investments in network quality and capacity during the year.

**Mediterranean:** Sales decreased as the European modernization projects came to an end, while managed services contributed positively to sales.

**Middle East:** Sales growth was driven by mobile broadband investments related to new licenses and growth in data traffic in both advanced and developing markets.

**Sub-Saharan Africa:** Sales declined but recovered in the second half of the year, mainly driven by operator focus on network traffic and quality management. This resulted in a continued demand for managed services.

**India:** Sales growth was driven by mobile broadband infrastructure investments. Increased smartphone penetration drove growth in mobile data usage.

**North East Asia:** Sales increased in mainland China and Taiwan as a result of delivering on previously awarded 4G / LTE contracts. The increase was partly offset by reduced network investment levels in Korea and Japan.

**South East Asia and Oceania:** Sales remained flat in 2014. Growth in major roll-out projects in Australia compensated for a decline in Indonesia where major 3G projects peaked in 2013.

**Other:** Sales declined somewhat due to exit of the telecom and power cable businesses in 2013 and lower IPR revenues. Broadcast services grew, driven by the acquired Red Bee Media business that was fully consolidated in 2014.

**Sales per region and segment 2014 and percent change from 2013**

SEK billion	Networks		Global Services		Support Solutions		Total	
	2014	Change	2014	Change	2014	Change	2014	Change
North America	26.1	9%	25.0	12%	3.5	34%	54.5	8%
Latin America	10.7	5%	10.8	14%	1.0	10%	22.6	3%
Northern Europe and Central Asia	8.0	10%	4.1	1%	0.3	10%	12.4	6%
Western and Central Europe	8.1	6%	11.0	8%	0.6	1%	19.7	7%
Mediterranean	9.6	11%	12.6	0%	0.8	12%	23.0	5%
Middle East	11.6	36%	8.5	12%	1.2	11%	21.3	22%
Sub-Saharan Africa	3.9	21%	4.3	3%	0.6	39%	8.7	13%
India	4.1	32%	3.1	15%	0.5	55%	7.7	25%
North East Asia	18.0	8%	8.9	14%	0.7	82%	27.6	1%
South East Asia and Oceania	8.4	6%	7.0	10%	0.5	4%	15.9	0%
Other <sup>1)</sup>	9.1	10%	2.3	61%	3.1	12%	14.7 <sup>2)</sup>	2%
<b>Total</b>	<b>117.5</b>	<b>0%</b>	<b>97.7</b>	<b>0%</b>	<b>12.7</b>	<b>3%</b>	<b>228.0</b>	<b>0%</b>
<b>Share of total</b>	<b>51%</b>		<b>43%</b>		<b>6%</b>		<b>100%</b>	

1) Region Other includes licensing revenues, broadcast services, power modules, mobile broadband modules, Ericsson-LG Enterprise and other businesses.

The power cable business was divested in 2013.

2) Total sales for Region Other includes SEK 0.2 billion for Modems.

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### **Corporate Governance**

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

### **Continued compliance with the Swedish Corporate Governance Code**

Ericsson is committed to complying with best-practice corporate governance standards on a global level wherever possible. For 2014, Ericsson does not report any deviations from the Code.

### **Business integrity**

Ericsson's Code of Business Ethics summarizes the Group's basic policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to secure that business activities are conducted with a strong sense of integrity.

### **Board of Directors**

At the Annual General Meeting, held on April 11, 2014, Leif Johansson was re-elected Chairman of the Board and Roxanne S. Austin, Sir Peter L. Bonfield, Nora Denzel, Börje Ekholm, Alexander Izosimov, Ulf J. Johansson, Sverker Martin-Löf, Kristin Skogen Lund, Hans Vestberg, Jacob Wallenberg and Pär Östberg were re-elected members of the Board. Pehr Claesson, Kristina Davidsson and Karin Åberg were appointed employee representatives by the unions, with Rickard Fredriksson, Karin Lennartsson and Roger Svensson as deputies.

### **Management**

Hans Vestberg has been President and CEO of the Group since January 1, 2010. The President and CEO is supported by the Group management, consisting of the Executive Leadership Team (ELT).

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

### **Remuneration**

Remuneration to the members of the Board of Directors and to Group management, as well as the Guidelines for remuneration to Group Management resolved by the Annual General Meeting 2014, are reported in Notes to the consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees .

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

The Board of Directors proposes no material changes to the current guidelines for remuneration to Group management for the period up to the 2016 Annual General Meeting.

### **Executive Performance Stock Plan**

The Company has a Long-Term Variable Compensation program (LTV). It builds on a common platform of investment in, and matching of, Ericsson shares. It consists of three separate plans: one targeting all employees, one targeting key contributors and one targeting senior managers. The program is designed to encourage long-term value creation in alignment with shareholders' interests. The aim of the plan for senior managers is to attract, retain and motivate executives in a competitive market through performance-based share-related incentives and to encourage the build-up of significant equity stakes. The performance criteria for senior managers under the Executive Performance Stock Plan are approved by the Annual General Meeting. Performance criteria for the 2015 Executive Performance Stock Plan will be communicated in the

notice to the Annual General Meeting.



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The targets for the 2012, 2013 and 2014 Executive Performance Stock Plans are shown in the illustration on page 40. The performance criteria are:

Up to one-third of the award will vest if the target for compound annual growth rate of consolidated net sales is achieved. For the 2014 plan, net sales for base year 2013 has been adjusted by SEK 2.1 billion for the impact of the Samsung IPR agreement.

Up to one-third of the award will vest if the target for compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is achieved. For the 2013 plan, base year 2012 excludes a non-cash charge of SEK 8.0 billion for ST-Ericsson. For the 2014 plan, operating income for the base year 2013 has been adjusted by SEK 2.1 billion for the impact of the Samsung IPR agreement.

Up to one-third of the award will vest if cash conversion is at or above 70% during each of the years and vesting one-ninth of the award for each year the target is achieved. The cash conversion target was reached in 2014, 2013 and 2012.

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

**Material contracts**

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

Ericsson is party to certain agreements, which include provisions that may take effect or be altered or invalidated by a change in control of the Company as a result of a public takeover offer. Such provisions are not unusual for certain types of agreements, such as financing agreements and certain license agreements. However, considering among other things the Company's strong financial position, none of the agreements currently in effect would entail any material consequence to Ericsson due to a change in control of the Company.

**Risk management**

Risks are defined in both short-term and long-term perspective. They are categorized into industry and market risks, commercial risks, operational risks and compliance risks. Ericsson's risk management is based on the following principles, which apply universally across all business activities and risk types:

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

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

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

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

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

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

### **Sourcing and supply**

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

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority are in low-cost countries. Final configuration of products is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into

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complete units. Final assembly and testing are concentrated to a few sites. Ericsson has 12 manufacturing sites in Brazil, China, Estonia, India, Italy, Mexico and Sweden.

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

In general, Ericsson has alternative supply sources and seeks to avoid single source supply situations.

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

### **Sustainability and Corporate Responsibility**

The Company has a strong focus on social, environmental and responsible business standards. This supports Ericsson's ambition to be a relevant and responsible driver of positive change. The Company aims to create positive impacts and minimize risks.

Ericsson's approach to Sustainability and Corporate Responsibility (CR) is integrated into its core business operations throughout its value chain and performance is regularly measured and assessed. The Board of Directors is apprised of Sustainability and CR issues twice per year, or as needed on an ad hoc basis. Group policies and directives are implemented to ensure consistency across global operations. Ericsson publishes an annual Sustainability and Corporate Responsibility Report, which provides additional information.

### **Responsible business practices**

Since 2000, Ericsson has supported the UN Global Compact, and endorses its ten principles regarding human rights and labor standards, anti-corruption and environmental protection.

Since 2012, Ericsson has reported its Communication on Progress at the Global Compact Advanced level. The Ericsson Group Management System (EGMS) includes a Code of Business Ethics, a Code of Conduct and a Sustainability Policy which reflect responsible business practices. These practices are reinforced by employee awareness training, workshops and monitoring, including a global assessment plan run by an external assurance provider.

The Code of Conduct was updated in 2014 to include stronger human rights language in accordance with the UN Guiding Principles on Business and Human Rights as well as stronger labor standards.

Ericsson has an anti-corruption program which focuses on prevention but also accountability. The program is reviewed and evaluated by the Audit Committee of the Board of Directors annually. In 2014, a new anti-corruption e-learning was launched for suppliers.

### **Human rights**

The Code of Business Ethics reflects the Company's ongoing commitment to respect human rights. Ericsson has actively worked to integrate United Nations Guiding Principles on Business and Human Rights into its governance framework since 2011. A Sales Compliance Board evaluates risk to human rights impacts with respect to four criteria: country, customer, product and purpose. Ericsson joined the Shift Business Learning Program in 2012 to further strengthen its framework on Human Rights. The learning included conducting Human Rights Impact Assessments in Myanmar and ongoing in Iran, in accordance with the UN Guiding Principles.

### **Responsible sourcing**

All suppliers must comply with the requirements of Ericsson's Code of Conduct. The Company has 197 employees, covering all regions, who are trained as Code of Conduct auditors. The Company uses a risk-based approach to ensure that the high risk portfolio areas, and highest risk markets, are targeted first. For prioritized areas, Ericsson performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made.

Ericsson addresses the issue of conflict minerals, including compliance with the US Dodd-Frank Act and the disclosure rule adopted by the U.S. Securities and Exchange Commission (SEC) through measures in its sourcing and product management processes. The Company also actively works with suppliers on this issue and engages in industry initiatives such as the Conflict-Free Sourcing Initiative (CFSI), driven by the Global e-Sustainability Initiative (GeSI), and the Electronic Industry Citizenship Coalition (EICC).

**Reducing environmental impact**

Continuously improving sustainability performance is fundamental to Ericsson's strategy and a priority remains improving the life-cycle carbon footprint. The Company works to reduce negative environmental impacts while delivering solutions that enable a low-carbon economy. As energy use of products in operation remains the Company's most significant environmental impact, Ericsson works proactively with mobile operators to encourage network and site energy optimization, through innovative products, software,

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solutions and advisory services. Processes and controls are in place to ensure compliance with relevant product-related environmental, customer and regulatory requirements. An important aspect of Ericsson's Design for Environment is materials management and efficiency.

In 2014, Ericsson strengthened its focus on providing solutions to help other sectors of the economy, primarily utilities and transport, to offset carbon emissions. In line with this focus area, Ericsson set a target for 2015; to reduce societal carbon emissions by a factor of 2 in relation to carbon emissions from Ericsson's own activities in 2014, by implementing ICT-enabled solutions, such as smart meters and smart transport solutions.

Ericsson has a long-term objective to maintain absolute CO<sub>2</sub>e emissions from its own activities for business travel, product transportation and facilities energy use in 2017 at the same level as in 2011. To achieve this long-term objective, the Company aims to reduce CO<sub>2</sub>e emissions per employee by 30% over five years. The Company achieved a 10% reduction of CO<sub>2</sub>e emissions per employee in 2014.

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

When taking back the Company's products, more than 98% of the materials is recycled.

**Occupational health and safety**

Providing a safe and healthy workplace is of fundamental importance to Ericsson. The ambition is zero fatalities and the long-term objective is based on continuous improvements in order to reduce the number and severity of Occupational Health and Safety (OHS) incidents. The OHS system helps to protect Ericsson's employees and others engaged in company business.

Certain operations undergo internal audits as well as regular third-party assurance audits according to the OHSAS 18001 standard. Ericsson has taken a comprehensive approach by not only reporting its own fatalities but also addressing partners and suppliers working with high-risk activities. This includes providing requirements and controls but also guidance and training. Competence and awareness is key to reducing major incidents and must be based on trust and transparency, in which reporting of incidents is encouraged. Key performance indicators are published in the Sustainability and Corporate Responsibility report.

A program "Zero Incidents in High-Risk Environments" was established 2014 to reduce severe incidents internally and in the supply chain by further enhancing sub-contractor management, assessment criteria, inspections and consequence management. Occupational health and safety was significantly strengthened and prioritized by integrating it into the Sustainability and Corporate responsibility organization.

**Radio waves and health**

Ericsson employs rigid product testing and installation procedures with the goal of ensuring that radio wave exposure levels from products and network solutions are below established safety limits. The Company also provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Since 1996, Ericsson has co-sponsored over 100 studies related to electromagnetic fields and health, primarily through the Mobile Manufacturers Forum.

To assure scientific independence, firewalls were in place between the industrial sponsors and the researchers conducting these studies. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

**Reporting according to GRI 3.0**

Ericsson publishes an annual Sustainability and Corporate Responsibility report and full key performance data is made available on the Ericsson website according to the Global Reporting Initiative (GRI). The performance data is assured by a third party.

**Legal proceedings**

On January 12, 2015, Apple filed a lawsuit asking the United States District Court for the Northern District of California to find that it does not infringe a small subset of Ericsson's patents. On January 14, 2015, following Apple's legal action, Ericsson filed a complaint in the United States District Court for the Eastern District of Texas requesting a ruling on Ericsson's proposed global licensing fees with Apple. During the past two years of negotiations, the companies have not been able to reach an agreement on licensing of Ericsson's patents that enable Apple's mobile devices to connect with the world and power many of their applications. Ericsson filed the suit in order to receive an independent assessment on whether Ericsson's global licensing offer complies with Ericsson's FRAND commitment.

The global license agreement for mobile technology between Ericsson and Apple has expired and Apple has declined to take a new license on offered FRAND terms.

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On February 26, 2015, Ericsson filed two complaints with the International Trade Commission (ITC) and seven complaints in the United States District Court for the Eastern District of Texas against Apple, asserting 41 patents covering many aspects of Apple's iPhones and iPads. The patents include standard essential patents related to the 2G and 4G/LTE standards as well as other patents that are critical to non-standardized features and functionality of Apple devices. Ericsson seeks exclusion orders in the ITC proceedings and damages and injunctions in the District Court actions.

In 2013, Adaptix Inc. ( Adaptix ) filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents purportedly assigned to Adaptix. The trial is currently anticipated to take place in May 2015 and Adaptix seeks damages and an injunction.

On May 20, 2014, Adaptix filed three more patent infringement lawsuits against Ericsson in the same court regarding three US patents, all of which are also included in the 2013 lawsuit. One of the 2014 lawsuits accuses Ericsson's LTE products and Sprint's use thereof of infringement, one accuses Ericsson's LTE products and Verizon's use thereof of infringement, and one accuses Ericsson's LTE products and T-Mobile's use thereof of infringement.

In January 2015, Adaptix filed one more lawsuit in the same court alleging that Ericsson's LTE products, and Sprint and Verizon's use thereof, infringe one U.S. patent.

In addition to its complaint filed in 2013 with the Tokyo District Court, Adaptix filed another lawsuit in Japan in September 2014 alleging that Ericsson's LTE products infringe another Japanese patent. In the lawsuits in Japan, Adaptix is also seeking damages and an injunction.

In 2013, Ericsson filed a patent infringement lawsuit in the Delhi High Court against Indian handset company Micromax, seeking damages and an injunction. As part of its defense, Micromax filed a complaint with the Competition Commission of India (CCI) and the CCI has decided to refer the case to the Director General's Office for an in-depth investigation.

In January 2014, the CCI opened another investigation against Ericsson based on claims made by Intex Technologies (India) Limited. Ericsson has made numerous attempts to sign a license agreement with both Micromax and Intex on Fair, Reasonable and Non-discriminatory (FRAND) terms.

In 2012, Wi-LAN Inc., a Canadian patent licensing company, filed a complaint against Ericsson in the US District Court for the Southern District of Florida alleging that Ericsson's LTE products infringe three of Wi-LAN's US patents.

In June 2013, Ericsson's motion for summary judgment was granted and in August 2014, the decision was reversed by the United States Court of Appeals for the Federal Circuit. As a result, the case is back before the Florida court. Trial is currently scheduled for May 2015.

In 2011, TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent, the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) in the US District Court for the Eastern District of Pennsylvania for purported federal antitrust violations. The complaint alleged that Ericsson, Qualcomm and Alcatel-Lucent illegally conspired to block the adoption of TruePosition's proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. In July 2014, Ericsson and TruePosition reached an amicable settlement. As part of the settlement, Ericsson did not pay TruePosition any money to settle the case and TruePosition withdrew its allegations of wrongdoing against Ericsson.

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**Parent Company**

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

The Parent Company has 5 (5) branch offices. In total, the Group has 81 (81) branch and representative offices.

**Financial information**

Income after financial items was SEK 25.6 (7.2) billion. The Parent Company had no sales in 2014 or 2013 to subsidiaries, while 54% (30%) of total purchases of goods and services were from such companies.

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

In 2012, a provision of SEK 3.3 billion was recognized, which provides for Ericsson's share of obligations for the wind-down of ST-Ericsson. In 2013 and 2014, SEK 2.6 billion has been utilized or reversed, which resulted in a net liability of SEK 0.7 billion.

Increased current and non-current receivables from subsidiaries of SEK 9.6 billion.

Decreased other current receivables of SEK 0.2 billion.

Decreased cash, cash equivalents and short-term investments of SEK 3.5 billion.

Decreased current and non-current liabilities to subsidiaries of SEK 3.8 billion.

Increased other current liabilities of SEK 3.0 billion.

At year-end, cash, cash equivalents and short-term investments amounted to SEK 55.0 (58.5) billion.

**Share information**

As of December 31, 2014, the total number of shares in issue was 3,305,051,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,043,295,752 were Class B shares, each carrying one tenth of one vote. Both classes of shares have the same rights of participation in the net assets and earnings. The two largest shareholders at year-end were Investor AB and AB Industrivärden holding 21.50% and 15.20% respectively of the voting rights in the Parent Company.

In accordance with the conditions of the Long-Term Variable Compensation Program (LTV) for Ericsson employees, 10,517,620 treasury shares were sold or distributed to employees in 2014. The quotient value of these shares was SEK 5.00, totaling SEK 52.6 million, representing less than 1% of capital stock, and compensation received for shares sold and distributed shares amounted to SEK 129.2 million.

The holding of treasury stock at December 31, 2014 was 63,450,558 Class B shares.



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The quotient value of these shares is SEK 5.00, totaling SEK 317.3 million, representing 1.9% of capital stock, and the purchase price amounts to SEK 490.3 million.

### **Proposed disposition of earnings**

The Board of Directors proposes that a dividend of SEK 3.40 (3.00) per share be paid to shareholders duly registered on the record date April 16, 2015, and that the Parent Company shall retain the remaining part of non-restricted equity.

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

Amount to be paid to the shareholders	SEK 11,237,175,899
Amount to be retained by the Parent Company	SEK 26,633,889,879
Total non-restricted equity of the Parent Company	SEK 37,871,065,778

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company's and the Group's need for financial resources as well as the Parent Company's and the Group's liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 49.5% (53%) and a net cash amount of SEK 27.6 (37.8) billion.

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

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

### **Subsequent events**

Effective January 15, 2015 Johan Wibergh left his previous position as Executive Vice President and Head of Segment Networks, to take on a role outside of Ericsson. Wibergh joined Ericsson in 1996 and has since held a number of executive positions within the company. Since 2008, Wibergh has also been part of Ericsson's Executive Leadership Team.

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Although stepping down from his position immediately, Johan Wibergh will remain available to Ericsson until April 30, 2015 when he formally leaves the company. Effective January 15, 2015, Hans Vestberg will, in addition to his role as President and CEO, assume the role as Head of Segment Networks.

Rockstar Consortium LLC (Rockstar) is a company that was formed in 2011 by Apple, Blackberry, Ericsson, Microsoft, and Sony to purchase approximately 4,000 patent assets out of the original about 6,000 from the Nortel bankruptcy estate. On December 23, 2014, it was agreed among the owners of Rockstar and RPX Corporation (RPXC) that RPX should purchase the remaining patents of Rockstar. The transaction occurred in 2015 and the impact on income will not be material in 2015.

**Board assurance**

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB and adopted by the EU, and give a fair view of the Group's financial position and results of operations.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***To the Shareholders of Telefonaktiebolaget LM Ericsson (publ)*

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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 Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Stockholm, March 31, 2015

By: /s/ PricewaterhouseCoopers  
Name: PricewaterhouseCoopers AB

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**CONSOLIDATED FINANCIAL STATEMENTS****Consolidated income statement**

January	December, SEK million	Notes	2014	2013	2012
Net sales		<b>C3, C4</b>	227,983	227,376	227,779
Cost of sales			145,556	151,005	155,699
<b>Gross income</b>			<b>82,427</b>	<b>76,371</b>	<b>72,080</b>
Gross margin (%)			36.2%	33.6%	31.6%
Research and development expenses			36,308	32,236	32,833
Selling and administrative expenses			27,100	26,273	26,023
<b>Operating expenses</b>			<b>63,408</b>	<b>58,509</b>	<b>58,856</b>
Other operating income and expenses		<b>C6</b>	2,156	113	8,965 <sup>1)</sup>
<b>Operating income before shares in earnings of joint ventures and associated companies</b>			<b>16,863</b>	<b>17,975</b>	<b>22,189</b>
Operating margin before shares in earnings of joint ventures and associated companies (%)			7.4%	7.9%	9.7%
Share in earnings of joint ventures and associated companies		<b>C3, C12</b>	56	130	11,731
<b>Operating income</b>		<b>C3</b>	<b>16,807</b>	<b>17,845</b>	<b>10,458</b>
Financial income		<b>C7</b>	1,277	1,346	1,708
Financial expenses		<b>C7</b>	2,273	2,093	1,984
<b>Income after financial items</b>			<b>15,811</b>	<b>17,098</b>	<b>10,182</b>
Taxes		<b>C8</b>	4,668	4,924	4,244
<b>Net income</b>			<b>11,143</b>	<b>12,174</b>	<b>5,938</b>
Net income attributable to:					
Stockholders of the Parent Company			11,568	12,005	5,775
Non-controlling interest			425	169	163
Other information					
Average number of shares, basic (million)		<b>C9</b>	3,237	3,226	3,216
Earnings per share attributable to stockholders of the Parent Company, basic (SEK) <sup>2)</sup>		<b>C9</b>	3.57	3.72	1.80
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK) <sup>2)</sup>		<b>C9</b>	3.54	3.69	1.78

1) Includes gain on sale of Sony Ericsson of SEK 7.7 billion.

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

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**Consolidated statement of comprehensive income**

January	December, SEK million	2014	2013	2012
<b>Net income</b>		<b>11,143</b>	<b>12,174</b>	<b>5,938</b>
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of defined benefits pension plans including asset ceiling		10,017	3,214	451
Tax on items that will not be reclassified to profit or loss		2,218	1,235	59
<i>Items that may be reclassified to profit or loss</i>				
Cash flow hedges				
Gains/losses arising during the period			251	1,668
Reclassification adjustments for gains/losses included in profit or loss			1,072	568
Adjustments for amounts transferred to initial carrying amount of hedged items				92
Revaluation of other investments in shares and participations				
Fair value remeasurement		47	71	6
Changes in cumulative translation adjustments		8,734	1,687	3,947
Share of other comprehensive income of joint ventures and associated companies		579	14	486
Tax on items that may be reclassified to profit or loss		5	179	363
<b>Total other comprehensive income, net of tax</b>		<b>1,566</b>	<b>293</b>	<b>4,108</b>
<b>Total comprehensive income</b>		<b>12,709</b>	<b>11,881</b>	<b>1,830</b>
Total comprehensive income attributable to:				
Stockholders of the Parent Company		12,981	11,712	1,716
Non-controlling interests		272	169	114

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**Consolidated balance sheet**

December 31, SEK million	Notes	2014	2013
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	<b>C10, C26</b>		
Capitalized development expenses		3,570	3,348
Goodwill		38,330	31,544
Intellectual property rights, brands and other intangible assets		12,534	12,815
Property, plant and equipment	<b>C11, C26, C27</b>	13,341	11,433
Financial assets			
Equity in joint ventures and associated companies	<b>C12</b>	2,793	2,568
Other investments in shares and participations	<b>C12</b>	591	505
Customer finance, non-current	<b>C12</b>	1,932	1,294
Other financial assets, non-current	<b>C12</b>	5,900	5,684
Deferred tax assets	<b>C8</b>	12,778	9,103
		<b>91,769</b>	<b>78,294</b>
<b>Current assets</b>			
Inventories	<b>C13</b>	28,175	22,759
Trade receivables	<b>C14</b>	77,893	71,013
Customer finance, current	<b>C14</b>	2,289	2,094
Other current receivables	<b>C15</b>	21,273	17,941
Short-term investments	<b>C20</b>	31,171	34,994
Cash and cash equivalents	<b>C25</b>	40,988	42,095
		<b>201,789</b>	<b>190,896</b>
<b>Total assets</b>		<b>293,558</b>	<b>269,190</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Stockholders equity	<b>C16</b>	144,306	140,204
Non-controlling interest in equity of subsidiaries		1,003	1,419
		<b>145,309</b>	<b>141,623</b>
<b>Non-current liabilities</b>			
Post-employment benefits	<b>C17</b>	20,385	9,825
Provisions, non-current	<b>C18</b>	202	222
Deferred tax liabilities	<b>C8</b>	3,177	2,650
Borrowings, non-current	<b>C19, C20</b>	21,864	22,067
Other non-current liabilities		1,797	1,459
		<b>47,425</b>	<b>36,223</b>
<b>Current liabilities</b>			
Provisions, current	<b>C18</b>	4,225	5,140
Borrowings, current	<b>C19, C20</b>	2,281	7,388
Trade payables	<b>C22</b>	24,473	20,502
Other current liabilities	<b>C21</b>	69,845	58,314

	<b>100,824</b>	<b>91,344</b>
<b>Total equity and liabilities<sup>1)</sup></b>	<b>293,558</b>	<b>269,190</b>

1) Of which interest-bearing liabilities and post-employment benefits SEK 44,530 (39,280) million.

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**Consolidated statement of cash flows**

January	December, SEK million	Notes	2014	2013	2012
<b>Operating activities</b>					
Net income			11,143	12,174	5,938
Adjustments to reconcile net income to cash		<b>C25</b>	11,200	9,828	13,077
			<b>22,343</b>	<b>22,002</b>	<b>19,015</b>
<b>Changes in operating net assets</b>					
Inventories			2,924	4,868	2,752
Customer finance, current and non-current			710	1,809	1,259
Trade receivables			1,182	8,504	1,103
Trade payables			1,265	2,158	1,311
Provisions and post-employment benefits			859	3,298	1,920
Other operating assets and liabilities, net			1,595	2,670	5,857
			<b>3,641</b>	<b>4,613</b>	<b>3,016</b>
<b>Cash flow from operating activities</b>			<b>18,702</b>	<b>17,389</b>	<b>22,031</b>
<b>Investing activities</b>					
Investments in property, plant and equipment		<b>C11</b>	5,322	4,503	5,429
Sales of property, plant and equipment			522	378	568
Acquisitions of subsidiaries and other operations		<b>C25, C26</b>	4,442	3,147	11,529
Divestments of subsidiaries and other operations		<b>C25, C26</b>	48	465	9,452
Product development		<b>C10</b>	1,523	915	1,641
Other investing activities			3,392	1,330	1,540
Short-term investments			6,596	2,057	2,151
<b>Cash flow from investing activities</b>			<b>7,513</b>	<b>11,109</b>	<b>4,888</b>
<b>Cash flow before financing activities</b>			<b>11,189</b>	<b>6,280</b>	<b>17,143</b>
<b>Financing activities</b>					
Proceeds from issuance of borrowings			1,282	5,956	8,969
Repayment of borrowings			9,384	5,094	9,670
Proceeds from stock issue					159
Sale/repurchase of own shares				90	93
Dividends paid			9,846	9,153	8,632
Other financing activities			277	1,307	118
<b>Cash flow from financing activities</b>			<b>18,225</b>	<b>9,508</b>	<b>9,385</b>
Effect of exchange rate changes on cash			5,929	641	1,752
<b>Net change in cash</b>			<b>1,107</b>	<b>2,587</b>	<b>6,006</b>
<b>Cash and cash equivalents, beginning of period</b>			<b>42,095</b>	<b>44,682</b>	<b>38,676</b>
<b>Cash and cash equivalents, end of period</b>			<b>40,988</b>	<b>42,095</b>	<b>44,682</b>



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

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**Consolidated statement of changes in equity****Equity and Other comprehensive income 2014**

SEK million	Capital stock	Additional paid in capital	Retained earnings	Stock-holders equity	Non-controlling interest	Total equity
<b>January 1, 2014</b>	<b>16,526</b>	<b>24,731</b>	<b>98,947</b>	<b>140,204</b>	<b>1,419</b>	<b>141,623</b>
<b>Net income</b>						
Group			11,624	11,624	425	11,199
Joint ventures and associated companies			56	56		56
<b>Other comprehensive income</b>						
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurements related to post-employment benefits						
Group			10,014	10,014	3	10,017
Tax on items that will not be reclassified to profit or loss			2,218	2,218		2,218
<b>Items that may be reclassified to profit or loss</b>						
Cash flow hedges						
Gains/losses arising during the year						
Group						
Reclassification adjustments for gains/losses included in profit or loss						
Revaluation of other investments in shares and participations						
Group			47	47		47
Changes in cumulative translation adjustments						
Group			8,578	8,578 <sup>1)</sup>	156	8,734
Joint ventures and associated companies			579	579		579
Tax on items that may be reclassified to profit or loss <sup>2)</sup>			5	5		5
<b>Total other comprehensive income, net of tax</b>			<b>1,413</b>	<b>1,413</b>	<b>153</b>	<b>1566</b>
<b>Total comprehensive income</b>			<b>12,981</b>	<b>12,981</b>	<b>272</b>	<b>12,709</b>
<b>Transactions with owners</b>						
Stock issue						
Sale/repurchase of own shares			106	106		106
Stock purchase plans						
Group			717	717		717
Joint ventures and associated companies						
Dividends paid			9,702	9,702	144	9,846
Transactions with non-controlling interest						
<b>December 31, 2014</b>	<b>16,526</b>	<b>24,731</b>	<b>103,049</b>	<b>144,306</b>	<b>1,003</b>	<b>145,309</b>

1) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 4,794 million (SEK 204 million in 2013 and SEK 1,400 million in 2012), and realized gain/losses net from sold/liquidated companies, SEK 3 million (SEK 20 million in 2013 and SEK 461 million in 2012).

- 2) For further disclosures, see Note C8, Taxes.
- 3) Dividends paid per share amounted to SEK 3.00 (SEK 2.75 in 2013 and SEK 2.50 in 2012).

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**Equity and Other comprehensive income 2013**

SEK million	Capital stock	Additional paid in capital	Retained earnings	Stock-holders equity	Non-controlling interest	Total equity
<b>January 1, 2013</b>	<b>16,526</b>	<b>24,731</b>	<b>95,626</b>	<b>136,883</b>	<b>1,600</b>	<b>138,483</b>
<b>Net income</b>						
Group			12,135	12,135	169	12,304
Joint ventures and associated companies			130	130		130
<b>Other comprehensive income</b>						
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurements related to post-employment benefits						
Group			3,214	3,214		3,214
Tax on items that will not be reclassified to profit or loss			1,235	1,235		1,235
<b>Items that may be reclassified to profit or loss</b>						
Cash flow hedges						
Gains/losses arising during the year						
Group			251	251		251
Reclassification adjustments for gains/losses included in profit or loss			1,072	1,072		1,072
Revaluation of other investments in shares and participations						
Group			71	71		71
Changes in cumulative translation adjustments						
Group			1,687	1,687	0	1,687
Joint ventures and associated companies			14	14		14
Tax on items that may be reclassified to profit or loss			179	179		179
<b>Total other comprehensive income, net of tax</b>			<b>293</b>	<b>293</b>		<b>293</b>
<b>Total comprehensive income</b>			<b>11,712</b>	<b>11,712</b>	<b>169</b>	<b>11,881</b>
<b>Transactions with owners</b>						
Stock issue						
Sale/repurchase of own shares			90	90		90
Stock purchase plans						
Group			388	388		388
Joint ventures and associated companies						
Dividends paid			8,863	8,863	290	9,153
Transactions with non-controlling interest			6	6	60	66
<b>December 31, 2013</b>	<b>16,526</b>	<b>24,731</b>	<b>98,947</b>	<b>140,204</b>	<b>1,419</b>	<b>141,623</b>

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**Equity and Other comprehensive income 2012**

SEK million	Capital stock	Additional paid in capital	Retained earnings	Stockholders equity	Non-controlling interest	Total equity
<b>January 1, 2012</b>	<b>16,367</b>	<b>24,731</b>	<b>102,007</b>	<b>143,105</b>	<b>2,165</b>	<b>145,270</b>
<b>Net income</b>						
Group			17,411	17,411	163	17,574
Joint ventures and associated companies			11,636	11,636		11,636
<b>Other comprehensive income</b>						
<b>Items that will not be reclassified to profit or loss</b>						
<b>Remeasurements related to post-employment benefits</b>						
Group			451	451		451
Joint ventures and associated companies			50	50		50
Tax on items that will not be reclassified to profit or loss			59	59		59
<b>Items that may be reclassified to profit or loss</b>						
<b>Cash flow hedges</b>						
<b>Gains/losses arising during the year</b>						
Group			1,668	1,668		1,668
Joint ventures and associated companies			25	25		25
Reclassification adjustments for gains/losses included in profit or loss			568	568		568
Adjustment for amounts transferred to initial carrying amount of hedged items			92	92		92
Revaluation of other investments in shares and participations			6	6		6
Group			6	6		6
<b>Changes in cumulative translation adjustments</b>						
Group			3,898	3,898	49	3,947
Joint ventures and associated companies			511	511		511
Tax on items that may be reclassified to profit or loss			363	363		363
<b>Total other comprehensive income, net of tax</b>			<b>4,059</b>	<b>4,059</b>	<b>49</b>	<b>4,108</b>
<b>Total comprehensive income</b>			<b>1,716</b>	<b>1,716</b>	<b>114</b>	<b>1,830</b>
<b>Transactions with owners</b>						
Stock issue	159			159		159
Sale/repurchase of own shares			93	93		93
<b>Stock purchase plans</b>						
Group			405	405		405
Joint ventures and associated companies						
Dividends paid			8,033	8,033	599	8,632
Transactions with non-controlling interest			376	376	80	456
<b>December 31, 2012</b>	<b>16,526</b>	<b>24,731</b>	<b>95,626</b>	<b>136,883</b>	<b>1,600</b>	<b>138,483</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**C1 Significant accounting policies**

**Introduction**

The consolidated financial statements comprise Telefonaktiebolaget LM Ericsson, the Parent Company, and its subsidiaries ( the Company ) and the Company s interests in joint ventures and associated companies. The Parent Company is domiciled in Sweden at Torshamnsgatan 21, SE-164 83 Stockholm.

The consolidated financial statements for the year ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 Additional rules for Group Accounting, related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2014, the Company has applied IFRS as issued by the IASB (IFRS effective as per December 31, 2014). There is no difference between IFRS effective as per December 31, 2014, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS, for all periods presented.

The financial statements were approved by the Board of Directors on February 20, 2015. The balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2014 are as follows:

**Amendment to IAS 32, Financial instruments: Presentation, on asset and liability offsetting.** This amendment is related to the application of guidance in IAS 32, Financial instruments: Presentation, and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

**IFRIC 21, Levies.** This sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to the need to pay a levy and when a liability should be recognized.

None of the new or amended standards and interpretations have had any significant impact on the financial result or position nor on the disclosure of the Company.

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

**Basis of presentation**

The financial statements are presented in millions of Swedish Krona (SEK). They are prepared on a historical cost basis, except for certain financial assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and plan assets related to defined benefit pension plans. Financial information in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity with related notes are presented with two comparison years while for the consolidated balance sheet financial information with related notes is presented with only one comparison year.

**Basis of consolidation and composition of the group**

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

Subsidiaries are all companies for which Telefonaktiebolaget LM Ericsson, directly or indirectly, is the parent. To be classified as a parent, Telefonaktiebolaget LM Ericsson, directly or indirectly, must control another company which requires that the Parent Company has power over that other company, is exposed to variable returns from its involvement and has the ability to use its power over that other company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that such control ceases.

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

The Company is composed of a parent company, Telefonaktiebolaget LM Ericsson, with generally fully-owned subsidiaries in many countries of the world. The largest operating subsidiaries are the fully-owned telecom vendor companies Ericsson AB, incorporated in Sweden and Ericsson Inc., incorporated in the US.

### **Business combinations**

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

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

### **Non-controlling interest**

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

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

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

### **Joint ventures and associated companies**

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

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If the Company's interest in an associated company or joint venture is nil, the Company shall not, as prescribed by IFRS, recognize its part of any future losses. Provisions related to obligations for such an interest shall, however, be recognized in relation to such an interest.

JVs are classed as ownership interests under which the Company has joint control of another company.

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

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

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

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

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

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

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

**Foreign currency remeasurement and translation**

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

**Transactions and balances**

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

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

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

**Group companies**



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

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

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

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

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

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

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

### **Statement of cash flows**

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

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

### **Revenue recognition**

#### **Background**

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

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

#### **Accounting treatment**

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

The product or service has been delivered

The revenue amount is fixed or determinable

The customer has received and activation has been made of separately sold software

Collection is reasonably assured

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

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

Delivery-type contracts These contracts relate to delivery, installation, integration of products and provision of related services, normally under multiple elements contracts. Under multiple elements contracts, accounting is based on that the revenue recognition

criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Support Solutions have contracts that relate to this type of arrangement.

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

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Contracts generating license fees from third parties for the use of the Company's intellectual property rights. License fees are normally measured as a percentage of sales or currency amount per unit and recognized over the license period as the amount of the consideration becomes reasonably certain. Networks and Support Solutions have contracts that relate to this type of arrangement. For sales between consolidated companies, associated companies, joint ventures and segments, the Company applies arm's length pricing.

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

**Earnings per share**

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

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

Rights to matching shares are considered dilutive when the actual fulfillment of any performance conditions as of the reporting date would give a right to ordinary shares.

**Financial assets**

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

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

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

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

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

**Financial assets at fair value through profit or loss**

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

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

Gains or losses arising from changes in the fair values of the Financial assets at fair value through profit or loss category (excluding derivatives) are presented in the income statement within Financial income in the period in which they arise. Derivatives are presented in the income

statement either as Cost of sales, Other operating income, Financial income or Financial expense, depending on the intent with the transaction.

### **Loans and receivables**

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

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

### **Available-for-sale financial assets**

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

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

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

### **Impairment**

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

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

### **Financial liabilities**

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

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

### **Borrowings**

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

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

**Trade payables**

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

**Hedge accounting**

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

- a) Fair value hedges: a hedge of the fair value of recognized liabilities;
- b) Net investment hedges: a hedge of a net investment in a foreign operation.

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

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

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

**Fair value hedges**

The purpose of fair value hedges is to hedge the variability in the fair value of fixed-rate debt (issued bonds) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments to a floating rate (e.g., STIBOR or LIBOR) by using interest rate swaps (IRS). The credit risk/spread is not hedged. The fixed leg of the IRS is matched against the cash flows of the hedged bond. Hereby, the fixed-rate bond/debt is converted into a floating-rate debt in accordance with the policy.

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

**Net investment hedges**

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the cumulative translation adjustment (CTA). A gain or loss relating to an ineffective portion is recognized immediately in the income statement within Financial income or expense. Gains and losses deferred in CTA are included in the income statement when the foreign operation is partially disposed of or sold.

### **Financial guarantees**

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

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

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

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

### **Inventories**

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

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

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

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

### **Intangible assets**

#### **Intangible assets other than goodwill**

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

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economic feasibility has been established until the product is available for sale or use. Research and development expenses directly related to orders from customers are accounted for as a part of Cost of sales. Other research and development expenses are charged to income as incurred. Amortization of acquired intangible assets, such as patents, customer relations, trademarks and software, is made according to the straight-line method over their estimated useful lives, not exceeding ten years. However, if the economic benefit related to an item of intangible assets is front-end loaded the amortization method reflects this. Thus, the amortization for such an item is amortized on a digressive curve basis and the asset value decreases by higher amounts in the beginning of its useful life compared to the end.

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

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





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

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

**Goodwill**

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

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

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

**Property, plant and equipment**

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

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

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

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

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

**Leasing****Leasing when the Company is the lessee**

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

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

**Leasing when the Company is the lessor**

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

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

### **Income taxes**

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

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

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

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

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

### **Provisions and contingent liabilities**

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

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

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

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

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

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

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

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

Certain present obligations are not recognized as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities. For further detailed information, see Note C24, Contingent liabilities. In Note C2, Critical accounting estimates and judgments, further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

**Post-employment benefits**

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

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

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

Interest cost on the defined benefit obligation and interest income on plan assets is calculated as a net interest amount by applying the discount rate to the net defined benefit liability. All past service costs are recognized immediately. Swedish special payroll tax is accounted for as a part of the pension cost and the pension liability respectively.

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Payroll taxes related to actuarial gains and losses are included in determining actuarial gains and losses, reported under OCI.

In Note C2, Critical accounting estimates and judgments, further disclosure is presented in relation to key sources of estimation uncertainty.

**Share-based compensation to employees and the Board of Directors**

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

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

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

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

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

**Compensation to employees**

*Stock purchase plans*

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

**Compensation to the Board of Directors**

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

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for the program on a pro rata basis during the service period, being one year. The estimated costs are remeasured during and at the end of the service period.

**Segment reporting**

An operating segment is a component of a company whose operating results are regularly reviewed by the Company's chief operating decision maker, (CODM), to make decisions about resources to be allocated to the segment and assess its performance. The President and the Chief Executive Officer is defined as the CODM function in the Company.

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

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

**New standards and interpretations not yet adopted**

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2014 and have not been applied in preparing these consolidated financial statements.

Below is a list of applicable standards/interpretations, that have been issued and are effective for periods as described per standard.

**IFRS 9, Financial instruments.** The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This standard is effective as from January 1, 2018. The EU has not yet endorsed IFRS 9, Financial instruments. The Company has not yet finalized the evaluation of any impact on financial result or position.

**IFRS 15, Revenue from Contracts with Customers,** Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective as from January 1, 2017. The EU has not yet endorsed IFRS 15, Revenue from Contracts with Customers. The Company has not yet finalized the evaluation of any impact on financial result or position.

**C2 Critical accounting estimates and judgments**

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

The information in this note is grouped as per:



Key sources of estimation uncertainty

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

**Revenue recognition**

*Key sources of estimation uncertainty*

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

*Judgments made in relation to accounting policies applied*

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

**Trade and customer finance receivables**

*Key sources of estimation uncertainty*

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2014, were SEK 1.5 (1.2) billion or 1.8% (1.6%) of gross trade and customer finance receivables.

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

**Inventory valuation**

*Key sources of estimation uncertainty*

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2014, amounted to SEK 2.3 (2.5) billion or 8% (10%) of gross inventory.

**Deferred taxes**

*Key sources of estimation uncertainty*

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

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

At December 31, 2014, the value of deferred tax assets amounted to SEK 12.8 (9.1) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

**Accounting for income tax, value added tax, and other taxes**

*Key sources of estimation uncertainty*

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

**Acquired intellectual property rights and other intangible assets, including goodwill**

*Key sources of estimation uncertainty*

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition, impairment testing is performed whenever there is an indication of impairment, except in the case of goodwill for which impairment testing is performed at least

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once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges.

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

At December 31, 2014, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 50.9 (44.4) billion, including goodwill of SEK 38.3 (31.5) billion.

*Judgments made in relation to accounting policies applied*

At initial recognition and subsequent remeasurement, management judgments are made, both for key assumptions and regarding impairment indicators. In the purchase price allocation made for each acquisition, the purchase price shall be assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill.

This allocation requires management judgment as well as the definition of cash-generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

**Provisions**

**Warranty provisions**

*Key sources of estimation uncertainty*

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions regarding future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2014, amounted to SEK 0.8 (0.9) billion.

**Provisions other than warranty provisions**

*Key sources of estimation uncertainty*

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2014, provisions other than warranty commitments amounted to SEK 3.6 (4.5) billion. For further detailed information, see Note C18, Provisions.

*Judgments made in relation to accounting policies applied*

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

**Contingent liabilities**

*Key sources of estimation uncertainty*

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

*Judgments made in relation to accounting policies applied*

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

**Pension and other post-employment benefits**

*Key sources of estimation uncertainty*

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company's pension plans. At December 31, 2014, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 73.8 (52.9) billion and fair value of plan assets to SEK 56.9 (46.6) billion. For more information on estimates and assumptions, see Note C17, Post-employment benefits.

**Foreign exchange risks**

*Key sources of estimation uncertainty*

Foreign exchange risk impacts the financial results of the Company: see further disclosure in Note C20, Financial Risk Management and Financial Instruments, under Foreign Exchange Risk.

**C3 Segment information**

**Operating segments**

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

Networks

Global Services

Support Solutions

Modems

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

Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs. The RBS 6000 supports all major standardized mobile technologies

IP routing and transport solutions based on the smart services routers, (the SSR 8000 family of products), Ericsson's evolved IP network as well as backhaul including microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks

Core networks are based on the Ericsson Blade Server platform and include solutions such as the IMS

A cloud platform that can handle all types of workloads for all clouds; telecom cloud, IT cloud and commercial cloud.

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Operations Support Systems (OSS), supporting operators' management of existing networks and introduction of new technologies and services.

**Global Services** delivers managed services, product-related services, consulting and systems integration services as well as broadcast and media services. The offering includes:

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

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

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Consulting and Systems Integration: Technology and operational consulting; integration of multi-vendor equipment; design and integration of new solutions and transforming programs.

Broadcast Services: Services include responsibility for technical platforms and operational services related to TV content management, playout and service provisioning.

Industry and Society: All above types of services for industry-specific solutions, primarily in the areas of utilities, transport & public safety.

**Support Solutions** provides software suites for operators. The offering includes:

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

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

TV & Media solutions: a suite of open, standards-based solutions and products for the creation, management and delivery of TV on any device over any network, including a TV platform for content creation, content management, on-demand video delivery, advanced video compression and video-optimized delivery network infrastructure.

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

**Modems** performs design, development and sales of the LTE multimode thin modems solutions, including 2G, 3G and 4G interoperability. Modems was consolidated into Ericsson in late 2013. Since the integration, the addressable market for thin modems has been reduced. In addition, there is strong competition, price erosion and an accelerating pace of technology innovation. As a consequence, Ericsson announced, on September 18, 2014, the discontinuation of further development of modems. Modems will have no impact on Group profit and loss from the second half of 2015.

### **Former segments**

**ST-Ericsson** was a joint venture between Ericsson and STMicroelectronics. In 2013, the joint venture was closed and all business was either split up between parents or divested. As of January 1, 2013, ST-Ericsson is no longer reported as a separate segment.

Ericsson acquired the LTE thin-modem operations which was consolidated in a new segment entitled Modems.

As of December 31, 2012 there were no remaining investments related to ST-Ericsson on the Company's balance sheet. For more information, see Note C12, Financial assets.

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

### **Unallocated**

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

### **Regions**

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

North America

Latin America

Northern Europe & Central Asia

Western and Central Europe

Mediterranean

Middle East

Sub-Saharan Africa

India

North East Asia

South East Asia & Oceania

Other.

Region Other includes licensing revenues, broadcast services, power modules, mobile broadband modules, Ericsson-LG Enterprise and other businesses.

### **Major customers**

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company's total revenues for the years 2014, 2013 or 2012.

Ericsson derives most of its sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of more than 500, mainly consisting of network operators, the 10 largest customers accounted for 47% (44%) of net sales. The largest customer accounted for approximately 8% (8%) of sales in 2014.

For more information, see Risk Factors, Market, Technology and Business Risks.



**Marketing channels**

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

Customer engagement with a consultative approach

Selective focus on events and experience centers for customer experience and interaction

Continuous dialogue with customers and target audiences through social and other digital media (including virtual events)

Activation of the open social and digital media landscape to strengthen message reach and impact

Execution of solutions-driven programs, aligned globally and regionally.

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**Operating segments 2014**

	Networks	Global Services	Support Solutions	Modems	Total Segments	Unallocated	Group
Segment sales	117,487	97,659	12,655	182	227,983	0	227,983
<b>Net sales</b>	<b>117,487</b>	<b>97,659</b>	<b>12,655</b>	<b>182</b>	<b>227,983</b>	<b>0</b>	<b>227,983</b>
<b>Operating income</b>	<b>13,544</b>	<b>6,067</b>	<b>31</b>	<b>2,025</b>	<b>17,555</b>	<b>748</b>	<b>16,807</b>
Operating margin (%)	12%	6%	0%		8%		7%
Financial income							1,277
Financial expenses							2,273
<b>Income after financial items</b>							<b>15,811</b>
Taxes							4,668
<b>Net income</b>							<b>11,143</b>
<b>Other segment items</b>							
Share in earnings of JV and associated companies	33	32	52	0	13	69	56
Amortization	3,497	1,036	902	168	5,603	5	5,598
Depreciation	3,225	820	124	160	4,329		4,329
Impairment losses	34	1	2	0	37		37
Reversals of impairment losses	14	4	0	1	19		19
Restructuring expenses	443	835	146	32	1,456		1,456
Gains/losses from divestments						36	36

**Operating segments 2013**

	Networks	Global Services	Support Solutions	Modems	Total Segments	Unallocated	Group
Segment sales	117,699	97,443	12,234		227,376		227,376
<b>Net sales</b>	<b>117,699</b>	<b>97,443</b>	<b>12,234</b>		<b>227,376</b>		<b>227,376</b>
<b>Operating income</b>	<b>11,318</b>	<b>6,185</b>	<b>1,455</b>	<b>543</b>	<b>18,415</b>	<b>570</b>	<b>17,845</b>
Operating margin (%)	10%	6%	12%		8%		8%
Financial income							1,346
Financial expenses							2,093
<b>Income after financial items</b>							<b>17,098</b>
Taxes							4,924
<b>Net income</b>							<b>12,174</b>
<b>Other segment items</b>							
Share in earnings of joint ventures and associated companies	155	60	58		153	23	130
Amortization	4,237	925	722	44	5,928		5,928
Depreciation	3,243	788	135	61	4,227		4,227

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Impairment losses	5	2	0	7		7
Reversals of impairment losses	19	5	1	25		25
Restructuring expenses	2,182	1,997	186	4,365	88	4,453
Gains/losses from divestments	621	166	105	892	51	841

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**Operating segments 2012**

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

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

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

**Regions**

	Net sales			Non-current assets <sup>5)</sup>		
	2014	2013	2012	2014	2013	2012
North America <sup>3)</sup>	54,509	59,339	56,749	16,148	13,290	15,058
Latin America	22,570	21,982	22,006	1,749	1,742	2,084
Northern Europe & Central Asia <sup>1)2)</sup>	12,373	11,618	11,345	43,868	38,522	38,335
Western & Central Europe <sup>2)</sup>	19,706	18,485	17,478	4,227	3,539	2,922

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Mediterranean <sup>2)</sup>	23,003	24,156	23,299	1,389	1,089	1,099
Middle East	21,277	17,438	15,556	100	46	32
Sub-Saharan Africa	8,749	10,049	11,349	54	32	119
India	7,702	6,138	6,460	471	439	460
North East Asia <sup>4)</sup>	27,572	27,398	36,196	2,217	2,667	3,371
South East Asia & Oceania	15,858	15,787	15,068	345	342	301
Other <sup>1)2)3)4)</sup>	14,664	14,986	12,273			
<b>Total</b>	<b>227,983</b>	<b>227,376</b>	<b>227,779</b>	<b>70,568</b>	<b>61,708</b>	<b>63,781</b>
<i>1) Of which in Sweden<sup>6)</sup></i>	<i>4,144</i>	<i>4,427</i>	<i>5,033</i>	<i>43,298</i>	<i>38,049</i>	<i>37,718</i>
<i>2) Of which in EU<sup>6)</sup></i>	<i>45,101</i>	<i>43,544</i>	<i>44,230</i>	<i>48,881</i>	<i>42,239</i>	<i>41,546</i>
<i>3) Of which in the United States<sup>6)</sup></i>	<i>55,722</i>	<i>59,085</i>	<i>56,698</i>	<i>13,116</i>	<i>11,173</i>	<i>13,003</i>
<i>4) Of which in China<sup>6)</sup></i>	<i>14,335</i>	<i>11,799</i>	<i>12,637</i>	<i>1,370</i>	<i>1,344</i>	<i>1,399</i>

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

6) Including IPR revenue reported under Other above.

For employee information, see Note C28, Information regarding members of the Board of Directors, the Group management and employees.

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**C4 Net sales****Net sales**

	2014	2013	2012
Sales of products and network rollout services <sup>1)</sup>	147,235	150,429	154,068
Professional Services sales	70,831	66,395	67,092
License revenues	9,917	10,552	6,619
<b>Net sales</b>	<b>227,983</b>	<b>227,376</b>	<b>227,779</b>
Export sales from Sweden	113,734	108,944	106,997

1) Entirely delivery-type contracts.

**C5 Expenses by nature****Expenses by nature**

	2014	2013	2012
Goods and services	126,401	129,453	137,769
Employee remuneration	75,950	65,064	64,100
Amortization and depreciation	9,927	10,155	9,546
Impairments and obsolescence allowances, net of reversals	1,138	537	1,999
Financial expenses	2,273	2,093	1,984
Taxes	4,668	4,924	4,244
<b>Expenses incurred</b>	<b>220,357</b>	<b>212,226</b>	<b>219,642</b>
Inventory increase/decrease ( / <sup>+</sup> )	2,929	5,220	2,782
Additions to capitalized development	1,523	915	1,641
<b>Expenses charged to the income statement</b>	<b>215,905</b>	<b>216,531</b>	<b>220,783</b>

1) The inventory changes are based on changes of gross inventory values prior to obsolescence allowances. Total restructuring charges in 2014 were SEK 1.5 (4.5) billion and were mainly related to the continued implementation of the service delivery strategy. Restructuring charges are included in the expenses presented above.

**Restructuring charges by function**

	2014	2013	2012
Cost of sales	1,029	2,657	2,225
R&D expenses	304	872	852

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Selling and administrative expenses	123	924	370
<b>Total restructuring charges</b>	<b>1,456</b>	<b>4,453</b>	<b>3,447</b>

**C6 Other operating income and expenses**

**Other operating income and expenses**

	2014	2013	2012
Gains on sales of intangible assets and PP&E	843	172	12
Losses on sales of intangible assets and PP&E	935	307	261
Gains on sales of investments and operations	8	69	8,462 <sup>1)</sup>
Losses on sales of investments and operations	44	910	126
<b>Capital gains/losses, net</b>	<b>128</b>	<b>976</b>	<b>8,087</b>
Other operating revenues/expenses	2,028	1,089 <sup>2)</sup>	878
<b>Total other operating income and expenses</b>	<b>2,156</b>	<b>113</b>	<b>8,965</b>

1) Includes a gain from the divestment of Sony Ericsson of SEK 7.7 billion.

2) Includes revaluation of cash flow hedges of SEK 2.8 (0.5) billion. For more information, see Note C1, Significant accounting policies.

## C7 Financial income and expenses

Financial income and expenses

	2014		2013		2012	
	Financial income	Financial expenses	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest on financial assets	713		971		1,685	
<i>Of which on financial assets at fair value through profit or loss</i>	297		597		1,308	
Contractual interest on financial liabilities		1,376		1,412		1,734
Net gains/losses on:						
Instruments at fair value through profit or loss <sup>1)</sup>	624	651	447	601	142	54
<i>Of which included in fair value hedge relationships</i>		123		196		129
Loans and receivables	70		75		127	
Liabilities at amortized cost		32		196		133
Other financial income and expenses	10	214	3	276	8	171
<b>Total</b>	<b>1,277</b>	<b>2,273</b>	<b>1,346</b>	<b>2,093</b>	<b>1,708</b>	<b>1,984</b>

- 1) Excluding net loss from operating assets and liabilities, SEK 143 million (net gain of SEK 49 million in 2013, SEK 1,299 million in 2012), reported as Cost of sales.



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**C8 Taxes**

The Company's tax expense for 2014 was SEK 4,668 (4,924) million or 29.5% (28.8%) of income after financial items. The tax rate may vary between years depending on business and geographical mix.

**Income taxes recognized in the income statement**

	2014	2013	2012
Current income taxes for the year	5,714	3,985	5,795
Current income taxes related to prior years	66	26	241
Deferred tax income/expense (+/ )	1,112	913	1,697
<b>Subtotal</b>	<b>4,668</b>	<b>4,924</b>	<b>4,339</b>
Share of taxes in joint ventures and associated companies			95
<b>Tax expense</b>	<b>4,668</b>	<b>4,924</b>	<b>4,244</b>

A reconciliation between reported tax expense for the year and the theoretical tax expense that would arise when applying statutory tax rate in Sweden, 22.0%, on the consolidated income before taxes, is shown in the table below.

**Reconciliation of Swedish income tax rate with effective tax rate**

	2014	2013	2012
Expected tax expense at Swedish tax rate 22.0%	3,479	3,762	2,678
Effect of foreign tax rates	856	935	581
<i>Of which joint ventures and associated companies</i>	2		778
Current income taxes related to prior years	66	26	241
Remeasurement of tax loss carry-forwards	51	165	134
Remeasurement of deductible temporary differences	459	86	468
Tax effect of non-deductible expenses	2,125	620	3,430
Tax effect of non-taxable income	2,383	199	2,573
Tax effect of changes in tax rates	15	31	489
<b>Tax expense</b>	<b>4,668</b>	<b>4,924</b>	<b>4,244</b>
<i>Effective tax rate</i>	<i>29.5%</i>	<i>28.8%</i>	<i>41.7%</i>

**Deferred tax balances**

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

**Tax effects of temporary differences and tax loss carry-forwards**

Deferred tax assets	Deferred tax liabilities	Net balance
---------------------	--------------------------	-------------

<b>2014</b>			
Intangible assets and property, plant and equipment	517	3,645	
Current assets	2,720	197	
Post-employment benefits	4,024	1,013	
Provisions	1,729	63	
Other	2,478	228	
Loss carry-forwards	3,279		
<b>Deferred tax assets/liabilities</b>	<b>14,747</b>	<b>5,146</b>	<b>9,601</b>
Netting of assets/liabilities	1,969	1,969	
<b>Deferred tax balances, net</b>	<b>12,778</b>	<b>3,177</b>	<b>9,601</b>
<b>2013</b>			
Intangible assets and property, plant and equipment	300	3,143	
Current assets	1,958	164	
Post-employment benefits	2,008	1,033	
Provisions	997	293	
Other	2,416	171	
Loss carry-forwards	3,578		
<b>Deferred tax assets/liabilities</b>	<b>11,257</b>	<b>4,804</b>	<b>6,453</b>
Netting of assets/liabilities	2,154	2,154	
<b>Deferred tax balances, net</b>	<b>9,103</b>	<b>2,650</b>	<b>6,453</b>

**Changes in deferred taxes, net**

	<b>2014</b>	<b>2013</b>
Opening balance, net	6,453	9,201
Recognized in Net income	1,112	913
Recognized in Other comprehensive income	2,223	1,056
Acquisitions/disposals of subsidiaries	377	663
Currency translation differences	190	116
<b>Closing balance, net</b>	<b>9,601</b>	<b>6,453</b>

Tax effects reported directly in Other comprehensive income amount to SEK 2,223 ( 1,056) million, of which actuarial gains and losses related to pensions constituted SEK 2,218 ( 1,231) million, cash flow hedges SEK 0 (179) million and deferred tax on gains/losses on hedges on investments in foreign entities SEK 5 ( 4) million.

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

Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly Sweden and Germany. Of the total SEK 3,279 (3,578) million recognized deferred tax assets related to tax loss carry-forwards, SEK 2,336 (2,177) million relates to Sweden with indefinite periods of utilization. Due to the Company's strong current financial position and taxable income during 2014, the Company has been able to utilize part of its tax loss carry-forwards during the year. The assessment is that the Company will be able to generate sufficient income in the coming years to also utilize the remaining part of the recognized amounts.

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**Tax loss carry-forwards**

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

As of December 31, 2014, the recognized tax loss carry-forwards amounted to SEK 13,503 (14,093) million. The tax value of these tax loss carry-forwards is reported as an asset.

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

**Tax loss carry-forwards: year of expiration**

<b>Year of expiration</b>	<b>Tax loss carry-forwards</b>	<b>Tax value</b>
2015	516	182
2016	214	79
2017	41	16
2018	24	8
2019	41	14
2020 or later	12,667	2,980
<b>Total</b>	<b>13,503</b>	<b>3,279</b>

In addition to the table above there are loss carry-forwards of SEK 4,572 (3,518) million at a tax value of SEK 1,216 (1,019) million that have not been recognized due to judgments of the possibility they will be used against future taxable profits in the respective jurisdictions. The majority of these loss carry-forwards have an expiration date in excess of five years.

**C9 Earnings per share****Earnings per share**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Basic</b>			
Net income attributable to stockholders of the Parent Company (SEK million)	11,568	12,005	5,775
Average number of shares outstanding, basic (millions)	3,237	3,226	3,216
<b>Earnings per share, basic (SEK)</b>	<b>3.57</b>	<b>3.72</b>	<b>1.80</b>
<b>Diluted</b>			
Net income attributable to stockholders of the Parent Company (SEK million)	11,568	12,005	5,775
Average number of shares outstanding, basic (millions)	3,237	3,226	3,216
Dilutive effect for stock purchase plans (millions)	33	31	31
<b>Average number of shares outstanding, diluted (millions)</b>	<b>3,270</b>	<b>3,257</b>	<b>3,247</b>
<b>Earnings per share, diluted (SEK)</b>	<b>3.54</b>	<b>3.69</b>	<b>1.78</b>

**C10 Intangible assets****Intangible assets 2014**

	Capitalized development expenses For internal use				Goodwill Total	Intellectual property rights (IPR), trademarks and other intangible assets		
	To be marketed	Acquired costs	Internal costs	Total		Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
<b>Cost</b>								
Opening balance	10,681	2,213	1,478	14,372	31,562	19,289	28,777	48,066
Acquisitions/capitalization	1,523			1,523		107	0	107
Balances regarding acquired/divested businesses <sup>1)</sup>					2,014	1,597	943	2,540
Sales/disposals					22	71	22	93
Reclassification								
Translation difference					4,794	2,440	1,307	3,747
<b>Closing balance</b>	<b>12,204</b>	<b>2,213</b>	<b>1,478</b>	<b>15,895</b>	<b>38,348</b>	<b>23,362</b>	<b>31,005</b>	<b>54,367</b>
<b>Accumulated amortization</b>								
Opening balance	5,349	2,157	1,439	8,945		9,543	20,377	29,920
Amortization	1,267	1	2	1,270		2,502	1,826	4,328
Sales/disposals						73	16	89
Translation difference						1,472	871	2,343
<b>Closing balance</b>	<b>6,616</b>	<b>2,158</b>	<b>1,441</b>	<b>10,215</b>		<b>13,444</b>	<b>23,058</b>	<b>36,502</b>
<b>Accumulated impairment losses</b>								
Opening balance	1,987	55	37	2,079	18		5,331	5,331
Impairment losses	31			31				
<b>Closing balance</b>	<b>2,018</b>	<b>55</b>	<b>37</b>	<b>2,110</b>	<b>18</b>		<b>5,331</b>	<b>5,331</b>
<b>Net carrying value</b>	<b>3,570</b>	<b>0</b>	<b>0</b>	<b>3,570</b>	<b>38,330</b>	<b>9,918</b>	<b>2,616</b>	<b>12,534</b>

1) For more information on acquired/divested businesses, see Note C26, Business combinations.

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**Intangible assets 2013**

	Capitalized development expenses For internal use				Goodwill Total	Intellectual property rights (IPR), trademarks and other intangible assets		
	To be marketed	Acquired costs	Internal costs	Total		Trademarks, customer relationships and similar rights	Patents and acquired R&D	Total
<b>Cost</b>								
Opening balance	9,766	2,213	1,478	13,457	30,422	18,595	27,416	46,011
Acquisitions/capitalization	915			915		587	60	647
Balances regarding acquired/divested businesses <sup>1)</sup>					1,646	200	1,351	1,551
Sales/disposals					302	113		113
Reclassification								
Translation difference					204	20	50	30
<b>Closing balance</b>	<b>10,681</b>	<b>2,213</b>	<b>1,478</b>	<b>14,372</b>	<b>31,562</b>	<b>19,289</b>	<b>28,777</b>	<b>48,066</b>
<b>Accumulated amortization</b>								
Opening balance	4,027	2,106	1,405	7,538		7,277	18,201	25,478
Amortization	1,322	51	34	1,407		2,322	2,199	4,521
Sales/disposals						92		92
Translation difference						36	23	13
<b>Closing balance</b>	<b>5,349</b>	<b>2,157</b>	<b>1,439</b>	<b>8,945</b>		<b>9,543</b>	<b>20,377</b>	<b>29,920</b>
<b>Accumulated impairment losses</b>								
Opening balance	1,987	55	37	2,079	18		5,331	5,331
Impairment losses								
<b>Closing balance</b>	<b>1,987</b>	<b>55</b>	<b>37</b>	<b>2,079</b>	<b>18</b>		<b>5,331</b>	<b>5,331</b>
<b>Net carrying value</b>	<b>3,345</b>	<b>1</b>	<b>2</b>	<b>3,348</b>	<b>31,544</b>	<b>9,746</b>	<b>3,069</b>	<b>12,815</b>

1) For more information on acquired/divested businesses, see Note C26, Business combinations.

Goodwill is allocated to the operating segments Networks, at the sum of SEK 20.1 (16.7) billion, Global Services, at the sum of SEK 5.6 (4.5) billion and Support Solutions, at the sum of SEK 12.6 (10.3) billion.

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

Sales growth

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

Development of working capital and capital expenditure requirements.

The assumptions regarding industry-specific market drivers and market growth are approved by Group management and each operating segment's management. These assumptions are based on industry sources as input to the projections made within the Company for the development 2014-2019 for key industry parameters:

The number of global mobile subscriptions is estimated to grow from around 7.1 billion by the end of 2014 to around 9 billion by the end of 2019. Of these, around 7.5 billion will be mobile broadband subscriptions. Around 700 million of these mobile broadband subscriptions will use mobile PC/tablets/mobile routers, but the vast majority will still use mobile phones to access the internet.

Fixed broadband subscriptions are estimated to grow from around 700 million by the end of 2014 to around 850 million in 2019. Fixed broadband includes Fiber, Cable and xDSL.

Mobile data traffic volume is estimated to increase by around six times in the period 2014-2019, while fixed internet traffic is estimated to increase around three times over the same timeframe, but from a much larger base.

The growth in network equipment is mainly driven by a shift in investments from voice to data. The end user requirements for app-coverage drives deployment of heterogeneous networks and small cells.

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The demand for support solutions is driven by the opportunities for new types of service offerings enabled by IP technology and high-speed broadband. There is strong IPTV subscriber growth, plus rapid growth in digital viewing and on-demand services. As a consequence, service providers and network owners need solutions to make networks efficient for video delivery.

The development and build out of mobile broadband networks and increasing number of mobile broadband subscriptions drives growth in service introduction and traffic. This puts high demand on plan to provision, implementation and systems integration services as well as real time payment systems. The Business Support Systems growth is driven by the introduction of new services, new business models and price plans.

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

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

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

An after-tax discount rate of 9.0% (9.5%) has been applied for all cash-generating units for the discounting of projected after-tax cash flows. In addition, when a higher discount rate has been applied in the impairment tests it has not resulted in any impairment. The assumptions for 2013 are disclosed in Note C10, Intangible assets in the Annual Report of 2013.

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

In Note C1, Significant accounting policies, and Note C2, Critical accounting estimates and judgments, further disclosures are given regarding goodwill impairment testing.

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**C11 Property, plant and equipment****Property, plant and equipment 2014**

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
<b>Cost</b>					
Opening balance	6,120	4,232	24,060	865	35,277
Additions	218	180	2,452	2,472	5,322
Balances regarding acquired/divested businesses		308	119		427
Sales/disposals	483	842	1,911	218	3,454
Reclassifications	217	935	316	1,034	0
Translation difference	740	460	1,990	105	3,295
<b>Closing balance</b>	<b>6,378</b>	<b>5,273</b>	<b>27,026</b>	<b>2,190</b>	<b>40,867</b>
<b>Accumulated depreciation</b>					
Opening balance	2,492	3,182	17,945		23,619
Depreciation	461	539	3,329		4,329
Sales/disposals	75	720	1,890		2,685
Reclassifications	219	736	517		0
Translation difference	321	337	1,539		2,197
<b>Closing balance</b>	<b>2,980</b>	<b>4,074</b>	<b>20,406</b>		<b>27,460</b>
<b>Accumulated impairment losses</b>					
Opening balance	40	123	62		225
Impairment losses			6		6
Reversals of impairment losses		19			19
Sales/disposals	62	75	20		157
Reclassifications	52	14	38		0
Translation difference	2	5	4		11
<b>Closing balance</b>	<b>32</b>	<b>20</b>	<b>14</b>		<b>66</b>
<b>Net carrying value</b>	<b>3,366</b>	<b>1,179</b>	<b>6,606</b>	<b>2,190</b>	<b>13,341</b>

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2014, amounted to SEK 192 (203) million.

**Property, plant and equipment 2013**

	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in progress and advance payments	Total
<b>Cost</b>					
Opening balance	4,985	4,746	23,033	1,451	34,215
Additions	975	175	2,113	1,240	4,503
Balances regarding acquired/divested businesses	29	564	315	19	297



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Sales/disposals	185	341	1,677	598	2,801
Reclassifications	404	165	627	1,196	
Translation difference	30	51	351	13	343
<b>Closing balance</b>	<b>6,120</b>	<b>4,232</b>	<b>24,060</b>	<b>865</b>	<b>35,277</b>
<b>Accumulated depreciation</b>					
Opening balance	2,355	3,489	16,623		22,467
Depreciation	479	558	3,190		4,227
Balances regarding divested businesses		450	147		597
Sales/disposals	399	386	1,493		2,278
Reclassifications	75	80	5		
Translation difference	18	51	233		200
<b>Closing balance</b>	<b>2,492</b>	<b>3,182</b>	<b>17,945</b>		<b>23,619</b>
<b>Accumulated impairment losses</b>					
Opening balance	45	124	86		255
Impairment losses		7			7
Reversals of impairment losses		2	23		25
Sales/disposals	4	6			10
Reclassifications		1	1		
Translation difference	1	1	2		2
<b>Closing balance</b>	<b>40</b>	<b>123</b>	<b>62</b>		<b>225</b>
<b>Net carrying value</b>	<b>3,588</b>	<b>927</b>	<b>6,053</b>	<b>865</b>	<b>11,433</b>

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**C12 Financial assets, non-current****Equity in joint ventures and associated companies**

	2014	2013
Opening balance	2,568	2,842
Share in earnings	56	130
Contributions to joint ventures and associated companies	2	2
OCI	579	14
Dividends	249	128
Divestments	47	
<b>Closing balance</b>	<b>2,793<sup>1)</sup></b>	<b>2,568<sup>1)</sup></b>

1) Goodwill, net, amounts to SEK 15 (11) million.  
The major holdings in joint ventures and associated companies are specified below.

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

**Ericsson's share of assets, liabilities and income in associated company Rockstar Consortium**

	2014	2013	2012
<b>Percentage in ownership interest</b>	<b>21.26%</b>	<b>21.26%</b>	<b>21.26%</b>
Total assets	7,348	6,429	7,342
Total liabilities	196	53	28
<b>Net assets (100%)</b>	<b>7,152</b>	<b>6,376</b>	<b>7,314</b>
<b>Company's share of net assets (21.26%)</b>	<b>1,520</b>	<b>1,356</b>	<b>1,555</b>
Net sales			
Income after financial items	484	897	376
<b>Net income and total comprehensive income (100%)</b>	<b>484</b>	<b>897</b>	<b>376</b>
<b>Company's share of net income and other comprehensive income (21,26%)</b>	<b>103</b>	<b>191</b>	<b>80</b>

Rockstar Consortium LLC (Rockstar) is a company that was formed in 2011 by Apple, Blackberry, Ericsson, Microsoft, and Sony to purchase approximately 4,000 patent assets out of the original about 6000 from the Nortel bankruptcy estate. On December 23, 2014 it was agreed between the owners of Rockstar and RPX Corporation (RPXC) that RPX shall purchase the remaining patents of Rockstar. The transaction occurred in 2015 and the impact on income will not be material in 2015.

**Ericsson's share of assets, liabilities and income in joint venture ST-Ericsson<sup>1)</sup>**

	2014	2013	2012
<b>Percentage in ownership interest</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>

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Non-current assets	5	6	2,194
Current assets	971	1,435	2,012
Non-current liabilities	92	104	740
Current liabilities	849	1,204	2,678
<b>Net assets (100%)</b>	<b>35</b>	<b>133</b>	<b>788</b>
<b>Company's share of net assets (50%)</b>	<b>18</b>	<b>67</b>	<b>394</b>
Net sales		3,127	9,090
Income after financial items	132	726	5,006
Income taxes	8	64	800
<b>Net income and total comprehensive income (100%)</b>	<b>124</b>	<b>790</b>	<b>5,806</b>
<b>Company's share of net income and other comprehensive income (50%)</b>	<b>62<sup>2)</sup></b>	<b>393</b>	<b>2,903</b>
Assets pledged as collateral			
Contingent liabilities			

- 1) The table consists of amounts considered by the Company when applying the equity method in relation to ST-Ericsson.
- 2) Reported profit/loss has not been recognized in the result for the Company, due to IFRS principles disclosed in Note C1, Significant accounting policies.

The joint venture ST-Ericsson, equally owned by the Company and STMicroelectronics, is winding down and commenced liquidation on April 15, 2014. Since December 2012, there are no remaining investments related to ST-Ericsson recognized in the Company's balance sheet. The result in ST-Ericsson for 2014 and 2013 has therefore not been recognized due to losses in previous periods, as per IFRS principles disclosed in C1 Significant accounting policies. For more information, see Note C3, Segment information.

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**Financial assets, non-current**

	Other investments in shares and participations		Customer finance, non-current		Derivatives, non-current		Other assets, non-current	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Cost</b>								
Opening balance	1,905	1,758	1,484	1,538	613	825	6,387	4,414
Additions		85	1,452	3,070			327	1,215
Disposals/repayments/deductions		1	20	963		30	1,238	130
Change in value in funded pension plans <sup>1)</sup>							38	951
Revaluation	47	71			62	182		
Translation difference	164	11	38	54			183	63
<b>Closing balance</b>	<b>2,115</b>	<b>1,905</b>	<b>2,011</b>	<b>1,484</b>	<b>551</b>	<b>613</b>	<b>5,621</b>	<b>6,387</b>
<b>Accumulated impairment losses/allowances</b>								
Opening balance	1,400	1,372	190	248			1,316	1,275
Impairment losses/allowance			79	9			5	
Disposals/repayments/deductions	27	14	190	47			1,076	12
Translation difference	151	14		2			27	29
<b>Closing balance</b>	<b>1,524</b>	<b>1,400</b>	<b>79</b>	<b>190</b>			<b>272</b>	<b>1,316</b>
<b>Net carrying value</b>	<b>591</b>	<b>505</b>	<b>1,932</b>	<b>1,294</b>	<b>551</b>	<b>613</b>	<b>5,349</b>	<b>5,071</b>

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

**C13 Inventories****Inventories**

	2014	2013
Raw materials, components, consumables and manufacturing work in progress	6,880	5,747
Finished products and goods for resale	11,117	7,743
Contract work in progress	10,178	9,269
<b>Inventories, net</b>	<b>28,175</b>	<b>22,759</b>

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

Reported amounts are net of obsolescence allowances of SEK 2,326 (2,496) million.

**Movements in obsolescence allowances**

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	2014	2013	2012
Opening balance	2,496	3,473	3,343
Additions, net	691	308	1,403
Utilization	979	1,308	1,140
Translation difference	204	12	133
Balances regarding acquired/ divested businesses	86	11	
<b>Closing balance</b>	<b>2,326</b>	<b>2,496</b>	<b>3,473</b>

The amount of inventories recognized as expense and included in Cost of sales was SEK 53,722 (56,781) million.

**C14 Trade receivables and customer finance**

**Trade receivables and customer finance**

	2014	2013
Trade receivables excluding associated companies and joint ventures	78,727	71,850
Allowances for impairment	1,123	880
<b>Trade receivables, net</b>	<b>77,604</b>	<b>70,970</b>
Trade receivables related to associated companies and joint ventures	289	43
<b>Trade receivables, total</b>	<b>77,893</b>	<b>71,013</b>
Customer finance credits	4,629	3,693
Allowances for impairment	408	305
<b>Customer finance credits, net</b>	<b>4,221</b>	<b>3,388</b>
<i>Of which current</i>	<i>2,289</i>	<i>2,094</i>
Credit commitments for customer finance	<b>12,018</b>	6,402

Days sales outstanding (DSO) were 105 (97) in December 2014.

**Movements in allowances for impairment**

	Trade receivables		Customer finance	
	2014	2013	2014	2013
Opening balance	880	655	305	422
Additions	316	417	121	38
Utilized	136	127	4	13
Reversal of excess amounts	8	72	5	136
Reclassification	43	42		
Translation difference	114	35	9	6
<b>Closing balance</b>	<b>1,123</b>	<b>880</b>	<b>408</b>	<b>305</b>

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**Aging analysis as per December 31**

	Total	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals:		Of which past due and impaired in the following time intervals:	
				less than 90 days	90 days or more	less than 90 days	90 days or more
<b>2014</b>							
Trade receivables, excluding associated companies and joint ventures	78,727	71,601	35	3,412	2,577	16	1,086
Allowances for impairment	1,123		21			16	1086
Customer finance credits	4,629	1,602	1,981	1	677	21	347
Allowances for impairment	408		120			5	283
<b>2013</b>							
Trade receivables, excluding associated companies and joint ventures	71,850	66,414	25	3,134	1,400	23	854
Allowances for impairment	880		11			19	850
Customer finance credits	3,693	2,851	98	60	459	149	76
Allowances for impairment	305		82			139	84

**Credit risk**

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk: see Note C20, Financial risk management and financial instruments.

**Credit risk in trade receivables**

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

Avoid credit losses through establishing internal standard credit approval routines in all the Company's legal entities

Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers

Ensure efficient credit management within the Company and thereby improve Days sales outstanding and Cash flow

Ensure payment terms are commercially justifiable

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

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

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

Trade receivables amounted to SEK 78,727 (71,850) million as of December 31, 2014. Provisions for expected losses are regularly assessed and amounted to SEK 1,123 (880) million as of December 31, 2014. The Company's nominal credit losses have, however, historically been low. The amounts of trade receivables closely follow the distribution of the Company's sales and do not include any major concentrations of credit risk by customer or by geography. The five largest customers represented 30% (25%) of the total trade receivables in 2014.

### **Customer finance credit risk**

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

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

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

As of December 31, 2014, the Company's total outstanding exposure related to customer finance was SEK 4,631 (3,693) million. As of December 31, 2014, the Company also had unutilized customer finance commitments of SEK 12,018 (6,402) million. Customer finance is arranged for infrastructure projects in different geographic markets and for a large number of customers. As of December 31, 2014, there were a total of 88 (73) customer finance arrangements originated by or guaranteed by the Company. The five largest facilities represented 56% (52%) of the total credit exposure in 2014.

**Total outstanding customer finance exposure per region as of December 31**

Percent	2014	2013
North America	8	10
Latin America	3	3
Northern Europe & Central Asia	2	9
Western & Central Europe	3	1
Mediterranean	15	11
Middle East	30	22
Sub-Saharan Africa	24	26
India	1	5
North East Asia	6	9
South East Asia and Oceania	8	4
<b>Total</b>	<b>100</b>	<b>100</b>

The effect of risk provisions and reversals for customer finance affecting the income statement amounted to a net negative impact of SEK 70 million in 2014 compared to a negative impact of SEK 55 million in 2013. Credit losses amounted to SEK 4 (13) million in 2014.



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Security arrangements for customer finance facilities normally include pledges of equipment, pledges of certain assets belonging to the borrower and pledges of shares in the operating company. If available, third-party risk coverage is, as a rule, arranged. Third-party risk coverage means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. A credit risk cover from a third party may also be issued by an insurance company. A credit risk transfer under a sub-participation arrangement with a bank can also be arranged. In this case the entire credit risk and the funding is taken care of by the bank for the part that they cover.

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

The table below summarizes the Company's outstanding customer finance as of December 31, 2014 and 2013.

**Outstanding customer finance**

	2014	2013
Total customer finance	4,631	3,693
Accrued interest	173	155
Less third-party risk coverage	649	222
<b>Ericsson's risk exposure</b>	<b>4,154</b>	<b>3,626</b>

**Transfers of financial assets****Transfers where the Company has not derecognized the assets in their entirety**

As per December 31, 2014, there existed certain customer financing assets that the Company had transferred to third parties where the Company did not derecognize the assets in their entirety. The total carrying amount of the original assets transferred was SEK 811 (899) million; the amount of the assets that the Company continues to recognize was SEK 168 (210) million; and the carrying amount of the associated liabilities was SEK 0 (0) million.

**C15 Other current receivables****Other current receivables**

	2014	2013
Prepaid expenses	4,592	2,766
Accrued revenues	3,166	2,846
Advance payments to suppliers	746	877
Derivatives with a positive value <sup>1)</sup>	1,000	1,532
Taxes	9,853	7,950
Other	1,916	1,970
<b>Total</b>	<b>21,273</b>	<b>17,941</b>

1) See also Note C20, Financial risk management and financial instruments.

**C16 Equity and other comprehensive Income****Capital stock 2014**

Capital stock at December 31, 2014, consisted of the following:

**Capital stock**

<b>Parent Company</b>	<b>Number of shares</b>	<b>Capital stock (SEK million)</b>
Class A shares	261,755,983	1,309
Class B shares	3,043,295,752	15,217
<b>Total</b>	<b>3,305,051,735</b>	<b>16,526</b>

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

At December 31, 2014, the total number of treasury shares was 63,450,558 (73,968,178 in 2013 and 84,798,095 in 2012) Class B shares. Ericsson did not repurchase shares in 2014 in relation to the Stock Purchase Plan.

**Reconciliation of number of shares**

	<b>Number of shares</b>	<b>Capital stock (SEK million)</b>
Number of shares Jan 1, 2014	3,305,051,735	16,526
Number of shares Dec 31, 2014	3,305,051,735	16,526

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

**Dividend proposal**

The Board of Directors will propose to the Annual General Meeting 2015 a dividend of SEK 3.40 per share (SEK 3.00 in 2014 and SEK 2.75 in 2013).

**Additional paid in capital**

This relates to payments made by owners and includes share premiums paid.

**Retained earnings**

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

**Remeasurements related to post-employment benefits**

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

**Revaluation of other investments in shares and participations**

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

**Cash flow hedges**

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

**Cumulative translation adjustments**

The cumulative translation adjustments comprise all foreign currency differences arising from the translation of the financial statements of foreign operations and changes regarding revaluation of excess value in local currency as well as from the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

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**C17 Post-employment benefits**

Ericsson sponsors a number of post-employment benefit plans throughout the Company, which are in line with market practice in each country. The year 2014 was characterized by significant decreases in discount rates in most plans resulting in actuarial losses on defined benefit obligations of SEK 14 billion. This was partly offset by positive development of plan assets resulting in actuarial gains of SEK 4 billion.

**Swedish plans**

Sweden has both defined benefit and defined contribution plans based on collective agreement between the parties in the Swedish labor market:

A defined benefit plan, known as ITP 2 (occupational pension for salaried employees in manufacturing industries and trade), complemented by a defined contribution plan, known as ITPK (supplementary retirement benefits). This is a final salary-based plan.

A defined contribution plan, known as ITP 1, for employees born in 1979 or later.

A defined contribution plan ITP 1 or alternative ITP, for employees earning more than 10 income base amount and who have opted out of the defined benefit plan ITP 2, where rules are set by the Company and approved by each employee selected to participate. The Company has by far most of its Swedish pension liabilities under defined benefit plans which are funded to 56% (73%) through Ericsson Pensionsstiftelse (a Swedish Pension Foundation). The Pensionsstiftelse covers the liability up to the value of the defined benefit obligation based on Swedish GAAP calculations. There are no funding requirements for the Swedish plans. The disability- and survivors' pension part of the ITP-plan is secured through an insurance solution with the company Alecta, see section about Multi-employer plans.

The benefit payments are done from the Company since the liability is growing and the necessary surplus therefore is not yet reached. For the unfunded plans the Company meets the payment obligation when it falls due. The responsibility for governance of the plans and the plan assets lies with the Company and the Pensionsstiftelse. The Swedish Pensionsstiftelse is managed on the basis of a capital preservation strategy and the risk profile is set accordingly. Traditional asset-liability matching (ALM) studies are undertaken on a regular basis to allocate within different asset classes.

The plans are exposed to different risks, i.e., a sudden decrease in the bond yields, which would lead to an increase in the plan liability. A sudden instability in the financial market might also lead to a decrease in fair value of plan assets held by the Pensionsstiftelse, as the holdings of plan assets partly are exposed to equity markets; however, this may be partly offset by higher values in fixed income holdings. Swedish plans are linked to inflation and higher inflation will lead to a higher liability. For the time being, inflation is a low risk factor to the Swedish plans as actual rate of inflation has not reached the ceiling target set by the Central Bank of Sweden.

**Multi-employer plans**

As before, the Company has secured the disability and survivors' pension part of the ITP Plan through an insurance solution with the insurance company Alecta. Although this part of the plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, as for most of the accrued pension benefits in Alecta, information is missing on the allocation of earnings process between employers. Full vesting is instead registered on the last employer. Alecta is not able to calculate a breakdown of assets and provisions for each respective employer, and therefore, the disability and survivors' pension portion of the ITP Plan has been accounted for as a defined contribution plan.

Alecta has a collective funding ratio which acts as a buffer for its insurance commitments to protect against fluctuations in investment return and insurance risks. Alecta's target ratio is 140% and reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions, which are different from those in IAS 19R. Alecta's collective funding ratio was 143% (148%) as of December 31, 2014. The Company's share of Alecta's saving premiums is 0.6%; the total share of active members in Alecta

are 2.3%. The expected contribution to the plan is SEK 107 million for 2015.

#### **Contingent liabilities / Assets pledged as collateral**

Contingent liabilities include the Company's mutual responsibility as a credit insured company of PRI Pensionsgaranti in Sweden. This mutual responsibility can only be imposed in the instance that PRI Pensionsgaranti has consumed all of its assets, and it amounts to a maximum of 2% of the Company's pension liability in Sweden. The Company has a pledged business mortgage of SEK 2 billion to PRI Pensionsgaranti.

#### **US plans**

The Company operates defined benefit pension plans in the US, which are a combination of final salary pension plans and contribution-based arrangements. The final salary pension plans provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Retirees generally do not receive inflationary increases once in payment.

The other type of plan is a contribution-based pension plan, which provides a benefit determined using a "cash balance" approach. The balance is credited monthly with interest credits and contribution credits, based on a combination of current year salary and length of service.

The majority of benefit payments are from trustee-administered funds; however, there are also a number of unfunded plans where the Company meets the benefit payment obligation as it falls due. In the US, the Company's policy is at least to meet or exceed the funding requirements of federal regulations. The funded level in the US Pension Plan is above the point at which minimum funding would be required for fiscal year 2014.

Plan assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the Company and the trustees (or equivalent) and their composition. Responsibility for governance of the plans—including investment decisions and contribution schedules—lies with the Plan Administrative Committee (PAC). The PAC is composed of representatives from the Company.

The Company's plans are exposed to various risks associated with pension plans, i.e., a sudden decrease in bond yields would lead to an increase in the present value of the defined benefit obligation. A sudden instability in the financial markets might also lead to a decrease in the fair value of plan assets held by the trust. Pension benefits in the US are not linked to inflation; however, higher inflation poses the risk of increased final salaries being used to determine benefits for active employees. There is also a risk that the duration of payments to retirees will exceed the life expectancy in mortality tables.

#### **Other plans**

The Company also sponsors plans in other countries. The main plans are in Brazil, Ireland and the United Kingdom. The plan in Brazil is a pension plan wholly funded with a net surplus of assets. The plans in Ireland and the UK are final salary pension plans and are partly or wholly funded. The plans are managed by corporate trustees with directors appointed partly by the local company and partly by the plan members. The trustees are independent from the local company and subject to the specific country's pension laws.

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**Amount recognized in the Consolidated balance sheet****Amount recognized in the Consolidated balance sheet**

	Sweden	US	Other	Total
<b>2014</b>				
Defined benefit obligation (DBO)	32,885	18,281	22,586	73,752
Fair value of plan assets	18,412	19,665	18,785	56,862
<b>Deficit/surplus (+/ )</b>	<b>14,473</b>	<b>1,384</b>	<b>3,801</b>	<b>16,890</b>
Plans with net surplus, excluding asset ceiling <sup>1)</sup>		2,057	1,438	3,495
<b>Provision for post-employment benefits<sup>2)</sup></b>	<b>14,473</b>	<b>673</b>	<b>5,239</b>	<b>20,385</b>
<b>2013</b>				
Defined benefit obligation (DBO)	23,088	14,387	15,444	52,919
Fair value of plan assets	16,818	16,174	13,575	46,567
<b>Deficit/surplus (+/ )</b>	<b>6,270</b>	<b>1,787</b>	<b>1,869</b>	<b>6,352</b>
Plans with net surplus, excluding asset ceiling <sup>1)</sup>		2,307	1,166	3,473
<b>Provision for post-employment benefits<sup>2)</sup></b>	<b>6,270</b>	<b>520</b>	<b>3,035</b>	<b>9,825</b>

1) Plans with a net surplus, i.e., where plan assets exceed DBO, are reported as Other financial assets, non-current: see Note C12, Financial assets. The asset ceiling increased during the year by SEK 60 million from SEK 525 million in 2013 to SEK 585 million in 2014.

2) Plans with net liabilities are reported in the balance sheet as Post-employment benefits, non-current.

**Total pension cost recognized in the Consolidated income statement**

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

**Pension costs for defined contribution plans and defined benefit plans**

	Sweden	US	Other	Total
<b>2014</b>				
Pension cost for defined contribution plans	953	562	713	2,228
Pension cost for defined benefit plans	1,039	39	651	1,729
<b>Total</b>	<b>1,992</b>	<b>601</b>	<b>1,364</b>	<b>3,957</b>
Total pension cost expressed as a percentage of wages and salaries				6.8%
<b>2013</b>				
Pension cost for defined contribution plans	1,088	502	778	2,368
Pension cost for defined benefit plans	1,581	85	392	2,058
<b>Total</b>	<b>2,669</b>	<b>587</b>	<b>1,170</b>	<b>4,426</b>

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Total pension cost expressed as a percentage of wages and salaries				9.1%
<b>2012</b>				
Pension cost for defined contribution plans	977	404	701	2,082
Pension cost for defined benefit plans	936	454	198	680
<b>Total</b>	<b>1,913</b>	<b>50</b>	<b>899</b>	<b>2,762</b>
Total pension cost expressed as a percentage of wages and salaries				5.7%

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**Change in the net defined benefit obligation****Change in the net defined benefit obligation**

	Present value of obligation 2014 <sup>3)</sup>	Fair value of plan assets 2014	Total 2014	Present value of obligation 2013	Fair value of plan assets 2013	Total 2013
Opening balance	52,919	46,567	6,352	51,958	44,642	7,316
Reclassification <sup>1)</sup>				1,799		1,799
<b>Included in the income statement:</b>						
Current service cost	1,476		1,476	1,351		1,351
Past service cost and gains and losses on settlements	31		31	363		363
Interest cost/ income (+/ )	2,347	2,244	103	2,046	1,846	200
Taxes and administrative expenses	54	31	85	129	16	145
Other	31	3	34	4	3	1
	<b>3,939</b>	<b>2,210</b>	<b>1,729</b>	<b>3,885</b>	<b>1,827</b>	<b>2,058</b>
<b>Remeasurements:</b>						
Return on plan assets excluding amounts in interest expense/income		3,643	3,643		550	550
Actuarial gains/losses ( /+) arising from changes in demographic assumptions	549		549	46		46
Actuarial gains/losses ( /+) arising from changes in financial assumptions	12,746		12,746	3,629		3,629
Experience-based gains/losses ( /+)	305		305	611		611
	<b>13,600</b>	<b>3,643</b>	<b>9,957</b>	<b>2,972</b>	<b>550</b>	<b>3,522</b>
<b>Other changes:</b>						
Translation difference	4,949	5,059	110	115	190	75
Contributions and payments from:						
Employers <sup>2)</sup>	574	775	1,349	554	971	1,525
Plan participants	43	26	17	55	44	11
Payments from plans:						
Benefit payments	1,282	1,282	0	1,181	1,181	0
Settlements	1,013	1,016	3	116	96	20
Business combinations and divestments <sup>4)</sup>	1,171	880	291	160		160
<b>Closing balance</b>	<b>73,752</b>	<b>56,862</b>	<b>16,890</b>	<b>52,919</b>	<b>46,567</b>	<b>6,352</b>

- 1) The provision for the Swedish special payroll taxes which was previously included in Other current liabilities, was in 2013 re-classified as a pension liability in line with the implementation of the revised IAS 19R on January 1, 2013.
- 2) The expected contribution to the plan is SEK 1,092 million during 2015.
- 3) The weighted average duration of DBO is 19.4 years.
- 4) Business combinations in 2014 are mainly related to the acquisition of Red Bee Media. In 2013 business combinations are related to the acquisition of Modems.

**Present value of the defined benefit obligation**



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	Sweden	US	Other	Total
<b>2014</b>				
DBO, closing balance	32,885	18,281	22,586	73,752
<i>Of which partially or fully funded</i>	<i>32,348</i>	<i>17,608</i>	<i>20,005</i>	<i>69,961</i>
<i>Of which unfunded</i>	<i>537</i>	<i>673</i>	<i>2,581</i>	<i>3,791</i>
<b>2013</b>				
DBO, closing balance	23,088	14,387	15,444	52,919
<i>Of which partially or fully funded</i>	<i>22,598</i>	<i>13,867</i>	<i>13,396</i>	<i>49,861</i>
<i>Of which unfunded</i>	<i>490</i>	<i>520</i>	<i>2,048</i>	<i>3,058</i>

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**Asset allocation by asset type and geography**

	Sweden	US	Other	Total	Of which unquoted
<b>2014</b>					
Cash and cash equivalents	2,118	509	483	3,110	24%
Equity securities	4,598	1,003	4,389	9,990	10%
Debt securities	6,815	14,993	11,455	33,263	83%
Real estate	2,383		134	2,517	100%
Investment funds	2,498	2,309	557	5,364	67%
Assets held by insurance company			770	770	100%
Other		851	997	1,848	71%
<b>Total</b>	<b>18,412</b>	<b>19,665</b>	<b>18,785</b>	<b>56,862</b>	
<i>Of which real estate occupied by the Company</i>					
<i>Of which securities issued by the Company</i>					
<b>2013</b>					
Cash and cash equivalents	592	218	261	1,071	35%
Equity securities	2,112	2,081	4,459	8,652	31%
Debt securities	3,601	6,934	6,982	17,517	61%
Real estate	1,649		76	1,725	100%
Investment funds	8,864	6,512	414	15,790	60%
Assets held by insurance company			633	633	100%
Other		429	750	1,179	65%
<b>Total</b>	<b>16,818</b>	<b>16,174</b>	<b>13,575</b>	<b>46,567</b>	
<i>Of which real estate occupied by the Company</i>					
<i>Of which securities issued by the Company</i>		25		25	

**Actuarial assumptions****Financial and demographic actuarial assumptions <sup>1)</sup>**

	2014	2013
<b>Financial assumptions</b>		
Discount rate, weighted average	3.4%	4.5%
<b>Demographic assumptions</b>		
Life expectancy after age 65 in years, weighted average	22	22

1) Weighted average for the Group for disclosure purposes only. Country-specific assumptions were used for each actuarial calculation. Actuarial assumptions are assessed on a quarterly basis.

See also Notes C1 and C2.

**Sweden**

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The defined benefit obligation has been calculated using a discount rate based on yields of covered bonds, which is higher than a discount rate based on yields of government bonds. The Swedish covered bonds are considered high-quality bonds, mainly AAA-rated, as they are secured with assets, and the market for covered bonds is considered deep and liquid, thereby meeting the revised IAS 19 requirements.

### US

The defined benefit obligation has been calculated using a discount rate based on yields of high-quality corporate bonds, where high-quality has been defined as a rating of AA and above.

**Actuarial gains and losses reported directly in Other comprehensive income**

	2014	2013
Cumulative gain/loss ( /+) at beginning of year	5,219	8,696
Recognized gain/loss ( /+) during the year	9,957	3,522
Translation difference	129	45
<b>Cumulative gain/loss ( /+) at end of year</b>	<b>15,305</b>	<b>5,219</b>

**Total remeasurements in Other comprehensive income related to post-employment benefits**

	2014	2013
Actuarial gains and losses (+/ )	8,322	3,128
The effect of asset ceiling	60	308
Swedish special payroll taxes <sup>1)</sup>	1,635	394
<b>Total</b>	<b>10,017</b>	<b>3,214</b>

1) Swedish payroll taxes are included in recognized gain/loss during the year in OCI.

**Sensitivity analysis of significant actuarial assumptions**

	2014	2013
Impact on DBO, SEK billion		
<b>2014</b>		
Discount rate +0.5%	7	5
Discount rate 0.5%	+8	+5

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**C18 Provisions****Provisions**

	Warranty	Restructuring	Other	Total
<b>2014</b>				
Opening balance	909	1,345	3,108	5,362
Additions	1,050	708	968	2,726
Reversal of excess amounts	319	195	424	938
<i>Negative effect on Income Statement</i>				<b>1,788</b>
Utilization/Cash out	921	1,202	938	3,061
Reclassifications	2	51	16	37
Translation differences	103	94	104	301
<b>Closing balance</b>	<b>824</b>	<b>801</b>	<b>2,802</b>	<b>4,427</b>
<b>2013</b>				
Opening balance	1,595	1,218	5,825	8,638
Additions	924	2,439	1,336	4,699
Reversal of excess amounts	588	237	736	1,561
<i>Negative effect on Income Statement</i>				<b>3,138</b>
Cash out/utilization	948	2,089	2,984	6,021
Balances regarding divested/acquired businesses	2	0	10	12
Reclassification	1	3	184	186
Translation differences	73	17	139	195
<b>Closing balance</b>	<b>909</b>	<b>1,345</b>	<b>3,108</b>	<b>5,362</b>

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

For 2014, new or additional provisions amounting to SEK 2.7 billion were made, and SEK 0.9 billion of provisions were reversed. The actual cash outlays for 2014 were SEK 3.1 billion compared with the estimated SEK 4.2 billion. The total cash out for 2014 was made up of warranty provisions of SEK 0.9 billion, restructuring provisions of SEK 1.2 billion and other provisions of SEK 0.9 billion. The expected total cash outlays in 2015 are approximately SEK 3.2 billion.

Of the total provisions, SEK 202 (222) million is classified as non-current. For more information, see Note C1, Significant accounting policies and Note C2, Critical accounting estimates and judgments.

**Warranty provisions**

Warranty provisions are based on historic quality rates for established products as well as estimates regarding quality rates for new products and costs to remedy the various types of faults predicted. Provisions amounting to SEK 1.0 billion were made and due to more favorable outcomes in certain cases reversals of SEK 0.3 billion were made. The actual cash outlays for 2014 were SEK 0.9 billion, in line with the expected SEK 0.7 billion. The cash outlays of warranty provisions during year 2015 are estimated to total approximately SEK 0.9 billion.

**Restructuring provisions**

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In 2014, SEK 0.7 billion in provisions were made and SEK 0.2 billion were reversed due to a more favorable outcome than expected. The cash outlays were SEK 1.2 billion for the full year, in line with the expected SEK 1.1 billion. The cash outlays for 2015 for these provisions are estimated to total approximately SEK 0.6 billion.

### **Other provisions**

Other provisions include provisions for probable contractual penalties, tax issues, litigations, supplier claims, and other. During 2014, new provisions amounting to SEK 1.0 billion were made and SEK 0.4 billion were reversed due to a more favorable outcome. The cash outlays were SEK 0.9 billion in 2014 compared to the estimate of SEK 2.4 billion. For 2015, the cash outlays are estimated to total approximately SEK 1.7 billion.

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**C19 Interest-bearing liabilities**

As of December 31, 2014, the Company's outstanding interest-bearing liabilities stood at SEK 24.1 (29.5) billion.

**Interest-bearing liabilities**

	2014	2013
<b>Borrowings, current</b>		
Current part of non-current borrowings <sup>1)</sup>	946	6,037
Other current borrowings	1,335	1,351
<b>Total current borrowings</b>	<b>2,281</b>	<b>7,388</b>
<b>Borrowings, non-current</b>		
Notes and bond loans	14,346	14,522
Other borrowings, non-current	7,518	7,545
<b>Total non-current interest-bearing liabilities</b>	<b>21,864</b>	<b>22,067</b>
<b>Total interest-bearing liabilities</b>	<b>24,145</b>	<b>29,455</b>

1) Including notes and bond loans of SEK 0 (1.966) million.

To secure long term funding the Company uses notes and bond programs together with bilateral research and development loans. All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium-Term Note (EMTN) program or under its U.S. Securities and Exchange Commission (SEC) Registered program. Bonds issued at a fixed interest rate could be swapped to a floating interest rate using interest rate swaps, and normally a maximum of 50% of all outstanding loans are at fixed interest rates. Total weighted average interest rate cost during the year was 3.45% (3.27%). Outstanding notes and bonds are revalued based on changes in benchmark interest rates according to the fair value hedge methodology stipulated in IAS 39.

In January 2014, the Company repaid the SEK 4 billion EIB loan with original maturity in July 2015.

In February 2014, the Company repaid the USD 300 million note from the Swedish Export Credit Corporation with original maturity in 2016.

In June 2014, the Company repaid the EUR 220 million note.

In June 2014, the Company exercised the option to extend the maturity of the USD 2 billion multi-currency revolving credit facility with one year to June 2019. One extension option of one year remains.

**Notes, bonds, bilateral loans and committed credits**

Issued maturing	Nominal amount	Coupon	Currency	Book value (SEK m.)	Maturity date	Unrealized hedge gain/loss (included in book value)
<b>Notes and bond loans</b>						
2007 2017	500	5.375%	EUR	5,277 <sup>1)</sup>	June 27, 2017	551

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2010	2020	170		USD	1,325	December 23, 2020
2012	2022	1,000	4.125%	USD	7,744	May 15, 2022
<b>Total notes and bond loans</b>					<b>14,346</b>	<b>551</b>
<b>Bilateral loans</b>						
2012	2019	98		USD	763	September 30, 2019
2012	2021	98		USD	764	September 30, 2021
2013	2020	684		USD	5,332	November 6, 2020
<b>Total bilateral loans</b>					<b>6,859</b>	
<b>Committed credit</b>						
Long-term committed credit facility <sup>6)</sup>		2,000		USD	0	June 27, 2019
<b>Total committed credit</b>					<b>0</b>	

- 1) Interest rate swaps are designated as fair value hedges.
- 2) Private Placement, Swedish Export Credit Corporation (SEK).
- 3) Nordic Investment Bank (NIB), R&D project financing.
- 4) Nordic Investment Bank (NIB), R&D project financing.
- 5) European Investment Bank (EIB), R&D project financing.
- 6) Multi-currency revolving credit facility. Unutilized. One extension option of one year remains.



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**C20 Financial risk management and financial instruments**

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

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

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

The Company's capital objectives are:

To maintain an equity ratio above 40%

A cash conversion rate above 70%

To maintain a positive net cash position

To maintain a solid investment grade rating by Moody's and Standard & Poor's.

**Capital objectives-related information, SEK billion**

	<b>2014</b>	<b>2013</b>
Capital	145	142
Equity ratio	50%	53%
Cash conversion	84%	79%
Positive net cash	27.6	37.8

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

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

The Company classifies financial risks as:

Foreign exchange risk

Interest rate risk

Credit risk

Liquidity and refinancing risk

Market price risk in own and other equity instruments.

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

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

### **Foreign exchange risk**

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

The Company reports the financial statements in SEK. Movements in exchange rates between currencies that affect these statements are impacting the comparability between periods.

Line items, primarily sales, are impacted by translation exposure incurred when converting foreign entities' financial statements into SEK. Line items and profitability, such as operating income are impacted by transaction exposure incurred when financial assets and liabilities, primarily, trade receivables and trade payables, are initially recognized and subsequently remeasured due to change in foreign exchange rates.

The table below presents the net exposure for the eight largest currencies impact on sales and also net transaction exposure of these currencies on profitability.

### **Currency exposure, SEK billion**

Exposure currency	Sales translation exposure	Sales transaction exposure	Sales net exposure	Incurred cost transaction exposure <sup>1)</sup>	Net transaction exposure
USD	53.5	51.1	104.6	19.6	31.5
EUR	30.5	13.1	43.6	4.4	8.7
CNY	14.2	0.3	13.9	2.0	2.3
JPY	9.4	0.0	9.4	5.0	5.0
INR	7.6	0.0	7.6	0.5	0.4
BRL	7.1	0.0	7.1	1.4	1.3
GBP	7.1	1.6	5.5	0.8	0.8
MXN	3.8	4.0	0.2	1.4	2.6

1) Transactions in foreign currency - internal sales, internal purchases, external purchases.

### **Translation exposure**

Translation exposure relates to sales and cost incurred in foreign entities when converted into SEK upon consolidation. These exposures cannot be addressed by hedging, but as the income statement is translated using average rate, the impact of volatility in foreign currency rates is reduced.

**Transaction exposure**

Transaction exposure relates to sales and cost incurred in non-reporting currencies in individual group companies. Foreign exchange risk is as far as possible concentrated in Swedish group companies, primarily Ericsson AB. Sales to foreign subsidiaries are normally denominated in the functional currency of the customers, and so tend to be denominated in USD or another foreign currency. In order to limit the exposure toward exchange rate fluctuations on future revenues and costs, committed and forecasted future sales and purchases in major currencies are hedged with 7% of 12-month forecast monthly. By this way, the Company will have hedged 84% of the next month and 7% of the 12th month of an average forecast of the individual month at any given reporting date. This corresponds to approximately 5-6 months of an average forecast.

Outstanding derivatives contracts that are hedging future sales and costs incurred are revalued against Other operating income and expense. The sensitivity in Other operating income and expense in relation to this revaluation is dependent on changes in foreign exchange rates, forecasts, seasonality and hedging policy. USD is the Company's largest exposure and at year-end a change by 0.25 SEK/USD would impact profit and loss with approximately SEK 0.5 billion. Revaluation results of these derivative contracts amounted to SEK 2 billion in 2014.

According to Company policy, transaction exposure in subsidiaries' balance sheets (i.e., trade receivables and payables and customer finance receivables) should be fully hedged, except for non-tradable currencies.

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

**Interest rate risk**

The Company is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position was SEK 27.6 (37.8) billion

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at the end of 2014, consisting of cash, cash equivalents and short-term investments of SEK 72.2 (77.1) billion and interest-bearing liabilities and post-employment benefits of SEK 44.5 (39.3) billion.

The Company manages the interest rate risk by i) matching fixed and floating interest rates in interest-bearing balance sheet items and ii) avoiding significant fixed interest rate exposure in the Company's net cash position. The policy is that interest-bearing assets shall have an average interest duration of between 10 and 14 months, taking derivative instruments into consideration. Interest-bearing liabilities do not have a firm target for the duration, nor a firm target for fixed/floating interest rate, as duration and interest mix are decided based on market conditions when the liabilities are issued. Group Treasury has a mandate to deviate from the asset management benchmark given by the Board and take foreign exchange positions up to an aggregated risk of VaR SEK 45 million given a confidence level of 99% and a 1-day horizon.

**Interest duration, SEK billion**

	< 3M	3 12M	1 3Y	3 5Y	>5Y	Total
Interest-bearing trading	2.0	0.2	2.1	0.0	0.3	0
Interest-bearing assets	36.5	7.2	9.9	20.6	2.0	72.2
Interest-bearing liabilities	31.7	0.0	4.7	0.6	7.5	44.5

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

**Outstanding derivatives****Outstanding derivatives <sup>1)</sup>**

Fair value	2014		2013	
	Asset	Liability	Asset	Liability
<b>Currency derivatives</b>				
Maturity within 3 months	221	1,132	512	158
Maturity between 3 and 12 months	90	933	293	9
Maturity between 1 and 3 years			8	
<b>Total</b>	<b>311</b>	<b>2,065</b>	<b>813</b>	<b>167</b>
<i>Of which designated in cash flow hedge relations</i>				
<i>Of which designated in net investment hedge relations</i>				
<b>Interest rate derivatives</b>				
Maturity within 3 months		5		
Maturity between 3 and 12 months	72	896	186	269
Maturity between 1 and 3 years	937	656	382	688
Maturity between 3 and 5 years	85	285	663	163
Maturity of more than 5 years	146	211	101	36
<b>Total</b>	<b>1,240<sup>2)</sup></b>	<b>2,053</b>	<b>1,332<sup>2)</sup></b>	<b>1,156</b>
<i>Of which designated in fair value hedge relations</i>	669		724	

1) Some of the derivatives hedging non-current liabilities are recognized in the balance sheet as non-current derivatives due to hedge accounting.

2) Of which SEK 551 (613) million is reported as non-current assets.

**Sensitivity analysis**

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

The average VaR calculated for 2014 was SEK 12.2 (16.3) million for the combined mandates. No VaR-limits were exceeded during 2014.

**Financial credit risk**

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

The Company mitigates these risks by investing cash primarily in well-rated securities such as treasury bills, government bonds, commercial papers, and mortgage-covered bonds with short-term ratings of at least A-2/P-2 or equivalents, and long-term ratings of AAA. Separate credit limits are assigned to each counterparty in order to minimize risk concentration. All derivative transactions are covered by ISDA netting agreements to reduce the credit risk.

At December 31, 2014, the credit risk in financial cash instruments was equal to the instruments' carrying value. Credit exposure in derivative instruments was SEK 1.6 (2.1) billion.

**Liquidity risk**

The Company minimizes the liquidity risk by maintaining a sufficient cash position, centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. For information about contractual obligations, please see Note C31, Contractual obligations. The current cash position is deemed to satisfy all short-term liquidity requirements as well as non-current borrowings.

**Cash, cash equivalents and short-term investments**

SEK billion	Remaining time to maturity				Total
	< 3 months	3 12 months	1 5 years	>5 years	
<b>Banks</b>	38.2	0.3	0.0	0.0	38.5
<b>Type of issuer/counterpart</b>					
Governments	1.0	5.6	12.3	0.6	19.5
Corporates	2.9	0.0	0.0	0.0	2.9
Mortgage institutes	0.0	1.0	10.2	0.1	11.3
<b>2014</b>	<b>42.1</b>	<b>6.9</b>	<b>22.5</b>	<b>0.7</b>	<b>72.2</b>
2013	42.5	4.4	26.5	3.7	77.1

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

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**Refinancing risk**

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

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

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

**Funding programs<sup>1)</sup>**

	Amount	Utilized	Unutilized
Euro Medium-Term Note program (USD million)	5,000	778	4,223
SEC Registered program (USD million)	<sup>2)</sup>	1,000	

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

2) Program amount indeterminate.

**Fair valuation of the Company's financial instruments**

The Company's financial instruments accounted for at fair value generally meet the requirements of level 1 valuation due to the fact that they are based on quoted prices in active markets for identical assets.

Exceptions to this relates to:

OTC derivatives with an amount of gross SEK 2.9 (5.2) billion in relation to assets and gross SEK 5.5 (4.4) billion in relation to liabilities were valued based on references to other market data as currency or interest rates. These valuations fall under level 2 valuation as defined by IFRS.

Ownership in other companies where the Company neither has control nor significant influence. The amount recognized in these cases was SEK 0.5 (0.5) billion. These assets, classified as level 3 assets for valuation purposes, have been valued based on value in use technique.

**Financial instruments carried at other than fair value**

The fair value of the Company's financial instruments, recognized at fair value, is determined based on quoted market prices or rates. For further information about valuation principles, see Note C1, Significant accounting policies.

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

**Market price risk in own shares and other listed equity investments****Risk related to the Company's own share price**

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The Company is exposed to fluctuations in its own share price through stock purchase plans for employees and synthetic share-based compensations to the Board of Directors

### *Stock purchase plans for employees*

The obligation to deliver shares under the stock purchase plan is covered by holding Ericsson Class B shares as treasury stock. A change in the share price will result in a change in social security charges, which represents a risk to the income statement. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares as treasury stock to be sold to generate funds, which also cover social security payments.

### *Synthetic share-based compensations to the Board of Directors*

In the case of these plans, the Company is exposed to risks in relation to own share price, both with regards to compensation expenses and social security charges. The obligation to pay compensation amounts under the synthetic share-based compensations to the Board of Directors is covered by a liability in the balance sheet.

For further information about the stock purchase plan and synthetic share-based compensations to the Board of Directors, see note C28, Information regarding members of the Board of Directors, the Group management and employees.

### **Offsetting financial assets and liabilities**

As required by IFRS, the Company has off set financial instruments under ISDA agreements. The related assets amounted to SEK 2.9 (5.2) billion, prior to offsetting of SEK 1.4 (3.1) billion, with a net amount of SEK 1.5 (2.1) billion recognized in the balance sheet. The related liabilities amounted to SEK 5.5 (4.4) billion, prior to offsetting of SEK 1.4 (3.1) billion, with a net amount of SEK 4.1 (1.3) billion recognized in the balance sheet.

### **Financial instruments, book value**

SEK billion	Customer finance	Trade receivables	Short- term invest- ments	Cash equiva- lents	Borrowings	Trade payables	Other financial assets	Other current receiv- ables	Other current liabilities	2014	2013
Note	C14	C14			C19	C22	C12	C15	C21		
Assets at fair value through profit or loss			31.2	8.9			0.6	1.0	4.1	37.6	46.9
Loans and receivables	4.2	77.9		2.4			5.3			89.8	81.9
Financial liabilities at amortized cost					24.1	24.5				48.6	50.0
<b>Total</b>	<b>4.2</b>	<b>77.9</b>	<b>31.2</b>	<b>11.3</b>	<b>24.1</b>	<b>24.5</b>	<b>5.9</b>	<b>1.0</b>	<b>4.1</b>	<b>78.8</b>	<b>78.8</b>



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**C21 Other current liabilities****Other current liabilities**

	<b>2014</b>	<b>2013</b>
Income tax liabilities	3,225	2,805
Advances from customers	10,076	5,471
Accrued interest	212	208
Accrued expenses	35,805	32,810
<i>Of which employee-related</i>	<i>13,762</i>	<i>11,532</i>
<i>Of which supplier-related</i>	<i>13,863</i>	<i>11,478</i>
<i>Of which other<sup>1)</sup></i>	<i>8,180</i>	<i>9,800</i>
Deferred revenues	11,057	9,887
Derivatives with a negative value <sup>2)</sup>	4,118	1,323
Other <sup>3)</sup>	5,352	5,810
<b>Total</b>	<b>69,845</b>	<b>58,314</b>

1) Major balance relates to accrued expenses for customer projects.

2) See Note C20, Financial risk management and financial instruments.

3) Includes items such as VAT and withholding tax payables and other payroll deductions, and liabilities for goods received where the related invoice has not yet been received.

**C22 Trade payables****Trade payables**

	<b>2014</b>	<b>2013</b>
Payables to associated companies	288	333
Other	24,185	20,169
<b>Total</b>	<b>24,473</b>	<b>20,502</b>

**C23 Assets pledged as collateral****Assets pledged as collateral**

	<b>2014</b>	<b>2013</b>
Chattel mortgages <sup>1)</sup>	2,222	2,177
Bank deposits	303	379
<b>Total</b>	<b>2,525</b>	<b>2,556</b>

1) See also Note C17, Post-Employment benefits.

**C24 Contingent liabilities**

**Contingent liabilities**

	<b>2014</b>	<b>2013</b>
Contingent liabilities	737	657
<b>Total</b>	<b>737</b>	<b>657</b>

Contingent liabilities assumed by Ericsson include guarantees of loans to other companies of SEK 25 (23) million. Ericsson has SEK 33 (37) million issued to guarantee the performance of a third party.

All ongoing legal and tax proceedings have been evaluated, their potential economic outflows and probability estimated and necessary provisions made. In Note C2, Critical Accounting Estimates and Judgments, further disclosure is presented in relation to (i) key sources of estimation uncertainty and (ii) the decision made in relation to accounting policies applied.

Financial guarantees for third parties amounted to SEK 81 (116) million as of December 31, 2014. The maturity date for the majority of the issued guarantees occurs in 2018 at the latest.

**C25 Statement of cash flows**

Interest paid in 2014 was SEK 1,120 million (SEK 1,233 million in 2013 and SEK 1,650 million in 2012) and interest received in 2014 was SEK 1,369 million (SEK 1,266 million in 2013 and SEK 1,883 million in 2012). Taxes paid, including withholding tax, were SEK 6,114 million in 2014 (SEK 6,537 million in 2013 and SEK 5,750 million in 2012).

Cash and cash equivalents include cash of SEK 29,650 (28,618) million and temporary investments of SEK 11,338 (13,477) million. For more information regarding the disposition of cash and cash equivalents and unutilized credit commitments, see Note C20, Financial risk management and financial instruments.

Cash and cash equivalents as of December 31, 2014, include SEK 5.4 billion (4.9) in countries where there exist significant cross-border conversion restrictions due to hard currency shortage or strict government controls. This amount is therefore not considered available for general use by the Parent Company.

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**Adjustments to reconcile net income to cash**

	2014	2013	2012
<b>Property, plant and equipment</b>			
Depreciation	4,329	4,227	4,052
Impairment losses/reversals of impairments	13	18	40
<b>Total</b>	<b>4,316</b>	<b>4,209</b>	<b>4,012</b>
<b>Intangible assets</b>			
<i>Amortization</i>			
Capitalized development expenses	1,270	1,407	1,058
Intellectual Property Rights, brands and other intangible assets	4,328	4,521	4,436
<b>Total amortization</b>	<b>5,598</b>	<b>5,928</b>	<b>5,494</b>
<i>Impairments</i>			
Capitalized development expenses	31		266
Intellectual Property Rights, brands and other intangible assets			117
<b>Total</b>	<b>5,629</b>	<b>5,928</b>	<b>5,877</b>
<b>Total depreciation, amortization and impairment losses on property, plant and equipment and intangible assets</b>	<b>9,945</b>	<b>10,137</b>	<b>9,889</b>
Taxes	1,235	1,323	1,140
Dividends from joint ventures/associated companies <sup>1)</sup>	249	128	133
Undistributed earnings in joint ventures/associated companies <sup>1)</sup>	56	130	11,636
Gains/losses on sales of investments and operations, intangible assets and PP&E, net <sup>2)</sup>	128	976	8,087
Other non-cash items <sup>3)</sup>	2,057	220	646
<b>Total adjustments to reconcile net income to cash</b>	<b>11,200</b>	<b>9,828</b>	<b>13,077</b>

1) See Note C12, Financial assets, non-current.

2) See Note C26, Business combinations.

3) Refers mainly to unrealized foreign exchange, gains/losses on financial instruments.

**Acquisitions/divestments of subsidiaries and other operations**

	Acquisitions	Divestments
<b>2014</b>		
Cash flow from business combinations <sup>1)</sup>	4,410	42
Acquisitions/divestments of other investments	32	6
<b>Total</b>	<b>4,442</b>	<b>48</b>
<b>2013</b>		
Cash flow from business combinations <sup>1)</sup>	3,054	448
Acquisitions/divestments of other investments	93	17

<b>Total</b>	<b>3,147</b>	<b>465</b>
<b>2012</b>		
Cash flow from business combinations <sup>1)</sup>	11,575	9,502
Acquisitions/divestments of other investments	46	50
<b>Total</b>	<b>11,529</b>	<b>9,452</b>

1) See also Note C26, Business combinations.

## C26 Business combinations

### Acquisitions and divestments

#### Acquisitions

*Acquisitions 2012 - 2014*

	2014	2013	2012
<b>Total consideration, including cash</b>	<b>4,767</b>	<b>3,176</b>	<b>12,564<sup>1)</sup></b>
<b>Acquisition-related costs<sup>2)</sup></b>	50	101	150
<b>Net assets acquired</b>			
Cash and cash equivalents	407	223	1,139
Property, plant and equipment	427	597	480
Intangible assets	2,540	1,551	6,672
Investments in joint ventures and associated companies			
Other assets	817	850	2,105
Provisions, including post-employment benefits	288	463	714
Other liabilities	1,150	1,705	3,214
<b>Total identifiable net assets</b>	<b>2,753</b>	<b>1,053</b>	<b>7,896</b>
<b>Operating expenses</b>		<b>410</b>	
<b>Non-controlling interest</b>		<b>67</b>	<b>375</b>
<b>Goodwill</b>	<b>2,014</b>	<b>1,646</b>	<b>4,293</b>
<b>Total</b>	<b>4,767</b>	<b>3,176</b>	<b>12,564</b>

1) The cash transaction includes payment of external loan of SEK 6.2 billion and investment in subsidiary of SEK 2.5 billion.

2) Acquisition-related costs are included in Selling and administrative expenses in the consolidated income statement.

In 2014, Ericsson made acquisitions with a negative cash flow effect amounting to SEK 4,410 (3,054) million. The acquisitions presented below are not material but the Company gives the information to provide the reader a summarized view of the content of the acquisitions made. The acquisitions consist primarily of:

**Apcera:** On October 10, 2014, the Company acquired a majority stake of the shares in Apcera, a U.S.- based enterprise services company and creator of Continuum - a next-generation platform as-a-service (PaaS). The move strengthens Ericsson's position in the cloud market by extending the company's network approach into operator and enterprise cloud. The amounts recognized in the financial statements for the business combination are preliminary.

**Azuki:** On February 14, 2014, the Company acquired 100% of the shares in Massachusetts-based Azuki Systems, Inc., a provider of TV Anywhere delivery platforms for service providers, content owners and broadcasters. Azuki Systems extends Ericsson's leading TV and media portfolio which includes the recent addition of Mediaroom from Microsoft. Through the acquisition, Ericsson will

accelerate the availability of new and compelling viewing experiences across a variety of devices and screens. In addition, Ericsson will gain additional key functionality related to the deployment of TV Anywhere services, including adaptive bit rate and content protection technologies. The amounts recognized in the financial statements for the business combination are final.

**Fabrix:** On October 8, 2014, the Company acquired 100% of the shares in Fabrix Systems, a leading provider of cloud storage, computing and network delivery for video applications that today power some of the most advanced cable and telecom cloud DVR deployments. Fabrix Systems further extends Ericsson's leading TV and media portfolio with a cloud based scale out storage and computing platform focused on providing a simple, tightly integrated solution optimized for media storage, processing and delivery applications such as cloud DVR and video-on-demand (VOD) expansion. The approach takes advantage of the latest advances in clustered storage; grid computing; virtualization and video processing technologies enabling a wide range of applications. The amounts recognized in the financial statements for the business combination are preliminary.

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**MetraTech:** On September 15, 2014, the Company acquired assets from US-based MetraTech Corp., a provider of metadata-based billing, commerce and settlement solutions uniquely adaptable to multiple business models and industries. The acquisition includes all 140 employees and contractors comprising a team of highly-skilled software experts. It will further build upon Ericsson's expertise in billing and expands its geographic presence in the US. The deal was structured as an asset deal. The amounts recognized in the financial statements for the business combination are preliminary.

**Red Bee Media:** On May 9, 2014, the Company acquired 100% of the shares in Red Bee Media, a leading media services company headquartered in the UK. Ericsson looks forward to working with Red Bee Media's extensive list of high-profile broadcast services customers, including the BBC, BSkyB, BT Sport, Canal Digital, Channel 4, EE, UKTV, UPC, Virgin Media, and many more. In addition, Ericsson has gained 1,500 highly skilled employees as well as media services and operations facilities in the UK, France, Germany, Spain and Australia. This will further strengthen Ericsson's broadcast services business. The amounts recognized in the financial statements for the business combination are final.

In order to finalize a purchase price allocation all relevant information needs to be in place. Examples of such information are final consideration and final opening balances, which may remain preliminary for a period of time due to for example adjustments of working capital, tax items or decisions from local authorities.

**Divestments***Divestments 2012 - 2014*

	2014	2013	2012
<b>Proceeds</b>	<b>42</b>	<b>655</b>	<b>9,502</b>
<b>Net assets disposed of</b>			
Property, plant and equipment		297	
Investments in joint ventures and associated companies	32		1,353
Other assets	46	1,326	296
Other liabilities		127	483
	<b>78</b>	<b>1,496</b>	<b>1,166</b>
Net gains/losses from divestments	36	841	8,336
Less Cash and cash equivalents		207	
<b>Cash flow effect</b>	<b>42</b>	<b>448</b>	<b>9,502</b>

In 2014, the Company made some minor divestments with a cash flow effect amounting to SEK 42 (448) million.

*Acquisitions 2012 - 2014*

Company	Description	Transaction date
Apcera	The acquisition of a majority stake in Apcera strengthens Ericsson's position in enterprise cloud.	Oct 2014
Fabrix	The acquisition of Fabrix Systems extends Ericsson's overall leadership position in TV & Media.	Oct 2014
MetraTech	The acquisition of MetraTech accelerates Ericsson's cloud and enterprise billing capabilities within BSS.	Sep 2014

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Red Bee Media	A leading media services company headquartered in the UK with an extensive list of high-profile broadcast services customers.	May 2014
Azuki	A provider of TV Anywhere delivery platforms for service providers, content owners and broadcasters.	Feb 2014
Airvana	A Massachusetts-based company and supplier of EVDO software to Ericsson.	Sep 2013
Mediaroom	The leading platform for video distribution deployed with the world's largest IPTV operators.	Sep 2013
Telcocell	A consulting and systems integration company specializing in Business Support Systems (BSS).	Sep 2013
Modems	Ericsson has taken on the design, development and sales of the LTE multimode thin modem solutions, including 2G, 3G and 4G interoperability.	Aug 2013
Devoteam	A leader in Information and Communications Technology consulting with 5,000 employees in Europe, the Middle East and Africa.	Apr 2013
ConceptWave	A Canadian OSS and BSS company.	Sep 2012
Technicolor	A technology company in the media and entertainment sector.	Jul 2012
BelAir	A telecom-grade Wi-Fi company based in Canada.	Apr 2012
Ericsson-LG	Increase of ownership from 50% plus one share, to 75%.	Mar 2012
Telcordia <i>Divestments 2012-2014</i>	A US company developing software and services for OSS and BSS.	Jan 2012

<b>Company</b>	<b>Description</b>	<b>Transaction date</b>
Telecom cable business	Divestment of the telecom cable business in Hudiksvall, Sweden, to Hexatronic. It resulted in a loss of SEK 0.5 billion.	Dec 2013
Power cables operation	Divestment of the power cables operation to NKT Cables. The transaction resulted in a loss of SEK 0.1 billion.	Jul 2013
Applied Communication Sciences	Sale of Applied Communication Sciences (ACS), the former research and engineering arm of Telcordia Technologies. This resulted in a loss of SEK 0.3 billion.	May 2013
IPX	Sale of IPX to Gemalto, with a positive cash flow effect of SEK 260 million.	Sep 2012
EDA 1500 GPON	Capital asset sale of EDA 1500 GPON portfolio with a positive cash flow effect of SEK 80 million.	Aug 2012
Sony Ericsson	Sale of the Company's share in Sony Ericsson (50%) to Sony, with a positive cash flow effect of SEK 9.1 billion.	Feb 2012



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**C27 Leasing****Leasing with the Company as lessee**

Assets under finance leases, recorded as property, plant and equipment, consist of:

**Finance leases**

	2014	2013
<b>Cost</b>		
Real estate	650	1,774
Machinery		3
	<b>650</b>	<b>1,777</b>
<b>Accumulated depreciation</b>		
Real estate	212	610
Machinery		3
	<b>212</b>	<b>613</b>
<b>Accumulated impairment losses</b>		
Real estate		25
		<b>25</b>
<b>Net carrying value</b>	<b>438</b>	<b>1,139</b>

As of December 31, 2014, future minimum lease payment obligations were distributed as follows:

**Future minimum lease payment obligations**

	Finance leases	Operating leases
2015	71	2,352
2016	69	1,931
2017	68	1,355
2018	67	1,035
2019	67	878
2020 and later	516	3,924
<b>Total</b>	<b>858</b>	<b>11,475</b>
Future finance charges <sup>1)</sup>	256	n/a
<b>Present value of finance lease liabilities</b>	<b>602</b>	<b>n/a</b>

1) Average effective interest rate on lease payables is 8.20%.

Expenses in 2014 for leasing of assets were SEK 2,662 (2,517) million, of which variable expenses comprised SEK 19 (18) million. The leasing contracts vary in length from 1 to 24 years.

The Company's lease agreements normally do not include any contingent rents. In the few cases they occur, they relate to charges for heating linked to the oil price index. Most of the leases of real estate contain terms of renewal, giving the Company the right to prolong the agreement in question for a predefined period of time. All of the finance leases of facilities contain purchase options. Only a very limited number of the Company's lease agreements contain restrictions on stockholders' equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders' equity of at least SEK 25 billion.

**Leases with the Company as lessor**

Leasing income relates to subleasing of real estate as well as equipment provided to customers under leasing arrangements. These leasing contracts vary in length from 1 to 17 years.

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At December 31, 2014, future minimum payment receivables were distributed as follows:

**Future minimum payment receivables**

	<b>Finance leases</b>	<b>Operating leases</b>
2015	26	30
2016	27	16
2017	1	15
2018	1	6
2019		0
2020 and later		2
<b>Total</b>	<b>55</b>	<b>69</b>
Unearned financial income	n/a	n/a
Uncollectible lease payments	n/a	n/a
<b>Net investments in financial leases</b>	<b>n/a</b>	<b>n/a</b>

Leasing income in 2014 was SEK 74 (165) million.

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**C28 Information regarding members of the Board of Directors, the Group management and employees****Remuneration to the Board of Directors****Remuneration to members of the Board of Directors**

SEK	Board fees	Number of synthetic shares/ portion of Board fee	Value at grant date of synthetic shares allocated in 2014 A	Number of previously allocated synthetic shares outstanding	Net change in value of synthetic shares <sup>1)</sup> B	Committee fees	Total fees paid in cash <sup>2)</sup> C	Total remuneration 2014 (A+B+C)
<b>Board member</b>								
Leif Johansson	3,975,000	0/0%				400,000	4,375,000 <sup>3)</sup>	4,375,000
Sverker Martin Löf	950,000	0/0%				175,000	1,125,000 <sup>4)</sup>	1,125,000
Jacob Wallenberg	950,000	2,976/25%	237,455	12,050	301,555	175,000	887,500	1,426,510
Roxanne S. Austin	950,000	2,976/25%	237,455	23,147	673,905	175,000	887,500	1,798,860
Sir Peter L. Bonfield	950,000	0/0%		7,944	217,687	250,000	1,200,000	1,417,687
Nora Denzel	950,000	2,976/25%	237,455		43,331		712,500	993,286
Börje Ekholm	950,000	8,929/75%	712,445	32,249	941,756	175,000	412,500	2,066,701
Alexander Izosimov	950,000	2,976/25%	237,455	6,296	171,613		712,500 <sup>5)</sup>	1,121,568
Ulf J. Johansson	950,000	0/0%		6,571	263,274	350,000	1,300,000 <sup>6)</sup>	1,563,274
Kristin Skogen Lund	950,000	2,976/25%	237,455	2,804	96,186		712,500	1,046,141
Hans Vestberg								
Pär Östberg	950,000	0/0%				250,000	1,200,000	1,200,000
<i>Employee</i>								
<i>Representatives</i>								
Pehr Claesson	13,500						13,500	13,500
Kristina Davidsson	13,500						13,500	13,500
Karin Åberg	13,500						13,500	13,500
Rickard Fredriksson	13,500						13,500	13,500
Karin Lennartsson	12,000						12,000	12,000
Roger Svensson	10,500						10,500	10,500
<b>Total</b>	<b>13,551,500</b>	<b>23,809</b>	<b>1,899,720</b>	<b>91,061</b>	<b>2,709,307</b>	<b>1,950,000</b>	<b>13,601,500</b>	<b>18,210,527<sup>7)</sup></b>
<b>Total</b>	<b>13,551,500</b>	<b>23,809</b>	<b>1,899,720</b>	<b>99,966<sup>8)</sup></b>	<b>3,000,694<sup>8)9)</sup></b>	<b>1,950,000</b>	<b>13,601,500</b>	<b>18,501,914<sup>7)</sup></b>

1) The difference in value as of the time for payment, compared to December 31, 2013, for synthetic shares allocated in 2009 (for which payment was made in 2014).

The difference in value as of December 31, 2014, compared to December 31, 2013, for synthetic shares allocated in 2010, 2011, 2012 and 2013. Calculated on a share price of SEK 94.35.

The difference in value as of December 31, 2014, compared to grant date for synthetic shares allocated in 2014.

The value of synthetic shares allocated in 2010, 2011, 2012 and 2013 includes respectively SEK 2.25, SEK 2.50, SEK 2.75 and SEK 3.00 per share in compensation for dividends resolved by the Annual General Meetings 2011, 2012, 2013 and 2014 and the value of the synthetic shares

allocated in 2009 includes dividend compensation for dividends resolved in 2010, 2011, 2012 and 2013.

- 2) Committee fee and cash portion of the Board fee.
- 3) In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 1,374,625.
- 4) In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 114,863.
- 5) In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 223,868.
- 6) In addition, an amount corresponding to statutory social charges in respect of the part of the fee that has been invoiced through a company was paid, amounting to SEK 132,730.
- 7) Excluding social security charges to the amount of SEK 4,942,427.
- 8) Including synthetic shares previously allocated to the former Director Nancy McKinstry.
- 9) Including synthetic shares previously allocated to the former Director Michelangelo Volpi, where the difference in value is the difference as of the time for payment, compared to December 31, 2013.

**Comments to the table**

The Chairman of the Board was entitled to a Board fee of SEK 3,975,000 and a fee of SEK 200,000 for each Board Committee on which he served as Chairman.

The other Directors elected by the Annual General Meeting were entitled to a fee of SEK 950,000 each. In addition, the Chairman of the Audit Committee was entitled to a fee of SEK 350,000 and the other non-employee members of the Audit Committee were entitled to a fee of SEK 250,000 each. The Chairmen of the Finance and Remuneration Committees were entitled to a fee of SEK 200,000 each and the other non-employee members of the Finance and the Remuneration Committees were entitled to a fee of SEK 175,000 each.

Members of the Board, who are not employees of the Company, have not received any remuneration other than the fees and synthetic shares as above. None of the Directors have entered into a service contract with the Parent Company or any of its subsidiaries, providing for termination benefits.

Members and deputy members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees and a fee to the employee representatives and their deputies of SEK 1,500 per attended Board meeting.

Board members invoicing for the amount of the Board and Committee fee through a company may add to the invoice an amount corresponding to social charges. The social charges thus included in the invoiced amount are not higher than the general payroll tax that would otherwise have been paid by the Company. The entire amount, i.e., the cash portion of the Board fee and the Committee fee, including social charges, constitutes the invoiced Board fee.

The Annual General Meeting 2014 resolved that non-employee Directors may choose to receive the Board fee (i.e., exclusive of Committee fee) as follows: i) 25% of the Board fee in cash and 75% in the form of synthetic shares, with a value corresponding to 75% of the Board fee at the time of allocation, ii) 50% in cash and 50% in the form of synthetic shares, or iii) 75% in cash and 25% in the form of synthetic shares. Directors may also choose not to participate in the synthetic share program and receive 100% of the Board fee in cash. Committee fees are always paid in cash.

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The number of synthetic shares allocated is based on a volume-weighted average of the market price of Ericsson Class B shares on Nasdaq Stockholm during the five trading days immediately following the publication of Ericsson's interim report for the first quarter 2014: SEK 79.79. The number of synthetic shares is rounded down to the nearest whole number of shares.

The synthetic shares are vested during the Directors' term of office and the right to receive payment with regard to the allocated synthetic shares occurs after the publication of the Company's year-end financial statement during the fifth year following the Annual General Meeting which resolved on the synthetic share program, i.e., in 2019. The amount payable shall be determined based on the volume-weighted average price for shares of Class B during the five trading days immediately following the publication of the year-end financial statement.

Synthetic shares were allocated to members of the Board for the first time in 2008 and have been allocated annually since then on equal terms and conditions. Payment based on synthetic shares allocated in 2009 occurred in 2014. In 2014, advance payment was also made to the former Director Michelangelo Volpi with respect to his synthetic shares, all in accordance with the terms and conditions for the synthetic shares. The amounts paid in 2014 under the synthetic share programs were determined based on the volume-weighted average price for shares of Class B on Nasdaq Stockholm during the five trading days immediately following the publication of the year-end financial statements for 2013: SEK 80.06 and totalled SEK 3,302,811, excluding social security charges. The payments made do not constitute a cost for the Company in 2014. The Company's costs for the synthetic shares have been disclosed each year and the net change in value of the synthetic shares for which payment was made in 2014, is disclosed in the table "Remuneration to members of the Board of Directors" on page 88.

The value of all outstanding synthetic shares fluctuates in line with the market value of Ericsson's Class B share and may differ from year to year compared to the original value on their respective grant dates. The change in value of the outstanding synthetic shares is established each year and affects the total recognized costs that year. As of December 31, 2014, the total outstanding number of synthetic shares under the programs is 123,775 and the total accounted debt is SEK 12,380,400 (including synthetic shares previously allocated to the former Director Nancy McKinstry).

**Remuneration to the Group management**

The Company's costs for remuneration to the Group management are the costs recognized in the Income statement during the fiscal year. These costs are disclosed under "Remuneration costs" below.

Costs recognized during a fiscal year in the Income statement are not fully paid by the Company at the end of the fiscal year. The unpaid amounts that the Company has in relation to the Group management are disclosed under "Outstanding balances".

**Remuneration costs**

The total remuneration to the President and CEO and to other members of the Group management, consisting of the Executive Leadership Team (ELT), includes fixed salary, short-term and long-term variable compensation, pension and other benefits. These remuneration elements are based on the guidelines for remuneration to Group management as approved by the Annual General Meeting held in 2014: see the approved guidelines in section "Guidelines for remuneration to Group management 2014".

**Remuneration costs for the President and CEO and other members of Executive Leadership Team (ELT)**

SEK	The President and CEO 2014	The President and CEO 2013	Other members of ELT 2014	Other members of ELT 2013	Total 2014	Total 2013
Salary	13,617,013	13,177,080	87,958,871	90,320,536	101,575,884	103,497,616
Cost for annual variable remuneration earned 2014 to be paid 2015	13,342,079	3,256,151	38,584,082	22,880,144	51,926,161	26,136,295
Long-term variable compensation provision	6,733,294	8,184,603	8,644,039	9,066,127	15,377,333	17,250,731
Pension costs	8,909,314	6,847,596	26,308,223	22,971,876	35,217,537	29,819,473

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Other benefits	72,188	68,704	6,315,568	5,370,876	6,387,757	5,439,579
Social charges and taxes	12,750,392	9,368,485	26,880,902	26,838,704	39,631,293	36,207,190
<b>Total</b>	<b>55,424,281</b>	<b>40,902,620</b>	<b>194,691,685</b>	<b>177,448,263</b>	<b>250,115,966</b>	<b>218,350,883</b>

### Comments to the table

During 2014, there were three Executive Vice Presidents, who have been appointed by the Board of Directors. None of them has acted as deputy to the President and CEO during the year. The Executive Vice Presidents are included in the group Other members of ELT.

The group Other members of ELT comprises the following persons: Per Borgklint, Bina Chaurasia, Ulf Ewaldsson, Jan Frykhammar, Douglas L. Gilstrap (left Ericsson August 1), Nina Macpherson, Magnus Mandersson, Helena Norrman, Mats H. Olsson, Rima Qureshi, Angel Ruiz, Anders Thulin, Johan Wibergh and Jan Wäreby.

The salary stated in the table for the President and CEO and other members of the ELT includes vacation pay paid during 2014 as well as other contracted compensation expensed in 2014.

Long-term variable compensation provision refers to the compensation costs during 2014 for all outstanding share-based plans.

For a description of compensation cost, including accounting treatment, see Note C1, Significant accounting policies, section Share-based compensation to employees and the Board of Directors.

For the President and CEO and other members of the ELT employed in Sweden before 2011, a supplementary plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP) with pension payable from the age of 60 years. These pension plans are not conditional upon future employment at Ericsson.

### Outstanding balances

The Company has recognized the following liabilities relating to unpaid remunerations in the Balance sheet:

Ericsson's commitments for defined benefit based pensions as of December 31, 2014 under IAS 19 amounted to SEK 7,610,562 for the President and CEO which includes ITP plan and early retirement. For other members of the ELT the Company's commitments amounted to SEK 36,220,736 of which SEK 33,456,584 refers to the ITP plan, Ericsson US Pension Plan and early retirement and the remaining SEK 2,764,152 to survivor's pensions.

For previous Presidents and CEOs, the Company has made provisions for defined benefit pension plans in connection with their active service periods within the Company.

Deferred salary, earned in 2014 or earlier, to be paid 12 months after period end or later, amounts to SEK 12,263,575.

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**Maximum outstanding matching rights**

As of December 31, 2014

Number of Class B shares	The President and CEO	Other members of the ELT
Stock Purchase Plans 2011-2014 Executive Performance Stock Plans 2011-2014	268,462	354,218
<b>Comments to the table</b>		

For the definition of matching rights, see the description in section Long-term variable compensation.

Matching result of 22.2% is included for the 2011 plan.

Cash conversion target for 2012, 2013 and 2014 was reached.

During 2014, the President and CEO received 178,918 matching shares and other members of the ELT 177,339 matching shares.

**Guidelines for remuneration to Group management 2014**

For Group Management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short- and long-term variable compensation, pension and other benefits.

The following guidelines apply for the remuneration to the Executive Leadership Team:

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

All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account.

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

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

**Long-Term Variable compensation**



**The Stock Purchase Plan**

The Stock Purchase Plan is designed to offer an incentive for all employees to participate in the Company where practicable, which is consistent with industry practice and with Ericsson's ways of working. For the 2014 plan, employees are able to save up to 7.5% of their gross fixed salary (The President and CEO can save up to 10% of their gross fixed salary and short-term variable remuneration) for purchase of Class B contribution shares at market price on Nasdaq Stockholm or American Depositary Shares (ADSs) on NASDAQ New York (contribution shares) during a 12-month period (contribution period). If the contribution shares are retained by the employee for three years after the investment and their employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs free of consideration. Employees in 102 countries participate in the plans.

The table below shows the contribution periods and participation details for ongoing plans as of December 31, 2014.

**Stock purchase plans**

<b>Plan</b>	<b>Contribution period</b>		<b>Number of participants at launch</b>	<b>Take-up rate percent of eligible employees</b>
Stock Purchase plan 2011	August 2011	July 2012	24,000	30%
Stock Purchase plan 2012	August 2012	July 2013	27,000	28%
Stock Purchase plan 2013	August 2013	July 2014	29,000	29%
Stock Purchase plan 2014	August 2014	July 2015	32,000	30%

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Participants save each month, beginning with the August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment, subject to continued employment, and hence the matching spans over two financial years and two tax years.

### **The Key Contributor Retention Plan**

The Key Contributor Retention Plan is part of Ericsson's talent management strategy and is designed to give recognition for performance, critical skills and potential as well as to encourage retention of key employees. Under the program, up to 10% of employees (2014 plan: up to 10,000 employees) are selected through a nomination process that identifies individuals according to performance, critical skills and potential. Participants selected obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a 12-month period.

### **Executive Performance Stock Plans**

	<b>Executive Performance Stock Plan</b>				
	<b>2014</b>	<b>2013<sup>1)</sup></b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Matching share vesting range <sup>2)</sup>	0.67 to 4	0.67 to 4	0.67 to 4	0.67 to 4	0.67 to 4
	1 to 6	1 to 6	1 to 6	1 to 6	1 to 6
	1.5 to 9	1.5 to 9	1.5 to 9	1.5 to 9	1.5 to 9
Maximum opportunity as percentage of fixed salary <sup>3)</sup>	30%	30%	30%	30%	30%
	45%	45%	45%	45%	45%
	162%	162%	162%	162%	162%

- 1) Targets for Executive Performance Stock Plans 2012 to 2014 are described in the next table.
- 2) Corresponding to EPS range (no Performance Share Plan matching below this range). Matching shares per contribution share invested in addition to Stock Purchase Plan matching according to program of up to 4, 6 or 9 matching shares.
- 3) At full investment, full vesting and constant share price. Excludes Stock Purchase Plan matching.

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**Executive Performance Stock Plan targets**

	Base year value SEK billion	Year 1	Year 2	Year 3
<b>2014</b>				
Growth (Net sales growth) <sup>1)</sup>	225.3	Compound annual growth rate of 2.8%		
Margin (Operating income growth) <sup>1)</sup>	15.7	Compound annual growth rate of 5.15%		
Cash Flow (Cash conversion)		<sup>3</sup> 70%	<sup>3</sup> 70%	<sup>3</sup> 70%
<b>2013</b>				
Growth (Net sales growth)	227.8	Compound annual growth rate of 2.8%		
Margin (Operating income growth) <sup>2)</sup>	18.5	Compound annual growth rate of 5.15%		
Cash Flow (Cash conversion)		<sup>3</sup> 70%	<sup>3</sup> 70%	<sup>3</sup> 70%
<b>2012</b>				
Growth (Net sales growth)	226.9	Compound annual growth rate of 2.8%		
Margin (Operating income growth)	17.9	Compound annual growth rate of 5.15%		
Cash Flow (Cash conversion)		<sup>3</sup> 70%	<sup>3</sup> 70%	<sup>3</sup> 70%

1) Base year 2013 has been adjusted for the impact of the Samsung IPR agreement.

2) Base year 2012 excludes a non-cash charge for ST-Ericsson.

**The Executive Performance Stock Plan**

The Executive Performance Stock Plan is designed to focus management on driving earnings and provide competitive remuneration. Senior managers, including ELT, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan. Up to 0.5% of employees (2014 plan: up to 450 executives) are offered participation in the plan. The President and CEO can save up to 10% of gross fixed salary and short-term variable compensation, and may obtain up to nine performance-matching shares in addition to the Stock Purchase Plan matching share for each contribution share.

The performance targets changed from EPS targets to targets linked to the business strategy as from 2011. To support the long-term strategy and value creation of the company, performance targets are linked to growth on Net Sales, Operating Income and Cash Conversion.

The tables above show ongoing Executive Performance Stock Plans as of December 31, 2014.

**Shares for all plans**

Plan (million shares)		Stock Purchase Plan, Key Contributor Retention Plan and Executive Performance Stock Plans					Total
		2014	2013	2012	2011	2010	
Originally designated	A	22.8	26.6	26.2	19.4	19.4	114.4

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Outstanding beginning of 2014	B	0.0	3.2	12.5	12.4	6.0	34.1		
Awarded during 2014	C	3.6	9.8				13.4		
Exercised/matched during 2014	D	0.0	0.2	0.4	2.8	6.0	9.4		
Forfeited/expired during 2014	E	0.0	0.4	0.4	1.7	0.0	2.5		
Outstanding end of 2014 <sup>1)</sup>	F=B+C	D	E	3.6	12.4	11.7	7.9	0.0	35.6
Compensation costs charged during 2014 (SEK million)	G	10 <sup>2)</sup>	219 <sup>2)</sup>	241 <sup>2)</sup>	195 <sup>2)</sup>	52 <sup>2)</sup>	717 <sup>2)</sup>		

- 1) Shares under the Executive Performance Stock Plans were based on the fact that the 2010 plan was fully vested and that the 2011 plan vested for 22% and lapsed for 78%. For the other ongoing plans, cost is estimated.
- 2) Fair value is calculated as the share price on the investment date, reduced by the net present value of the dividend expectations during the three-year vesting period. Net present value calculations are based on data from external party. Fair value is also adjusted for participants failing to keep hold of their contribution shares during the vesting period. For shares under the Executive Performance Stock Plans, the company makes a forecast for the fulfillment of the financial targets for all ongoing plans except for 2009 and 2010 plans as disclosed under 1) when calculating the compensation cost. Fair value of the Class B share at each investment date during 2014 was: February 15 SEK 72.37, May 15 SEK 71.98, August 15 SEK 74.07 and November 15 SEK 79.39.
- 3) Total compensation costs charged during 2013: SEK 388 million, 2012: SEK 405 million.

**Shares for all plans**

All plans are funded with treasury stock and are equity settled. Treasury stock for all plans has been issued in directed cash issues of Class C shares at the quotient value and purchased under a public offering at the subscription price plus a premium corresponding to the subscribers financing costs, and then converted to Class B shares.

For all plans, additional shares have been allocated for financing of social security expenses. Treasury stock is sold on the Nasdaq Stockholm to cover social security payments when arising due to matching of shares. During 2014, 1,129,800 shares were sold at an average price of SEK 85.49. Sales of shares are recognized directly in equity.

If, as of December 31, 2014, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 60 million Class B shares would be transferred, corresponding to 1.9% of the total number of shares outstanding, or 3,242 million not including treasury stock. As of December 31, 2014, 63 million Class B shares were held as treasury stock.

The table above shows how shares (representing matching rights but excluding shares for social security expenses) are being used for all outstanding plans. From up to down the table includes (A) the number of shares originally approved by the Annual General Meeting; (B) the number of originally designated shares that were outstanding at the beginning of 2014; (C) the number of shares awarded during 2014; (D) the number of shares matched during 2014; (E) the number of shares forfeited by participants or expired under the plan rules during 2014; and (F) the balance left as outstanding at the end of 2014, having added new awards to the shares outstanding at the beginning of the year and deducted the shares related to awards matched, forfeited and expired. The final row (G) shows the compensation costs charged to the accounts during 2014 for each plan, calculated as fair value in SEK.

For a description of compensation cost, including accounting treatment, see Note C1, Significant accounting policies, section Share-based compensation to employees and the Board of Directors.

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**Employee numbers, wages and salaries****Employee numbers****Average number of employees**

	2014			2013		
	Women	Men	Total	Women	Men	Total
North America	3,173	12,228	15,401	3,234	12,060	15,294
Latin America	2,517	10,169	12,686	2,216	9,562	11,778
Northern Europe & Central Asia <sup>1)2)</sup>	5,312	15,159	20,471	5,523	15,519	21,042
Western & Central Europe <sup>2)</sup>	1,746	9,541	11,287	3,802	8,263	12,065
Mediterranean <sup>2)</sup>	2,899	10,053	12,952	2,865	9,793	12,658
Middle East	491	3,323	3,814	566	4,820	5,386
Sub-Saharan Africa	448	1,925	2,373	364	1,704	2,068
India	3,184	16,699	19,883	2,586	15,042	17,628
North East Asia	4,028	9,523	13,551	4,308	10,108	14,416
South East Asia & Oceania	1,211	3,527	4,738	1,061	3,234	4,295
<b>Total</b>	<b>25,009</b>	<b>92,147</b>	<b>117,156</b>	<b>26,525</b>	<b>90,105</b>	<b>116,630</b>

<sup>1)</sup> *Of which in Sweden* 3,944 12,584 16,528 4,118 12,972 17,090

<sup>2)</sup> *Of which in EU* 9,438 32,842 42,280 11,703 31,729 43,432

**Number of employees by region at year-end**

	2014	2013
North America	15,516	14,931
Latin America	11,066	11,445
Northern Europe & Central Asia <sup>1)2)</sup>	21,633	21,892
Western & Central Europe <sup>2)</sup>	12,617	11,530
Mediterranean <sup>2)</sup>	13,387	12,314
Middle East	3,858	3,752
Sub-Saharan Africa	2,406	2,084
India	19,971	17,622
North East Asia	13,464	14,503
South East Asia & Oceania	4,137	4,267
<b>Total</b>	<b>118,055</b>	<b>114,340</b>

<sup>1)</sup> *Of which in Sweden* 17,580 17,858

<sup>2)</sup> *Of which in EU* 45,202 43,421

**Number of employees by gender and age at year-end 2014**

	Women	Men	Percent of total
Under 25 years old	2,680	2,683	5%
25 35 years old	9,557	36,316	39%
36 45 years old	7,777	30,062	32%
46 55 years old	4,410	18,072	19%
Over 55 years old	1,399	5,099	5%
<b>Percent of total</b>	<b>22%</b>	<b>78%</b>	<b>100%</b>

**Employee movements**

	2014	2013
Head count at year-end	118,055	114,340
Employees who have left the Company	15,536	13,025
Employees who have joined the Company	19,251	17,110
Temporary employees	776	493

**Employee wages and salaries**

**Wages and salaries and social security expenses**

(SEK million)	2014	2013
Wages and salaries	58,006	48,533
Social security expenses	17,944	16,531
<i>Of which pension costs</i>	3,957	4,426

Amounts related to the President and CEO and the Executive Leadership Team are included.

**Remuneration to Board members and Presidents in subsidiaries**

(SEK million)	2014	2013
Salary and other remuneration	288	294
<i>Of which annual variable remuneration</i>	72	40
Pension costs	21	23

**Board members, Presidents and Group management by gender at year end**

	2014		2013	
	Women	Men	Women	Men
<b>Parent Company</b>				
Board members and President	30%	70%	25%	75%
Group Management	29%	71%	29%	71%
<b>Subsidiaries</b>				
Board members and Presidents	30%	70%	27%	73%

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**C29 Related party transactions**

During 2014, various related party transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis. For information regarding equity and Ericsson's share of assets, liabilities and income in joint ventures and associated companies, see Note C12, Financial assets, non-current. For information regarding transactions with senior management, see Note C28, Information regarding members of the Board of Directors, the Group management and employees.

**ST-Ericsson**

ST-Ericsson was formed in 2009 as a joint venture, equally owned by Ericsson and STMicroelectronics. In early 2013 the parents agreed to split up and close the joint venture. The company ST-Ericsson is winding down and all business has been transferred to parents or divested during 2013. Ericsson has taken over assets and liabilities in the design, development and sales of the thin LTE multi-mode modem solution with a net value of SEK 1.1 billion. The acquired business was consolidated in the segment Modems in 2013. In 2014, the Company announced the discontinuation of further development of modems and the shift of approximately 500 employees to Networks research and development organization to pursue growth opportunities in the radio business.

During 2014 and 2013 Ericsson had no sales and purchases in the course of ordinary business, only transactions related to the winding down described above. Therefore, the descriptions below refer to the year 2012. The major transactions in 2012 were as follows:

**Sales:** Ericsson provides ST-Ericsson with services in the areas of R&D, HR, IT and facilities.

**Purchases:** A major part of Ericsson's purchases from ST-Ericsson consists of chipsets and R&D services.

**ST-Ericsson**

	2014 <sup>1)</sup>	2013 <sup>1)</sup>	2012
<b>Related party transactions</b>			
Sales			138
Purchases			634
<b>Related party balances</b>			
Receivables			127
Liabilities			

1) See text above for further information.

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees towards ST-Ericsson.

**C30 Fees to Auditors****Fees to auditors**

	PwC	Others	Total
<b>2014</b>			
Audit fees	83	7	90

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Audit-related fees	11	0	11
Tax fees	15	4	19
Other fees	18	1	19
<b>Total</b>	<b>127</b>	<b>12</b>	<b>139</b>
<b>2013</b>			
Audit fees	75	7	82
Audit-related fees	12		12
Tax fees	12	3	15
Other fees	15	1	16
<b>Total</b>	<b>114</b>	<b>11</b>	<b>125</b>
<b>2012</b>			
Audit fees	82	5	87
Audit-related fees	15		15
Tax fees	16	3	19
Other fees	10	10	20
<b>Total</b>	<b>123</b>	<b>18</b>	<b>141</b>

During the period 2012–2014, in addition to audit services, PwC provided certain audit-related services, tax and other services to the Company. The audit-related services include quarterly reviews, ISO audits, SSAE 16 reviews and services in connection with the issuing of certificates and opinions and consultation on financial accounting. The tax services include general expatriate services and corporate tax compliance work. Other services include, work related to acquisitions, operational effectiveness and assessments of internal control.

Audit fees to other auditors largely consist of local statutory audits.

### C31 Contractual obligations

#### Contractual obligations 2014

SEK billion	Payment due by period				Total
	<1 year	1–3 years	3–5 years	>5 years	
Long-term debt <sup>1)2)</sup>	0.5	6.0	1.1	15.5	23.1
Finance lease obligations <sup>3)</sup>	0.1	0.2	0.1	0.5	0.9
Operating leases <sup>3)</sup>	2.4	3.3	1.9	3.9	11.5
Other non-current liabilities	0.0	0.2	0.1	1.5	1.8
Purchase obligations <sup>4)</sup>	5.1				5.1
Trade payables	24.5	0.0	0.0	0.0	24.5
Commitments for customer finance <sup>5)</sup>	12.0	0.0	0.0	0.0	12.0
<b>Total</b>	<b>44.6</b>	<b>9.7</b>	<b>3.2</b>	<b>21.4</b>	<b>78.9</b>

1) Including interest payments.

2) See Note C19, Financial risk management and financial instruments.

3) See Note C27, Leasing.

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

5) See also Note C14, Trade receivables and customer finance.

For information about financial guarantees, see Note C24, Contingent liabilities.

Except for those transactions described in this report, the Company 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.

### C32 Events after the reporting period



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Rockstar Consortium LLC (Rockstar) is a company that was formed in 2011 by Apple, Blackberry, Ericsson, Microsoft, and Sony to purchase approximately 4,000 patent assets out of the original about 6,000 from the Nortel bankruptcy estate. On December 23, 2014, it was agreed among the owners of Rockstar and RPX Corporation (RPXC) that RPX should purchase the remaining patents of Rockstar. The transaction occurred in 2015 and the impact on income will not be material in 2015.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Internal control over financial reporting**

Ericsson's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Ericsson's internal control system related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards (IFRS), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

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.

Although the purpose of internal control systems is to ensure adequate risk management all internal control systems, no matter how well designed, have inherent limitations which may result in that misstatements are not prevented or detected. Therefore, even systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial statement preparation and presentation.

Ericsson's management assessed the effectiveness of Ericsson's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that, as of December 31, 2014, Ericsson's internal control over financial reporting was effective at a reasonable assurance level.

**Attestation report of registered public accounting firm**

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers AB, an independent registered public accounting firm. PricewaterhouseCoopers AB has issued an attestation report on Ericsson's internal control over financial reporting, which appears on page 47.

**Changes in internal control over financial reporting**

During the period covered by the Annual Report 2014, there were no changes to the internal control over financial reporting that have materially affected, or are likely to materially affect, the internal control over financial reporting.

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**RISK FACTORS**

You should carefully consider all the information in this Annual Report and in particular the risks and uncertainties outlined below. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our business. Any of the factors described below, or any other risk factors discussed elsewhere in this report, could have a material negative effect on our business, revenues, operating and after-tax results, profit margins, financial condition, cash flow, liquidity, credit rating, market share, reputation, brand and/or our share price. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially adversely affect our business. Furthermore, our operating results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also **Forward-Looking Statements**.

**Market, Technology and Business Risks**

**Challenging global economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow.**

Challenging global economic conditions and political unrest could have adverse, wide-ranging effects on demand for our products and for the products of our customers. Adverse global economic conditions and political unrest, could cause operators and other customers to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for our products and services, including network infrastructure, in which case our operating results would suffer. If demand for our products and services were to fall in the future, we could experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we could incur operating losses. Furthermore, if demand is significantly weaker or more volatile than expected, our credit rating, borrowing opportunities and costs as well as the trading price of our shares could be adversely impacted. Should global economic conditions fail to improve, or worsen, other business risks we face could intensify and could also negatively impact the business prospects of operators and other customers. Some operators and other customers, in particular in markets with weak currencies, may incur borrowing difficulties and slower traffic development, which may negatively affect their investment plans and cause them to purchase less of our products and services. The potential adverse effects of an economic downturn include:

Reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not fully compensated through reduced costs

Risks of excess and obsolete inventories and excess manufacturing capacity

Risk of financial difficulties or failures among our suppliers

Increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counter party failures

Risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products

Increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results

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Changes in the value in our pension plan assets resulting from for example, adverse equity and credit market developments and/or increased pension liabilities resulting from, for example, lower discount rates. Such development may trigger additional pension trust capitalization needs affecting the company's cash balance negatively

End user demand could also be adversely affected by reduced consumer spending on technology, changed operator pricing, security breaches and trust issues.

### **We may not be successful in implementing our strategy or in achieving improvements in our earnings.**

There can be no assurance that we will be able to successfully implement our strategy to achieve future earnings, growth or create shareholder value. When deemed necessary, we undertake specific restructuring or cost-saving initiatives; however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

### **The telecommunications industry fluctuates and is affected by many factors, including the economic environment, and decisions made by operators and other customers regarding their deployment of technology and their timing of purchases.**

The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market, telecommunications services market and ICT market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Moreover, market conditions are subject to substantial fluctuation, and could vary geographically and across technologies. Even if global conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, our revenue and operating results may be adversely affected.

If capital expenditures by operators and other customers are weaker than we anticipate, our revenues, operating results and profitability may be adversely affected. The level of demand from operators and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, as well as in the ICT industry, accurately forecasting revenues, results, and cash flow remains difficult.

### **Sales volumes and gross margin levels are affected by the mix and order time of our products and services.**

Our sales to operators and other customers represent a mix of equipment, software and services, which normally generate different gross margins. We sell our own products as well as third party products, which normally have lower margins than our own

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products. As a consequence, our reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Further, network expansions and upgrades have much shorter lead times for delivery than initial network build outs. Orders for such network expansions and upgrades are normally placed at short notice by customers, often less than a month in advance, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix and the short order time for certain of our products may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus. Short-term variation could have a material adverse effect on our business, operating results, financial condition and cash flow.

**We may not be able to properly respond to market trends in the industries in which we operate, including the ongoing convergence of the telecom, data and media industries, which may harm our market position relative to our competitors.**

We are affected by market conditions and trends within the industries in which we operate, including the convergence of the telecom, data and media industries. Convergence is largely driven by technological development related to IP-based communications. This has changed the competitive landscape and affects our objective-setting, risk assessment and strategies. Competitors new to our business have entered and may continue to enter this new business context and negatively impact our market share in selected areas. If we fail to understand the market development, or fail to acquire the necessary competencies to develop and sell products, services and solutions that are competitive in this changing business environment, our business, operating results and financial condition will suffer.

**Our business depends upon the continued growth of mobile communications and the acceptance of new services. If growth slows or new services do not succeed, operators' investment in networks may slow or stop, harming our business and operating results.**

A substantial portion of our business depends on the continued growth of mobile communications in terms of both the number of subscriptions and usage per subscriber, which in turn drives the continued deployment and expansion of network systems by our customers. If operators fail to increase the number of subscribers and/or usage does not increase, our business and operating results could be materially adversely affected. Also, if operators fail to monetize new services, fail to introduce new business models or experience a decline in operator revenues or profitability, their willingness to further invest in their network systems may decrease which will reduce their demand for our products and services and have an adverse effect on our business, operating results and financial condition.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon market acceptance of such services and the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization, regulation, or market acceptance occur, this could adversely affect our business, operating results and financial condition.

**We face intense competition from our existing competitors as well as new entrants, including IT companies entering the telecommunications market, and this could materially adversely affect our results.**

The markets in which we operate are highly competitive in terms of price, functionality, service quality, customization, timing of development, and the introduction of new products and services. We face intense competition from significant competitors, many of which are very large, with substantial technological and financial resources and established relationships with operators. Further, certain competitors, Chinese companies in particular, have become relatively stronger in recent years. We also encounter increased competition from new market entrants and alternative technologies are evolving industry standards. In particular, we face competition from large IT companies entering the telecommunications market who benefit from economies of scale due to being active in several industries. We cannot assure that we will be able to compete successfully with these companies. Our competitors may implement new technologies before we do, offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that we do not provide. Some of our competitors may also have greater resources in certain business segments or geographic markets than we do. Increased competition could result in reduced profit margins, loss of market share, increased research and development costs as well as increased sales and marketing expenses, which could have a material adverse effect on our business, operating results, financial condition and market share. Traffic development on cellular networks could be affected if more traffic is offloaded to Wi-Fi networks. Further, alternative services provided over-the-top have profound effects on operator voice/ SMS revenues with possible reduced capital expenses consequences.

Additionally, we operate in markets characterized by rapidly changing technology. This results in continuous price erosion and increased price competition for our products and services. If our counter measures, including enhanced products and business models or cost reductions cannot

be achieved or do not occur in a timely manner, there could be adverse impacts on our business, operating results, financial condition and market share.

**Vendor consolidation may lead to stronger competitors who are able to benefit from integration, scale and greater resources.**

Industry convergence and consolidation among equipment and services suppliers could potentially result in stronger competitors that are competing as end-to-end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources than we have or in reduction of our current scale advantages. This could have a materially adverse effect on our business, operating results, financial condition and market share.

**A significant portion of our revenue is currently generated from a limited number of key customers, and operator consolidation may increase our dependence on key customers.**

We derive most of our business from large, multi-year agreements with a limited number of significant customers. Many of these agreements are opened up on a yearly basis to renegotiate the price for our products and services and do not contain committed purchase volumes. Although no single customer represented more than 8% of our sales in 2014, our ten largest customers

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accounted for 47% of our sales in 2014. A loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in fewer operators with activities in several countries. This trend is expected to continue, and intra-country consolidation is likely to accelerate as a result of competitive pressure. A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and fewer associated services may be required. Network investments could be delayed by the consolidation process, which may include, among others, actions relating to merger or acquisition agreements, securing necessary regulatory approvals, or integration of businesses. Network operators also share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment. Accordingly, operator consolidation may have a material adverse effect on our business, operating results, market share and financial condition.

**Certain long-term agreements with customers still include commitments to future price reductions, requiring us to constantly manage and control our cost base.**

Long-term agreements with our customers are typically awarded on a competitive bidding basis. In some cases, such agreements also include a commitment to future price reductions. In order to maintain our gross margin with such price reductions, we continuously strive to reduce the costs of our products through design improvements, negotiation of better purchase prices from our suppliers, allocation of more production to low-cost countries and increased productivity in our own production. However, there can be no assurance that our actions to reduce costs will be sufficient or quick enough to maintain our gross margin in such contracts, which may have a material adverse effect on our business, operating results and financial condition.

**Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.**

Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth, business, operating results and profitability.

**We depend upon the development of new products and enhancements to our existing products, and the success of our substantial research and development investments is uncertain.**

Rapid technological and market changes in our industry require us to make significant investments in technological innovation. We invest significantly in new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. The failure of our research and development efforts to be technically or commercially successful, could have adverse effects on our business, operating results and financial condition. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, or are not successful in the marketplace, our sales and earnings may materially suffer. Additionally, it is common for research and development projects to encounter delays due to unforeseen problems. Delays in production and research and development may increase the cost of research and development efforts and put us at a disadvantage against our competition. This could have a material adverse effect upon our business, operating results and financial condition.

**We engage in acquisitions and divestments which may be disruptive and require us to incur significant expenses.**

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits such as reduced time-to-market, access to technology and competence, increased scale or to broaden our product portfolio or customer base. Future acquisitions could result in the incurrence of contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect upon our business, operating results, financial condition and liquidity. Risks we could face with respect to acquisitions



include:

Difficulties in the integration of the operations, technologies, products and personnel of the acquired company

Risks of entering markets in which we have no or limited prior experience

Potential loss of employees

Diversion of management's attention away from other business concerns

Expenses of any undisclosed or potential legal liabilities of the acquired company.

From time to time we also divest parts of our business to optimize our product portfolio or operations. Any decision to dispose of or otherwise exit businesses may result in the recording of special charges, such as workforce reduction costs and industry- and technology-related write-offs. We cannot assure that we will be successful in consummating future acquisitions or divestments on favorable terms or at all. The risks associated with such acquisitions and divestments could have a material adverse effect upon our business, operating results, financial condition and liquidity.

**We are in, and may enter into new, JV arrangements and have, and may have new, partnerships which may not be successful and expose us to future costs.**

Our JV and partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs, our inability to take action without the approval of our partners or the capabilities or financial stability of our strategic partners. Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the market.

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Additionally, our share of any losses from or commitments to contribute additional capital to such JVs and partnerships may adversely affect our business, operating results, financial condition and cash flow.

**We rely on a limited number of suppliers of components, production capacity and R&D and IT services, which exposes us to supply disruptions and cost increases.**

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining a timely and adequate supply of materials, components, production capacity and other vital services on competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Accordingly, there is a risk that we will be unable to obtain key supplies we need to produce our products and provide our services on commercially reasonable terms, or at all. Failure by any of our suppliers could interrupt our product or services supply or operations and significantly limit sales or increase our costs. To find an alternative supplier or redesign products to replace components may take significant time which could cause significant delays or interruptions in the delivery of our products and services. We have from time to time experienced interruptions of supply and we may experience such interruptions in the future.

Furthermore, our procurement of supplies requires us to predict future customer demands. If we fail to anticipate customer demand properly, an over or under supply of components and production capacity could occur. In many cases, some of our competitors utilize the same manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers and increase costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers when we pay in advance for supplies. Such supply disruptions and cost increases may negatively affect our business, operating results and financial condition.

**Product or service quality issues could lead to reduced revenue and gross margins and declining sales to existing and new customers.**

Sales contracts normally include warranty undertakings for faulty products and often include provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may negatively affect our reputation, business, operating results and financial condition. If significant warranty obligations arise due to reliability or quality issues, our operating results and financial position could be negatively impacted by costs associated with fixing software or hardware defects, high service and warranty expenses, high inventory obsolescence expense, delays in collecting accounts receivable or declining sales to existing and new customers.

**Due to having a significant portion of our costs in SEK and revenues in other currencies, our business is exposed to foreign exchange fluctuations that could negatively impact our revenues and operating results.**

We incur a significant portion of our expenses in SEK. As a result of our international operations, we generate, and expect to continue to generate, a significant portion of our revenue in currencies other than SEK. To the extent we are unable to match revenue received in foreign currencies with costs paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

As market prices are predominantly established in USD or EUR, we presently have a net revenue exposure in foreign currencies which means that a stronger SEK exchange rate would generally have a negative effect on our reported results. Our attempts to reduce the effects of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results and financial condition.

**Our ability to benefit from intellectual property rights (IPR) which are critical to our business may be limited by changes in regulation limiting patents, inability to prevent infringement, the loss of licenses from third parties, infringement claims brought against us by competitors and others and changes in the area of open standards, especially in light of recent attention on licensing of open standard patents.**

Although we have a large number of patents, there can be no assurance that they will not be challenged, invalidated, or circumvented, or that any rights granted in relation to our patents will in fact provide us with competitive advantages.

We utilize a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. In addition, we rely on many software patents, and limitations on the patentability of software may materially affect our business.

Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing legal systems of some countries in which we conduct business offer only limited protection of intellectual property rights, if at all. Our solutions may also require us to license technologies from third parties. It may be necessary in the future to seek or renew licenses and there can be no assurance that they would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect proprietary rights in our products. Many key aspects of telecommunications and data network technology are governed by industry-wide standards usable by all market participants. As the number of market entrants and the complexity of technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. In addition to industry-wide standards, other key industry-wide software solutions are today developed by market participants as free and open source software. Contributing to the development of software developed as free and open source software may limit our ability to enforce applicable patents in the future. Third parties have asserted, and may assert in the future, claims, directly against us or against our customers, alleging infringement of their intellectual property rights. Defending such claims may be expensive, time-consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we could be required to pay damages and other compensation

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directly or to indemnify our customers for such damages and other compensation, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that such licenses will be available to us on commercially reasonable terms or at all, and such judgments could have a material adverse effect on our business, reputation, operating results and financial condition. Using free and open source software may allow third parties to further investigate our software due to the accessibility of source code. This may in turn make this software more prone to assertions from third parties.

Recent attention on licensing of patents necessary to conduct an open standard (e.g. 2G, 3G and 4G technology), investigations held by antitrust authorities and legislative change could potentially affect Ericsson's ability to benefit from its patent portfolio in the area of such open standards, which could have a material adverse effect on our business, reputation, operating results and financial condition. Ericsson holds a leading patent portfolio in open standards and possible changes regarding such a portfolio may materially affect our reputation, business, operating results and financial condition.

**We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.**

In the normal course of our business we are involved in legal proceedings. These lawsuits include such matters as commercial disputes, claims regarding intellectual property, antitrust, tax and labor disputes. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, financial condition and reputation.

As a publicly listed company, Ericsson may be exposed to lawsuits in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulations or other laws, regulations or requirements. Whether or not there is merit to such claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs could have significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see "Legal Proceedings" in the Board of Directors' Report.

**Our operations are complex and several critical operations are centralized in a single location. Any disruption of our operations, whether due to natural or man-made events, may be highly damaging to the operation of our business.**

Our business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced significant portions of our operations, such as IT, finance and HR operations, we depend on the performance of external companies, including their security and reliability measures. Regardless of protection measures, our systems and communications networks are susceptible to disruption due to failure, vandalism, computer viruses, security or privacy breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, including R&D, production, network operation centers, ICT centers and logistic centers and shared services centers, where business interruptions could cause material damage and costs. The delivery of goods from suppliers, and to customers, could also be hampered for the reasons stated above. Interruptions to our systems and communications may have an adverse effect on our operations and financial condition.

**Cyber security incidents affecting our business may have a material adverse effect on our business, financial condition, reputation and brand.**

Ericsson's business operations involve areas that are particularly vulnerable to cyber security incidents such as data breaches, intrusions, espionage, know-how and data privacy infringements, leakage and general malfeasance. Examples of these areas include, among others, research and development, managed services, usage of cloud solutions, software development, lawful interception, product engineering, IT, finance and HR operations. Any cyber security incident including unintended use, involving our operations, product development, services, our third party providers or installed product base, could cause severe harm to Ericsson and could have a material adverse effect on our business, financial condition, reputation and brand.

Ericsson relies heavily on third parties to whom we have out-sourced significant aspects of our IT infrastructure, product development, engineering services, finance and HR operations. While we have taken precautions relating to the selection, integration and ongoing management of these third parties, any event or attack that is caused as a result of vulnerabilities in their operations or products supplied to us could have a material adverse effect upon Ericsson, our business, financial condition, reputation and brand, potentially slowing operations,

leaking valuable intellectual property or sensitive information or damaging our products which have been installed in our customers' networks.

**We must continue to attract and retain highly qualified employees to remain competitive.**

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers.

Competition for skilled personnel and highly qualified managers in the industries in which we operate remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefits policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future, and failure in retention and recruiting could have a material adverse effect on our business and brand.

**If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks.**

After completing sales to customers, we may encounter difficulty collecting accounts receivables and could be exposed to risks associated with uncollectable accounts receivable. We regularly assess the credit worthiness of our customers and based on that we determine a credit limit for each one of them. Challenging economic conditions have impacted some of our customers' ability to pay their accounts receivables. Although our credit losses have historically been low and we have policies and procedures for managing customer finance credit risk we may be unable to avoid

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future losses on our trade receivables. We have also experienced demands for customer financing, and in adverse financial markets or more competitive environments, those demands may increase. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's ongoing business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our operating results and financial condition.

**We rely on various sources for short-term and long-term capital for the funding of our business. Should such capital become unavailable or available in insufficient amounts or unreasonable terms, our business, financial condition and cash flow may materially suffer.**

Our business requires a significant amount of cash. If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the required times and on reasonable terms, our business is likely to be adversely affected. Access to funding may decrease or become more expensive as a result of our operational and financial condition, market conditions, including financial conditions in the Eurozone, or due to deterioration in our credit rating. There can be no assurance that additional sources of funds that we may need from time to time will be available on reasonable terms or at all. If we cannot access capital on a commercially viable basis, our business, financial condition and cash flow could materially suffer.

**Impairment of goodwill or other intangible assets may negatively impact our financial condition and results of operations.**

An impairment of goodwill or other intangible assets could adversely affect our financial condition or results of operations. We have a significant amount of goodwill and intangible assets; for example, patents, customer relations, trademarks and software.

Goodwill is the only intangible asset the company has recognized to have indefinite useful life. Other intangible assets are mainly amortized on a straight-line basis over their estimated useful lives, but for no more than ten years, and are reviewed for impairment whenever events such as product discontinuances, product dispositions or other changes in circumstances indicate that the carrying amount may not be wholly recoverable. Those not yet in use are tested for impairment annually.

Historically, we have recognized impairment charges related to intangible assets mainly due to restructuring. Additional impairment charges may be incurred in the future that could be significant due to various reasons, including restructuring actions or adverse market conditions that are either specific to us or the broader telecommunications industry or more general in nature and that could have an adverse effect on our operating results and financial condition.

Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. Estimates require management judgment as well as the definition of cash-generating units for impairment testing purposes. Other judgments might result in significantly different results and may differ from the actual financial condition in the future.

**Regulatory, Compliance and Corporate Governance Risk**

**Ericsson may fail or be unable to comply with laws or regulations and could experience penalties and adverse rulings in enforcement or other proceedings, which could have a material adverse impact on our business, financial condition and brand.**

The industries in which we operate are subject to laws and regulations. While Ericsson strives for compliance, we cannot assure that violations do not occur. If we fail to or are unable to comply with applicable laws and regulations, we could experience penalties and adverse rulings in enforcement or other proceedings, which could have a material adverse effect on our business, financial condition and reputation.

Further our business may suffer as a result of changes in laws or regulations which could subject us to liability, increased costs, or reduced product demand and have a material adverse effect on our business, financial condition and brand.

Changes to these regulations may adversely affect both our customers and our own operations. For example, regulations imposing more stringent, time-consuming or costly planning and zoning requirements or building approvals for radio base stations and other network infrastructure could adversely affect the timing and costs of network construction or expansion, and ultimately the commercial launch and success of these networks. Similarly, tariff and roaming regulations or rules on network neutrality could also affect operators' ability or willingness to invest in network infrastructure, which in turn could affect the sales of our systems and services. Additionally, delay in radio frequency spectrum allocation, and allocation between different types of usage may adversely affect operator spending or force us to develop new products to be able to compete.

Further, we develop many of our products and services based on existing regulations and technical standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline. Regulatory changes in license fees, environmental, health and safety, privacy and other regulatory areas may increase costs and restrict our operations or the operations of network operators and service providers. Also indirect impacts of such changes and regulatory changes in other fields, such as pricing regulations, could have an adverse impact on our business even though the specific regulations may not apply directly to our products or us.

**Our substantial international operations are subject to uncertainties which could affect our operating results.**

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to specific countries or regions. We have customers in more than 180 countries, with a significant proportion of our sales to emerging markets in the Asia Pacific region, Latin America, Eastern Europe, the Middle East and Africa.

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Our extensive operations are subject to numerous additional risks, including civil disturbances, economic and geopolitical instability and conflict, pandemics, the imposition of exchange controls, economies which are subject to significant fluctuations, nationalization of private assets or other governmental actions affecting the flow of goods and currency, and difficulty of enforcing agreements and collecting receivables through local legal systems. Further, in certain markets in which we operate, there is a risk of protectionist governmental measures implemented to assist domestic market participants at the expense of foreign competitors. The implementation of such measures could adversely affect our sales or our ability to purchase critical components.

We must always comply with relevant export control regulations and sanctions or other trade embargoes in force in all parts of the business process. The political situation in parts of the world, particularly in the Middle East, remains uncertain and the level of sanctions is still high. A universal element of these sanctions is the financial restrictions with respect to individuals and/or legal entities, but sanctions can also restrict certain exports and ultimately lead to a complete trade embargo towards a country. In particular, the sanctions towards Iran are still significant in scope, although in part temporarily and conditionally recently relieved. The EU exemption for certain standard telecom equipment is still maintained. Even so, there is a risk in many of these countries of unexpected changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, or other governmental policies which could limit our operations and decrease our profitability. Further export control regulations, sanctions or other forms of trade restrictions imposed on countries in which we are active may result in a reduction of commitment in those countries. The need to terminate activities as a result of further trade restrictions may also expose us to customer claims and other actions. Although we seek to comply with all such regulations, there can be no assurance that we are or will be compliant with all relevant regulations at all times. Such violations could have material adverse effects on our business, operating results, reputation and brand.

There has been a growing concern reported by media and others, that certain countries may use features of their telecommunications systems in violation of human rights. This may adversely affect the telecommunications business and may have a negative impact on our reputation and brand.

**We may fail to comply with our corporate governance standards which could negatively affect our business, operating results, financial condition, reputation and our brand.**

We are subject to corporate governance laws and regulations and are also committed to several corporate responsibility and sustainability initiatives. In some of the countries where we operate, corruption risks are high. In addition, there is higher focus on anti-corruption, for example with changed legislation in many countries. To ensure that our operations are conducted in accordance with applicable requirements, our management system includes a Code of Business Ethics, a Code of Conduct and a Sustainability Policy, as well as other policies and directives to govern our processes and operations. Our commitment to apply the UN Global Compact principles, the UN Guiding Principles for Business and Human Rights and principles of the Partnering Against Corruption Initiative to our operation cannot fully prevent unintended or unlawful use of our technology by democratic and non-democratic regimes, violation of our Code of Business Ethics, corruption or violations of our Code of Conduct in the supply chain. While we attempt to monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Code of Conduct and strive for continuous improvements, we cannot provide any assurances that violations will not occur which could have material adverse effects on our business, operating results, reputation and brand.

**Failure to comply with environmental, health and safety regulations in many jurisdictions may expose us to significant penalties and other sanctions.**

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities, products and services in each of the jurisdictions in which we operate. While we believe that we are in compliance with all material laws and regulations related to the environment, health, and safety that apply to us, we can provide no assurance that we have been, are, or will be compliant with these regulations. If we have failed or fail to comply with these regulations, we could be subject to significant penalties and other sanctions that could have a material adverse effect on our business, operating results, financial condition, reputation and brand. Additionally, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, such as climate change and weather events, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters. Adverse future events, regulations, or judgments could have a material adverse effect on our business, operating results, financial condition, reputation and brand.



**Potential health risks related to electromagnetic fields may subject us to various product liability claims and result in regulatory changes.**

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects from mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding applicable electromagnetic fields, we cannot guarantee that we will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business, operating results, financial condition, reputation and brand.

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**Regulations related to conflict minerals may cause us to incur additional expenses, and may make our supply chain more complex.**

In 2012, the US Securities and Exchange Commission ( SEC ) adopted a rule requiring disclosures of specified minerals ( conflict minerals ) that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies that file periodic reports with the SEC, whether or not these products or their components are manufactured by third parties. While we believe that we will be able to fulfill these requirements without materially affecting our costs or access to materials we can provide no assurance that there will not be material costs associated with complying with the disclosure requirements. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of certain of our products. In addition, since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals contained in our products through the due diligence procedures that we implement, which may harm our reputation. We may also encounter challenges if customers require that all of the components of our products be certified as conflict-free.

**Risks associated with owning Ericsson shares**

**Our share price has been and may continue to be volatile, especially as technology companies, securities and markets as a whole remain volatile.**

Our share price has been volatile due to various factors, including our operating performance as well as the high volatility in the securities markets generally and volatility in telecommunications and technology companies securities in particular. Our share price is also likely to be affected by future developments in our market, our financial results and the expectations of financial analysts, as well as statements and market speculation regarding our prospects or the timing or content of any public communications, including reports of operating results, by us or our competitors. Factors other than our financial results that may affect our share price include, but are not limited to:

A weakening of our brand name or other circumstances with adverse effects on our reputation

Announcements by our customers, competitors or us regarding capital spending plans of our customers

Financial difficulties for our customers

Awards of large supply or service contracts

Speculation in the press or investment community about the business level or growth in the telecommunications market

Technical problems, in particular those relating to the introduction and viability of new network systems, including LTE/4G and new platforms such as the RBS 6000 (multi-standard radio base station) platform

Actual or expected results of ongoing or potential litigation

Announcements concerning bankruptcy or investigations into the accounting procedures of ourselves or other telecommunications companies

Our ability to forecast and communicate our future results in a manner consistent with investor expectations.

**Currency fluctuations may adversely affect share value or value of dividends.**

Because our shares are quoted in SEK on Nasdaq Stockholm (our primary stock exchange), but in USD on NASDAQ New York (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of our shareholders' investments. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions when converted into other currencies. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on Nasdaq Stockholm or NASDAQ New York.

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**FORWARD-LOOKING STATEMENTS**

This Annual Report includes forward-looking statements, including statements reflecting management's current views relating to the growth of the market, future market conditions, future events and expected operational and financial performance. The words believe, expect, foresee, anticipate, assume, intend, may, could, plan, estimate, forecast, will, should, predict, aim, ambition, target, might and similar words are intended to help identify forward-looking statements.

Forward-looking statements may be found throughout this document, and include statements regarding:

Our goals, strategies and operational or financial performance expectations

Development of corporate governance standards, stock market regulations and related legislation

The future characteristics of the markets in which we operate

Projections and other characterizations of future events

Our liquidity, capital resources, capital expenditures, our credit ratings and the development in the capital markets, affecting our industry or us

The expected demand for our existing as well as new products and services

The expected operational or financial performance of joint ventures and other strategic cooperation activities

The time until acquired entities will be accretive to income

Technology and industry trends including regulatory and standardization environment, competition and our customer structure

Our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions, judgments and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein.

Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

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Challenging global economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow.

We may not be successful in implementing our strategy or in achieving improvements in our earnings.

The telecommunications industry fluctuates and is affected by many factors, including the economic environment, and decisions made by operators and other customers regarding their deployment of technology and their timing of purchases.

Sales volumes and gross margin levels are affected by the mix and ordertime of our products and services.

We may not be able to properly respond to market trends in the industries in which we operate, including the ongoing convergence of the telecom, data and media industries, which may harm our market position relative to our competitors.

Our business depends upon the continued growth of mobile communications and the acceptance of new services. If growth slows or new services do not succeed, operators' investment in networks may slow or stop, harming our business and operating results.

We face intense competition from our existing competitors as well as new entrants, including IT companies entering the telecommunications market, and this could materially adversely affect our results.

Vendor consolidation may lead to stronger competitors who are able to benefit from integration, scale and greater resources.

A significant portion of our revenue is currently generated from a limited number of key customers, and operator consolidation may increase our dependence on key customers.

Certain long-term agreements with customers still include commitments to future price reductions, requiring us to constantly manage and control our cost base.

Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.

We depend upon the development of new products and enhancements to our existing products, and the success of our substantial research and development investments is uncertain.

We engage in acquisitions and divestments which may be disruptive and require us to incur significant expenses.

We are in, and may enter into new JV arrangements and have, and may have new, partnerships which may not be successful and expose us to future costs.

We rely on a limited number of suppliers of components, production capacity and R&D and IT services, which exposes us to supply disruptions and cost increases.

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Product or service quality issues could lead to reduced revenue and gross margins and declining sales to existing and new customers.

Due to having a significant portion of our costs in SEK and revenues in other currencies, our business is exposed to foreign exchange fluctuations that could negatively impact our revenues and operating results.

Our ability to benefit from intellectual property rights (IPR) which are critical to our business may be limited by changes in regulation limiting patents, inability to prevent infringement, the loss of licenses from third parties, infringement claims brought against us by competitors and others and changes in the area of open standards, especially in light of recent attention on licensing of open standard patents.

We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.

Our operations are complex and several critical operations are centralized in a single location. Any disruption of our operations, whether due to natural or man-made events, may be highly damaging to the operation of our business.

Cyber security incidents affecting our business may have a material adverse effect on our business, financial condition, reputation and brand.

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We must continue to attract and retain highly qualified employees to remain competitive.

If our customers' financial conditions decline, we will be exposed to increased credit and commercial risks.

We rely on various capital sources for short-term and long-term capital for the funding of our business. Should such capital become unavailable or available in insufficient amounts or unreasonable terms, our business, financial condition and cashflow may materially suffer.

Impairment of goodwill or other intangible assets may negatively impact financial condition and results of operations.

Ericsson may fail or be unable to comply with laws or regulations and could experience penalties and adverse rulings in enforcement or other proceedings, which could have a material adverse impact on our business, financial condition and brand.

Our substantial international operations are subject to uncertainties which could affect our operating results.

We may fail to comply with our corporate governance standards which could negatively affect our business, operating results, financial condition, reputation and our brand.

Failure to comply with environmental, health and safety regulations in many jurisdictions may expose us to significant penalties and other sanctions.

Potential health risks related to electromagnetic fields may subject us to various product liability claims and result in regulatory changes.

Regulations related to conflict minerals may cause us to incur additional expenses, and may make our supply chain more complex.

Our share price has been and may continue to be volatile, especially as technology companies, securities and markets as a whole remain volatile.

Currency fluctuations may adversely affect share value or value of dividends.

Certain of these risks and uncertainties are described further in Risk factors. We undertake no obligation to publicly update or revise any forward-looking statements included in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

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**CORPORATE GOVERNANCE REPORT 2014**

Corporate governance describes how rights and responsibilities are distributed among corporate bodies according to applicable laws, rules and internal processes. Corporate governance also defines the decision-making systems and structure through which owners directly or indirectly control a company.

Ericsson's core values – professionalism, respect and perseverance –, together with Ericsson's continuous corporate governance focus, have an important role in creating and maintaining a robust corporate culture globally where business is conducted with integrity. I am confident that such robust corporate culture is a key factor for a global organization to maintain competitive and sustainable business operations worldwide.

Important tasks of the Board of Directors are to support and develop talent management, to give Group management clear governance frameworks and mandates, and to set the Group strategy. As Chairman of the Board, I know that the Board needs to have considerable insight in the business activities of Ericsson and in the markets in which Ericsson operates, to provide support to management and add value, while also exercising due control of the business operations. Therefore, I strive to enable an open and meaningful dialogue between the Board and the Group management.

This Corporate Governance Report 2014 aims to describe how Ericsson continuously works with these matters and how we focus on establishing efficient and reliable controls and procedures. I believe that Ericsson's continuous corporate governance focus and work to create a robust corporate culture build trust, and in turn, generate value for our investors.

**Leif Johansson**

Chairman of the Board of Directors

This Corporate Governance Report is rendered as a separate report added to the Annual Report in accordance with the Annual Accounts Act ((SFS 1995:1554) Chapter 6, Sections 6 and 8) and the Swedish Corporate Governance Code.

The report has been reviewed by Ericsson's auditor in accordance with the Annual Accounts Act. A report from the auditor is appended hereto.

**Ericsson's core values**



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**Regulation and compliance**

**External rules**

As a Swedish public limited liability company with securities quoted on Nasdaq Stockholm as well as on NASDAQ New York, Ericsson is subject to a variety of rules that affect its governance. Major external rules include:

The Swedish Companies Act

The Rule Book for issuers of Nasdaq Stockholm

The Swedish Corporate Governance Code (the Code )

NASDAQ Stock Market Rules, including applicable NASDAQ New York corporate governance requirements (subject to certain exemptions principally reflecting mandatory Swedish legal requirements)

Applicable requirements of the US Securities and Exchange Commission (the SEC )

**Internal rules**

In addition, to ensure compliance with legal and regulatory requirements and the high standards that we set for ourselves, Ericsson has adopted internal rules that include:

A Code of Business Ethics

Group Steering Documents, including Group policies and directives, instructions and business processes for approval, control and risk management

A Code of Conduct, to be applied in product development, production, supply and support of Ericsson products and services worldwide.

The articles of association and the work procedure for the Board of Directors also include internal corporate governance rules.

**Code of Business Ethics**

Ericsson's Code of Business Ethics summarizes fundamental Group policies and directives and contains rules to ensure that business is conducted with a strong sense of integrity. This is critical to maintain trust and credibility with Ericsson's customers, partners, employees, shareholders and other stakeholders.

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The Code of Business Ethics contains rules for all individuals performing work for Ericsson, under the staff management of Ericsson or in Ericsson premises, whether as an employee of Ericsson or a subcontractor, or as a private contractor. The Code of Business Ethics has been translated into 30 languages. This ensures that it is accessible to everyone working for Ericsson. During recruitment, employees acknowledge that they are aware of the principles of the Code of Business Ethics. This procedure is repeated during the term of employment. Through this process, Ericsson strives to raise awareness throughout its global operations.

Everyone working for Ericsson has an individual responsibility to ensure that business practices adhere to the Code of Business Ethics.

### **Compliance with regulations**

#### **Compliance with the Swedish Corporate Governance Code**

The Code is based on the principle of “comply or explain” and is published on the website of the Swedish Corporate Governance Board, which administrates the Code: [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se). Ericsson is committed to complying with best-practice corporate governance on a global level wherever possible. This includes continued compliance with the Code. Ericsson does not report any deviations from the rules of the Code in 2014.

#### **Compliance with applicable stock exchange rules**

There has been no infringement of applicable stock exchange rules and no breach of good practice on the securities market reported by the stock exchange’s disciplinary committee or the Swedish Securities Council in 2014.

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### **Governance structure**

Shareholders may exercise their decision-making rights in Telefonaktiebolaget LM Ericsson (the Parent Company) at General Meetings of shareholders.

A Nomination Committee is appointed each year by the major shareholders in accordance with the Instruction for the Nomination Committee adopted by the Annual General Meeting of shareholders. The tasks of the Nomination Committee include the proposal of an external auditor and Board members for election by the Annual General Meeting of shareholders and proposals of Board member and auditor remuneration.

In addition to the Board members elected by shareholders, the Board of Directors consists of employee representatives and their deputies, which the unions have the right to appoint under Swedish law. The Board of Directors is ultimately responsible for the strategy and the organization of Ericsson and the management of its operations.

The President and CEO, appointed by the Board of Directors, is responsible for handling the day-to-day management of Ericsson in accordance with guidelines from the Board. The President and CEO is supported by the Executive Leadership Team (ELT).

The external auditor of Ericsson is elected by the General Meeting of shareholders.

### **Shareholders**

#### **Ownership structure**

As of December 31, 2014, the Parent Company had 482,025 registered shareholders, of which 470,016 were resident or located in Sweden (according to the share register kept by Euroclear Sweden AB). Swedish institutions held approximately 54.65% of the votes. The largest shareholders as of December 31, 2014 were Investor AB, with 21.50% of the votes, and AB Industrivärden, with 20.05% of the votes (together with Svenska Handelsbankens Pensionsstiftelse and Pensionskassan SHB Försäkringsförening).

A significant number of the shares held by foreign investors are nominee-registered, i.e. held of-record by banks, brokers and/or nominees. This means that the actual shareholder is not displayed in the share register or included in the shareholding statistics.

More information on Ericsson's shareholders can be found in the chapter Share Information in the Annual Report.

#### **Shares and voting rights**

The share capital of the Parent Company consists of two classes of listed shares: A and B shares. Each Class A share carries one vote and each Class B share carries one tenth of one vote. Class A and B shares entitle the holder to the same proportion of assets and earnings and carry equal rights to dividends.

The Parent Company may also issue Class C shares, which shares are used to create treasury stock to finance and hedge long-term variable compensation programs resolved by the General Meeting of shareholders. Class C shares are converted into Class B shares before they are used for long-term variable compensation programs.

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

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The members of the Board of Directors and the Executive Leadership Team have the same voting rights on shares as other shareholders holding the same class of shares.

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**General Meetings of shareholders**

**Decision-making at General Meetings**

The decision-making rights of Ericsson's shareholders are exercised at General Meetings of shareholders. Most resolutions at General Meetings are passed by a simple majority. However, the Swedish Companies Act requires qualified majorities in certain cases, for example in case of:

Amendment of the Articles of Association

Resolution to transfer treasury stock to employees participating in long-term variable compensation programs.

**The Annual General Meeting of shareholders**

The Annual General Meeting of shareholders (AGM) is held in Stockholm. The date and venue for the meeting are announced on the Ericsson website no later than at the time of release of the third-quarter interim financial report in the preceding year.

Shareholders who cannot participate in person may be represented by proxy. Only shareholders registered in the share register have voting rights. Nominee-registered shareholders who wish to vote must request to be entered into the share register by the record date for the AGM.

The AGM is held in Swedish and is simultaneously translated into English. All documentation provided by the Company is available in both Swedish and English.

The AGM gives shareholders the opportunity to raise questions relating to the operations of the Group. Normally, the majority of the members of the Board of Directors and the Executive Leadership Team is present to answer such questions.

The external auditor is always present at the AGM.

**Ericsson's Annual General Meeting 2014**

Including shareholders represented by proxy, 2,930 shareholders were represented at the AGM held on April 11, 2014, making up almost 70% of the votes.

The meeting was also attended by members of the Board of Directors, members of the Executive Leadership Team (ELT) and the external auditor.

Decisions of the AGM 2014 included:

Payment of a dividend of SEK 3 per share

Re-election of Leif Johansson as Chairman of the Board of Directors

Re-election of members of the Board of Directors: Roxanne S. Austin, Sir Peter L. Bonfield, Nora Denzel, Börje Ekholm, Alexander Izosimov, Ulf J. Johansson, Sverker Martin-Löf, Kristin Skogen Lund, Hans Vestberg, Jacob Wallenberg and Pär Östberg

Board of Directors' fees:

Chairman: SEK 3,975,000 (previously SEK 3,850,000)

Other non-employee Board members: SEK 950,000 each (previously SEK 900,000)

Chairman of the Audit Committee: SEK 350,000 (unchanged)

Other non-employee members of the Audit Committee: SEK 250,000 each (unchanged)

Chairmen of the Finance and Remuneration Committees: SEK 200,000 each (unchanged)

Other non-employee members of the Finance and Remuneration Committees: SEK 175,000 each (unchanged)

Approval for part of the Directors' fees to be paid in the form of synthetic shares

Approval of Guidelines for remuneration to Group management

Implementation of a Long-Term Variable Compensation Program 2014.  
The minutes from the AGM 2014 are available on Ericsson's website.

#### **Contact the Board of Directors**

The Board of Directors Secretariat

SE-164 83 Stockholm

Sweden

boardsecretariat@ericsson.com

#### **Annual General Meeting 2015**

Ericsson's AGM 2015 will take place on April 14, 2015 at Stockholm Waterfront Congress Centre in Stockholm. Further information is available on Ericsson's website.



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**Nomination Committee**

The Annual General Meeting of shareholders has adopted an Instruction for the Nomination Committee that includes the tasks of the Nomination Committee and the procedure for appointing its members. The instruction applies until the General Meeting of shareholders resolves otherwise. Under the instruction, the Nomination Committee shall consist of:

Representatives of the four largest shareholders by voting power by the end of the month in which the AGM was held, and

The Chairman of the Board of Directors.

The Committee may also include additional members following a request by a shareholder. The request must be justified by changes in the shareholder's ownership of shares and be received by the Nomination Committee no later than December 31. No fees are paid to the members of the Nomination Committee.

**Members of the Nomination Committee**

The current Nomination Committee members are:

Petra Hedengran (Investor AB), Chairman of the Nomination Committee

Carl-Olof By (AB Industrivärden, Svenska Handelsbankens Pensionsstiftelse)

Johan Held (AFA Försäkring)

Leif Johansson, Chairman of the Board of Directors

Marianne Nilsson (Swedbank Robur Fonder).

**The tasks of the Nomination Committee**

The main task of the Committee is to propose Board members for election by the AGM. The Committee must orient itself on the Company's strategy and future challenges to be able to assess the competence and experience that is required by the Board. In addition, the Committee must consider independence rules applicable to the Board of Directors and its committees.

The Nomination Committee also makes the following proposals, for resolution by the AGM:

Proposal for remuneration to non-employee Directors elected by the AGM and remuneration to the auditor



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Proposal for election of auditor, whereby candidates are selected in cooperation with the Audit Committee of the Board

Proposal for election of Chairman at the AGM.

### **Work of the Nomination Committee for the AGM 2015**

The Nomination Committee started its work by going through a checklist of its duties under the Code and the Instruction for the Nomination Committee and by setting a time plan for its work ahead. A good understanding of Ericsson's business and strategy is important for the members of the Nomination Committee. Therefore, the Committee met with Ericsson's President and CEO who, together with the Chairman of the Board, presented their views on the Company's position and strategy.

The Committee was thoroughly informed of the results of the evaluation of the Board work and procedures, including the performance of the Chairman of the Board. On this basis, the Committee has assessed the competence and experience required by Ericsson Board members as well as the need for improvement of the composition of the Board in terms of diversity in age, gender and cultural/geographic background. The Nomination Committee has met with members of the Board of Directors to get their views on the Board work.

The Nomination Committee searches for potential Board member candidates both with a long-term and a short-term perspective. This year, the Committee has made particular efforts to identify potential female candidates that would bring relevant expertise and competence to the Board, while also improving the gender balance. The Nomination Committee considered the need for renewal and diversity and carefully assessed whether the proposed Directors have the capability to devote necessary time and care to the Board work.

The Committee met with the Chairman of the Audit Committee to acquaint itself with the assessments made by the Company and the Audit Committee of the quality and efficiency of external auditor work. The Audit Committee also provided its recommendations on external auditor and audit fees.

As of February 20, 2015 the current Nomination Committee has held eight meetings.

### **Contact the Nomination Committee**

Telefonaktiebolaget LM Ericsson

The Nomination Committee

c/o General Counsel's Office

SE-164 83 Stockholm

Sweden

[nomination.committee@ericsson.com](mailto:nomination.committee@ericsson.com)

### **Proposals to the Nomination Committee**

Shareholders may submit proposals to the Nomination Committee at any time, but should do so in due time before the AGM to ensure that the proposals can be considered by the Committee. Further information is available on Ericsson's website.

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### **Board of Directors**

The Board of Directors is ultimately responsible for the organization of Ericsson and the management of Ericsson's operations. The Board appoints the President and CEO who is responsible for managing the day-to-day operations in accordance with guidelines from the Board. The President and CEO ensures that the Board is updated regularly on issues of importance to Ericsson. This includes updates on business development, results, financial position and liquidity.

Directors serve from the close of one AGM to the close of the next, but can serve any number of consecutive terms.

The President and CEO may be elected a Director of the Board, but, under the Swedish Companies Act, the President of a public company may not be elected Chairman of the Board.

### **Conflicts of interest**

Ericsson maintains rules and regulations regarding conflicts of interest. Directors are disqualified from participating in any decision regarding agreements between themselves and Ericsson. The same applies to agreements between Ericsson and any third party or legal entity in which the Board member has an interest that may be contrary to the interests of Ericsson.

The Audit Committee has implemented a procedure for related-party transactions and a pre-approval process for non-audit services carried out by the external auditor.

### **Composition of the Board of Directors**

The current Board of Directors consists of 12 Directors elected by the shareholders at the AGM 2014 for the period until the close of the AGM 2015. It also consists of three employee representatives, each with a deputy, appointed by the trade unions for the same period of time. The President and CEO, Hans Vestberg, is the only Board member who was also a member of Ericsson's management during 2014.

### **Work procedure**

Pursuant to the Swedish Companies Act, the Board of Directors has adopted a work procedure and Committee charters outlining rules for the distribution of tasks among the Board, its Committees and the President and CEO. This complements rules in the Swedish Companies Act and in the Articles of Association of the Company. The work procedure and the Committee charters are reviewed, evaluated and adopted by the Board as required and at least once a year.

### **Independence**

The Board of Directors and its Committees are subject to a variety of independence rules under applicable Swedish law, the Code and applicable US securities laws, SEC rules and the NASDAQ Stock Market Rules. Ericsson can rely on exemptions from certain US requirements.

The composition of the Board of Directors meets all applicable independence criteria. The Nomination Committee concluded before the AGM 2014 that, for purposes of the Code, at least seven of the nominated Directors were independent of Ericsson, its senior management and its major shareholders. These were Roxanne S. Austin, Sir Peter L. Bonfield, Nora Denzel, Alexander Izosimov, Leif Johansson, Ulf J. Johansson and Kristin Skogen Lund.

### **Structure of the work of the Board of Directors**

The work of the Board follows a yearly cycle. This enables the Board to appropriately address each of its duties and to keep strategy, risk assessment and value creation high on the agenda. In addition to Board meetings, the annual work cycle of the Board includes two Board Strategic Days held in connection with Board meetings. The Board Strategic Days are described below under Training and Board Strategic Days.

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As the Board is responsible for financial oversight, financial information is presented and evaluated at each Board meeting. Furthermore, the Chairmen of each Committee, generally report on Committee work at each Board meeting and minutes from Committee meetings are distributed to all Directors prior to the Board meetings.

At every Board meeting, the President and CEO reports on business and market developments as well as on the financial performance of the Group. Strategic issues and risks are also addressed at most Board meetings. The Board is regularly informed of developments in legal and regulatory matters of importance.

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The 2014 annual work cycle of the Board:

**Fourth-quarter and full-year financial results meeting**

Following the end of the calendar year, the Board held a meeting which focused on the financial results of the entire year 2013 and handled the fourth-quarter financial report.

**Board Strategic Day**

A Board Strategic Day, focusing on deepening Board member knowledge of matters of strategic importance for Ericsson, was held in connection with a Board meeting in the spring.

**Annual Report meeting**

At this meeting the Board approved the Annual Report 2013.

**Statutory Board meeting**

The statutory Board meeting was held in connection with the AGM 2014. At this meeting, members of each of the three Board Committees were appointed and the Board resolved on signatory power.

**First interim report meeting**

At the next ordinary meeting, the Board handled the interim financial report for the first quarter of the year.

**Main strategy meeting**

Various strategic issues are addressed at most Board meetings and, in accordance with the annual cycle for the strategy process, a main strategy Board meeting was held, in essence dedicated to short- and long-term strategies of the Group. Following the Board's input on, and approval of, the overall strategy, the strategy was cascaded throughout the entire organization, starting at the Global Leadership Summit with Ericsson's top 250 leaders.

**Second interim report meeting**

At the second interim report meeting, the Board handled the interim financial report for the second quarter of the year.

**Follow-up strategy and risk management meeting**

Following the summer, a meeting was held to address particular strategy matters in further detail and to finally confirm the Group strategy. The meeting also addressed the overall risk management of the Group.

**Board Strategic Day**

A Board Strategic Day, focusing on deepening Board member knowledge of matters of strategic importance for Ericsson, was held in connection with a Board meeting in the fall.

**Third interim report meeting**

A Board meeting was held to handle the interim financial report for the third quarter of the year. At this meeting, the results of the Board evaluation were presented to and discussed by the Board.

**Budget and financial outlook meeting**

A meeting was held for the Board to address the budget and financial outlook as well as to further analyze internal and external risks.

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### **Training and Board Strategic Days**

All new Directors receive comprehensive training tailored to their individual needs. Introductory training typically includes meetings with the heads of the business units and Group functions, as well as training arranged by Nasdaq Stockholm on listing issues and insider rules. In addition, the company arranges training for Board members at regular intervals.

Since 2013, bi-annual Board Strategic Days are arranged for Board members in conjunction with ordinary Board meetings, and these Board Strategic Days normally span one full day each. The Board Strategic Days focus on combining strategy issues with making deep dives into issues of importance for the Ericsson Group. The purpose of the Board Strategic Days is to ensure that members of the Board have knowledge and understanding of the business activities of the Group, the business environment and the Group's strategic options and challenges. Directors' knowledge in these fields is crucial to allow well-founded Board resolutions, and to ensure that the Company takes due advantage of the different competences of the Directors. The Board Strategic Days also form an important platform for contacts between Directors and talent from different parts of Ericsson's organization where the Board gets the opportunity to meet Ericsson employees and leaders. Such contacts and meetings are highly valued by the Board as part of the Board's involvement in Ericsson's talent management.

As a rule, the Board Strategic Days also include sustainability and corporate responsibility training for the Board members.

### **Auditor involvement**

The Board meets with Ericsson's external auditor in closed sessions at least once a year to receive and consider the auditor's observations. The auditor reports to management on the accounting and financial reporting practices of the Group.

The Audit Committee also meets regularly with the auditor to receive and consider observations on the interim reports and the Annual Report. The auditor has been instructed to report on whether the accounts, the management of funds and the general financial position of the Group are presented fairly in all material respects.

In addition, the Board reviews and assesses the process for financial reporting, as described later in [Internal control over financial reporting 2014](#). Combined with other steps taken internally, the Board's and the auditor's review of the interim and annual reports are deemed to give reasonable assurance of the effectiveness of the internal controls over financial reporting.

### **Work of the Board of Directors in 2014**

In 2014, nine Board meetings were held. For attendance at Board meetings, see the table on page 116.

Strategy and risk management are always high on the Board's agenda and, during 2014, these matters got even more focus through the bi-annual Board Strategic Days instituted in 2013. The Board Chairman has also had several meetings with different Ericsson talents to further develop Ericsson's talent management and learn from the organization.

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Sustainability and corporate responsibility are increasingly important to Ericsson and the Company continuously strives to improve in these areas. Sustainability and corporate responsibility are integrated into Ericsson's business strategy.

Due to the political unrest in various parts of the world, the Board has continuously monitored the international developments and their possible impact on Ericsson.

During 2014, profitability, cost reductions and efficiency gains have been a focus within Ericsson. Further, the evaluation of the future of Ericsson's modems business was completed and it was resolved to discontinue the development of modems. The Board also addressed a number of acquisitions, including the acquisitions of Azuki Systems Inc., Fabrix Systems and Metra-Tech Corporation and the acquisition of the business of Ambient Corporation and a majority stake in Apcera, Inc.

### **Board work evaluation**

A key objective of the Board evaluation is to ensure that the Board work is functioning well. This includes gaining an understanding of the issues that the Board thinks warrant greater focus, as well as determining areas where additional competence is needed within the Board and whether the Board composition is appropriate. The evaluation also serves as guidance for the work of the Nomination Committee.

Each year, the Chairman of the Board initiates and leads the evaluation of the Board and Committee work and procedures. Evaluation tools include detailed questionnaires and discussions. The services of an external corporate advisory firm have been retained by the Company to assist in developing questionnaires, carrying out surveys and summarizing responses.

In 2014, all Directors responded to written questionnaires, covering the Director's individual performance, Board work in general, Committee work and the Chairman's performance. The Chairman was not involved in the development or compilation of the questionnaire which related to his performance, nor was he present when his performance was evaluated. As part of the evaluation process, the Chairman of the Board also had individual discussions with each of the Directors. The evaluations were thoroughly discussed and an action plan was developed in order to further improve the work of the Board.

### **Committees of the Board of Directors**

The Board of Directors has established three Committees: the Audit Committee, the Finance Committee and the Remuneration Committee. Members of each Committee are appointed for one year from amongst the Board members.

The task of the Committees is mainly to prepare matters for resolution by the Board. However, the Board has authorized each Committee to determine and handle certain issues in limited areas. It may also on occasion provide extended authorization for the Committees to determine specific matters.

If deemed appropriate, the Board of Directors and each Committee have the right to engage independent external expertise, either in general or with respect to specific matters.

Prior to the Board meetings, each Committee submits the minutes from Committee meetings to the Board. The Chairman of the Committee also reports on the Committee work at each Board meeting.

### **Audit Committee**

On behalf of the Board, the Audit Committee monitors the following:

The scope and accuracy of the financial statements

Compliance with legal and regulatory requirements

Internal control over financial reporting

Risk management

The effectiveness and appropriateness of the Group's anti-corruption program.



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The Audit Committee also reviews the annual and interim financial reports and oversees the external audit process, including audit fees.

The Audit Committee itself does not perform audit work. Ericsson has an internal audit function which reports directly to the Audit Committee. Ericsson also has an external auditor elected by the AGM.

The Committee is involved in the preparatory work of proposing an auditor for election by the AGM. It also monitors Group transactions and the ongoing performance and independence of the auditor with the aim to avoid conflicts of interest.

In order to ensure the auditor's independence, the Audit Committee has established pre-approval policies and procedures for non-audit related services to be performed by the external auditor. Pre-approval authority may not be delegated to management.

The Audit Committee also oversees Ericsson's process for reviewing transactions with related parties and Ericsson's whistleblower procedures.

*Whistleblower procedure*

Ericsson's whistleblower procedure can be used for reporting of alleged violations of laws or the Code of Business Ethics that:

are conducted by Group or local management, and

relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety.

Violations reported through the whistleblower procedures are handled by Ericsson's Group Compliance Forum, consisting of representatives from Ericsson's internal audit function, Group Function Legal Affairs, Group Security, and Group Function Human Resources. Information regarding any incident is reported to the Audit Committee. Reports include measures taken, details of the responsible Group function and the status of any investigation.

*Members of the Audit Committee*

The Audit Committee consists of four Board members appointed by the Board. The Audit Committee members appointed by the Board in connection with the AGM 2014 are: Ulf J. Johansson (Chairman of the Committee), Sir Peter L. Bonfield, Kristina Davidsson and Pär Östberg.

The composition of the Audit Committee meets all applicable independence requirements. The Board of Directors has determined that each of Ulf J. Johansson, Sir Peter L. Bonfield and Pär Östberg is an audit committee financial expert, as defined under the SEC rules. Each of them is considered independent under applicable US securities laws, SEC rules and NASDAQ Stock Market Rules and each of them is financially literate and familiar with the accounting practices of an international company, such as Ericsson.

*Work of the Audit Committee in 2014*

The Audit Committee held six meetings in 2014. Directors' attendance is reflected in the table on page 116. During the year, the Audit Committee reviewed the scope and results of external financial audits and the independence of the external auditor. It also monitored the external audit fees and approved non-audit services performed by the external auditor in accordance with the Committee's pre-approval policies and procedures.

The Committee approved the annual audit plan for the internal audit function and reviewed its reports. Prior to publishing it, the Committee also reviewed and discussed each interim report and the annual report with the external auditor.

The Committee monitored the continued compliance with the Sarbanes-Oxley Act as well as the internal control and risk management process. It also reviewed certain related-party transactions in accordance with its established process.

The Committee reviewed and evaluated the effectiveness and appropriateness of the Group's anti-corruption program.

**Finance Committee**

The Finance Committee is primarily responsible for:

Handling matters related to acquisitions and divestments

Handling capital contributions to companies inside and outside the Ericsson Group

Raising loans, issuing guarantees and similar undertakings, and approving financial support to customers and suppliers

Continuously monitoring the Group's financial risk exposure.

The Finance Committee is authorized to determine matters such as:

Direct or indirect financing

Provision of credits

Granting of guarantees and similar undertakings

Certain investments, divestments and financial commitments.

*Members of the Finance Committee*

The Finance Committee consists of four Board members appointed by the Board. The Finance Committee members appointed by the Board in connection with the AGM 2014 are: Leif Johansson (Chairman of the Committee), Pehr Claesson, Sverker Martin-Löf and Jacob Wallenberg.

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*Work of the Finance Committee in 2014*

The Finance Committee held six meetings in 2014. Directors' attendance is reflected in the table on page 116. During the year, the Finance Committee approved numerous customer finance credit arrangements and reviewed a number of potential mergers and acquisitions and real estate investments. The Finance Committee spent significant time discussing and securing an adequate capital structure, as well as examining cash flow and working capital performance. It also continuously monitored Ericsson's financial position, foreign exchange and credit exposures.

**Remuneration Committee**

The Remuneration Committee's main responsibilities include:

Reviewing and preparing for resolution by the Board, proposals on salary and other remuneration, including retirement compensation, for the President and CEO.

Reviewing and preparing for resolution by the Board, proposals to the AGM on guidelines for remuneration to the ELT.

Approving proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other CEO direct reports.

Reviewing and preparing for resolution by the Board, proposals to the AGM on the Long-Term Variable Compensation Program and similar equity arrangements.

In its work, the Remuneration Committee considers trends in remuneration, legislative changes, disclosure rules and the general global executive remuneration environment. The Committee reviews salary survey data before approving any salary adjustment for CEO direct reports and before preparing salary adjustments for the President and CEO for resolution by the Board.

*Members of the Remuneration Committee*

The Remuneration Committee consists of four Board members appointed by the Board. The Remuneration Committee members appointed by the Board in connection with the AGM 2014 are: Leif Johansson (Chairman of the Committee), Börje Ekholm, Roxanne S. Austin and Karin Åberg.

An independent expert advisor, Piia Pilv, has been appointed by the Remuneration Committee to advise and assist the Committee.

*Work of the Remuneration Committee in 2014*

The Remuneration Committee held six meetings in 2014. Directors' attendance is reflected in the table on page 116.

The Committee reviewed and prepared a proposal for the LTV 2014 for resolution by the Board and further approval by the AGM 2014. The Committee further resolved on salaries and Short-Term Variable remuneration (STV) for 2014 for certain CEO direct reports and prepared proposals regarding remuneration to the President and CEO, for resolution by the Board. The Committee also prepared guidelines for remuneration to the ELT, for resolution by the Board, which were subsequently referred by the Board to the AGM for approval.

The Remuneration Committee additionally concluded its analysis of the current LTV structure and executive remuneration. The resulting proposals on LTV and guidelines for remuneration to the ELT will be referred to the AGM 2015 for resolution.

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For further information on fixed and variable remuneration, please see Notes to the consolidated financial statements Note C28 Information regarding members of the Board of Directors, the Group management and employees and the Remuneration Report included in the Annual Report.

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**Directors attendance and fees 2014**

Board member	Fees resolved by the AGM 2014		Number of Board/Committee meetings attended in 2014			
	Board fees, SEK <sup>1)</sup>	Committee fees, SEK	Board	Audit Committee	Finance Committee	Remuneration Committee
Leif Johansson	3,975,000	400,000	9		6	6
Sverker Martin-Löf	950,000	175,000	9		5	
Jacob Wallenberg	950,000	175,000	9		6	
Roxanne S. Austin	950,000	175,000	9			5
Sir Peter L. Bonfield	950,000	250,000	9	6		
Nora Denzel	950,000		9			
Börje Ekholm	950,000	175,000	9			6
Alexander Izosimov	950,000		9			
Ulf J. Johansson	950,000	350,000	9	6		
Kristin Skogen Lund	950,000		9			
Hans Vestberg			9			
Pär Östberg	950,000	250,000	9	6		
Pehr Claesson	13,500 <sup>2)</sup>		9		6	
Kristina Davidsson	13,500 <sup>2)</sup>		9	6		
Karin Åberg	13,500 <sup>2)</sup>		9			6
Rickard Fredriksson	13,500 <sup>2)</sup>		9			
Karin Lennartsson	12,000 <sup>2)</sup>		8			
Roger Svensson	10,500 <sup>2)</sup>		7			
<b>Total number of meetings</b>			<b>9</b>	<b>6</b>	<b>6</b>	<b>6</b>

- 1) Non-employee Directors can choose to receive part of their Board fee (exclusive of Committee fees) in the form of synthetic shares.
- 2) Employee representative Board members and their deputies are not entitled to a Board fee but compensation in the amount of SEK 1,500 per attended Board meeting.

**Remuneration to Board members**

Remuneration to Board members not employed by the Company is proposed by the Nomination Committee for resolution by the AGM.

The AGM 2014 approved the Nomination Committee's proposal for fees to the non-employee Board members for Board and Committee work. For further information on Board of Directors' fees 2014, please refer to Notes to the consolidated financial statements Note C28 Information regarding members of the Board of Directors, the Group management and employees in the Annual Report.

The AGM 2014 also approved the Nomination Committee's proposal that Board members may be paid part of their Board fee in the form of synthetic shares.

A synthetic share gives the right to receive a future cash payment of an amount which corresponds to the market value of a Class B share in Ericsson at the time of payment. The Director's right to receive payment with regard to allocated synthetic shares occurs, as a main rule, after the publication of the Company's year-end financial statement during the fifth year following the General Meeting that resolved on the allocation of the synthetic shares. The purpose of paying part of the Board of Directors' fee in the form of synthetic shares is to further align the Directors' interests with shareholder interests. For more information on the terms and conditions of the synthetic shares, please refer to the notice convening the AGM 2014 and to the minutes from the AGM 2014, which are available at Ericsson's website.



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**Members of the Board of Directors**

**Board members elected by the AGM 2014**

**Leif Johansson** (first elected 2011)

*Chairman of the Board of Directors, Chairman of the Remuneration Committee and of the Finance Committee*

Born 1951. Master of Science in Engineering, Chalmers University of Technology, Gothenburg, Sweden.

**Board Chairman:** Astra Zeneca PLC.

**Board Member:** Svenska Cellulosa Aktiebolaget SCA and Ecolan AB.

**Holdings in Ericsson:** 41,933 Class B shares<sup>1)</sup>, and 12,000 Class B shares held via endowment insurance<sup>3)</sup>.

**Principal work experience and other information:** Member of the European Round Table of Industrialists since 2002, and served as Chairman 2009–2014. President of the Royal Swedish Academy of Engineering Sciences since 2012. Chairman of the International Advisory Board of the Nobel Foundation. President and CEO of AB Volvo 1997–2011. Executive Vice President of AB Electrolux 1988–1991, President 1991–1994 and President and CEO of AB Electrolux 1994–1997. Holds honorary Doctorates at Blekinge Institute of Technology, the University of Gothenburg and Chalmers University of Technology. Awarded the Large Gold Medal of the Royal Swedish Academy of Engineering Sciences in 2011.

**Sverker Martin-Löf** (first elected 1993)

*Deputy Chairman of the Board of Directors, Member of the Finance Committee*

Born 1943. Doctor of Technology and Master of Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.

**Board Chairman:** Svenska Cellulosa Aktiebolaget SCA, SSAB and AB Industrivärden.

**Deputy Board Chairman:** Svenska Handelsbanken AB.

**Board Member:** Skanska AB.

**Holdings in Ericsson:** 10,400 Class B shares<sup>1)</sup>

**Principal work experience and other information:** President and CEO of Svenska Cellulosa Aktiebolaget SCA 1990–2002, where he was employed 1977–1983 and 1986–2002. Previous positions at Sunds Defibrator and Mo och Domsjö AB.

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**Jacob Wallenberg** (first elected 2011)

*Deputy Chairman of the Board of Directors, Member of the Finance Committee*

Born 1956. Bachelor of Science in Economics and Master of Business Administration, Wharton School, University of Pennsylvania, USA. Officer of the Reserve, Swedish Navy.

**Board Chairman:** Investor AB.

**Deputy Board Chairman:** SAS AB.

**Board Member:** ABB Ltd, The Knut and Alice Wallenberg Foundation and the Stockholm School of Economics.

**Holdings in Ericsson:** 2,703 Class B shares<sup>1)</sup>, and 15,026 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** Chairman of the Board of Investor AB since 2005. President and CEO of SEB in 1997 and Chairman of SEB's Board of Directors 1998–2005. Executive Vice President and CFO of Investor AB 1990–1993. Honorary Chairman of IBLAC (Mayor of Shanghai's International Business Leaders Advisory Council) and member of The European Round Table of Industrialists.

**Roxanne S. Austin** (first elected 2008)

*Member of the Remuneration Committee*

Born 1961. Bachelor of Business Administration in Accounting, University of Texas, San Antonio, USA.

**Board Member:** Abbott Laboratories, AbbVie Inc., Target Corporation and Teledyne Technologies Inc.

**Holdings in Ericsson:** 3,000 Class B shares<sup>1)</sup>, and 26,123 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** President of Austin Investment Advisors since 2004. President and CEO of Move Networks Inc. 2009–2010. President and COO of DirecTV 2001–2003. Corporate Senior Vice President and CFO of Hughes Electronics Corporation 1997–2000, which she joined in 1993. Previously a partner at Deloitte & Touche. Member of the California State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

The Board memberships and holdings in Ericsson reported above are as of December 31, 2014.

- 1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.
- 2) Since 2008, the AGM has each year resolved that part of the Board fee may be received in the form of synthetic shares. A synthetic share is a right to receive in the future a payment corresponding to the value of the Class B share in Ericsson at the time of payment. Please see page 116 for further information. Shares held via endowment insurance include shares held under an
- 3) insurance under which the insurance holder may make investment decisions with respect to the shares (Sw: kapitalförsäkring or depåförsäkring) and include holdings by related natural and legal persons, as well as holdings of ADS, if applicable.



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**Sir Peter L. Bonfield** (first elected 2002)

*Member of the Audit Committee*

Born 1944. Honors degree in Engineering, Loughborough University, Leicestershire, UK.

**Board Chairman:** NXP Semiconductors N.V.

**Board Member:** GlobalLogic Inc., Mentor Graphics Inc. and Taiwan Semiconductor Manufacturing Company, Ltd.

**Holdings in Ericsson:** 4,400 Class B shares<sup>1)</sup>, and 7,944 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** CEO and Chairman of the Executive Committee of British Telecommunications plc 1996–2002. Chairman and CEO of ICL plc 1985–1996. Positions with STC plc and Texas Instruments Inc. Member of the Advisory Board of the Longreach Group. Board Mentor of CMi. Senior Advisor, Rothschild, London. Chair of Council and Senior Pro-Chancellor, Loughborough University, UK. Fellow of the Royal Academy of Engineering.

**Nora Denzel** (first elected 2013)

Born 1962. Master of Science in Business Administration, Santa Clara University, USA. Bachelor of Science in Computer Science, State University of New York, USA.

**Board Member:** Advanced Micro Devices, Inc., Outerwall, Inc. and Saba Software.

**Holdings in Ericsson:** 3,850 Class B shares<sup>1)</sup>, and 2,976 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** Intuit Software (2008–2012) Senior Vice President Big Data, Marketing and Social Product Design and General Manager QuickBooks Payroll Division. Previous positions include Senior Vice President and General Manager of HP's Global Software, Storage and Consulting Divisions (2000–2006), Senior Vice President Product Operations Legato Systems (bought by EMC) and various engineering, marketing and executive positions at IBM. Non-Profit board member of YWCA of Silicon Valley, Ushahidi and the Anita Borg Institute.

**Börje Ekholm** (first elected 2006)

*Member of the Remuneration Committee*

Born 1963. Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden. Master of Business Administration, INSEAD, France.

**Board Chairman:** KTH Royal Institute of Technology, Stockholm and NASDAQ OMX Group Inc.

**Board Member:** Investor AB, AB Chalmersinvest and EQT Partners AB.

**Holdings in Ericsson:** 30,760 Class B shares<sup>1)</sup>, and 41,178 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** President and CEO of Investor AB since 2005. Formerly Head of Investor Growth Capital Inc. and New Investments. Previous positions at Novare Kapital AB and McKinsey & Co Inc. Member of the Board of Trustees of Choate Rosemary Hall.

**Alexander Izosimov** (first elected 2012)

Born 1964. Master of Business Administration, INSEAD, France and Master of Science in Production Management Systems and Computer Science, Moscow Aviation Institute, Russian Federation.

**Board Member:** Modern Times Group MTG AB, EVRAZ Group S.A., Dynasty Foundation and Transcom WorldWide SA.

**Holdings in Ericsson:** 1,600 Class B shares<sup>1)</sup>, 50,000 Class B shares held via endowment insurance<sup>3)</sup>, and 9,272 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** CEO and President of VimpelCom 2003 - 2011. Previous positions with Mars Inc., including Member of the Global Executive Board and Regional President for CIS, Central Europe and Nordics. Earlier positions with McKinsey & Co as consultant in the Stockholm and London offices. Served as GSMA Board member 2005 - 2008 and Chairman of GSMA 2008 - 2010.

The Board memberships and holdings in Ericsson reported above are as of December 31, 2014.

- 1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.
- 2) Since 2008, the AGM has each year resolved that part of the Board fee may be received in the form of synthetic shares. A synthetic share is a right to receive in the future a payment corresponding to the value of the Class B share in Ericsson at the time of payment. Please see page 116 for further information. Shares held via endowment insurance include shares held under an
- 3) insurance under which the insurance holder may make investment decisions with respect to the shares (Sw: kapitalförsäkring or depåförsäkring ) and include holdings by related natural and legal persons, as well as holdings of ADS, if applicable

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**Board members elected by the AGM 2014, cont.**

**Ulf J. Johansson** (first elected 2005)

*Chairman of the Audit Committee*

Born 1945. Doctor of Technology and Master of Science in Electrical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.

**Board Chairman:** Acando AB, Eurostep Group AB and Trimble Navigation Ltd.

**Board Member:** European Institute of Innovation and Technology.

**Holdings in Ericsson:** 6,435 Class B shares<sup>1)</sup>, and 6,571 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** Founder of Europolitan Vodafone AB, where he was the Chairman of the Board 1990–2005. Previous positions at Spectra-Physics AB as President and CEO and at Ericsson Radio Systems AB. Member of the Royal Academy of Engineering Sciences.

**Kristin Skogen Lund** (first elected 2013)

Born 1966. Master of Business Administration, INSEAD, France. Bachelor in International Studies and Business Administration, University of Oregon, USA.

**Board Member:** None.

**Holdings in Ericsson:** 5,780 synthetic shares<sup>2)</sup>.

**Principal work experience and other information:** Director General of the Confederation of Norwegian Enterprise (NHO) since 2012. Executive Vice President and Head of Digital Services and Broadcast and Executive Vice President and Head of Nordic Region, Group Executive Management at Telenor 2010–2012. Previous positions include Chief Executive Officer and Commercial Director at Aftenposten, Chief Executive Officer at Scanpix, Managing Director and Editor in Chief at Scandinavia Online, and several positions at the Coca-Cola Company, Unilever and Norges Eksportråd.

**Hans Vestberg** (first elected 2010)

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board Chairman:** Svenska Handbollförbundet.

**Board Member:** Thernlunds AB.

**Holdings in Ericsson:** 333,329 Class B shares<sup>1</sup>).

**Principal work experience and other information:** President and CEO of Telefonaktiebolaget LM Ericsson since January 1, 2010. Previously, First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's task group on the post 2015 development agenda. Member of the Leadership Council of the United Nations Sustainable Development Solutions Network.

**Pär Östberg** (first elected 2013)

*Member of the Audit Committee*

Born 1962. Master of Business Administration, Gothenburg School of Economics, Gothenburg, Sweden.

**Board Member:** Skanska AB and SSAB.

**Holdings in Ericsson:** 4,000 Class B shares held via endowment insurance<sup>3</sup>).

**Principal work experience and other information:** Executive Vice President of AB Industrivärden since 2012. Executive Vice President at Volvo Group Truck Joint Ventures between January 2012 and October 2012. Several senior managerial positions within the Volvo group including Senior Vice President and President Trucks Asia at AB Volvo, Chairman of the Board of VE Commercial Vehicles Ltd, Senior Vice President and CFO at AB Volvo, CFO at Volvo Trucks France and senior positions at Volvo Treasury Asia Ltd, Singapore and Volvo Treasury Europe AB. Previous positions also include Senior Vice President, CFO at Renault Trucks and positions within Renault Crédit International (RCI) and Renault SA.

The Board memberships and holdings in Ericsson reported above are as of December 31, 2014.

- 1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.
- 2) Since 2008, the AGM has each year resolved that part of the Board fee may be received in the form of synthetic shares. A synthetic share is a right to receive in the future a payment corresponding to the value of the Class B share in Ericsson at the time of payment. Please see page 116 for further information.
- 3) Shares held via endowment insurance include shares held under an insurance under which the insurance holder may make investment decisions with respect to the shares (Sw: kapitalförsäkring or depåförsäkring ) and include holdings by related natural and legal persons, as well as holdings of ADS, if applicable.

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**Board members and deputies appointed by the unions**

**Pehr Claesson** (first appointed 2008)

*Employee representative, Member of the Finance Committee*

Born 1966. Appointed by the union The Swedish Association of Graduate Engineers.

**Holdings in Ericsson:** 1,661 Class B shares<sup>1)</sup>.

Employed since 1997. Working with marketing and communication for Consulting and Systems Integration within Business Unit Global Services.

**Kristina Davidsson** (first appointed 2006)

*Employee representative, Member of the Audit Committee*

Born 1955. Appointed by the union IF Metall.

**Holdings in Ericsson:** 2,088 Class B shares<sup>1)</sup>.

Employed since 1995. Previously working as a repairer within Business Unit Networks and currently working full time as union representative.

**Karin Åberg** (first appointed 2007)

*Employee representative, Member of the Remuneration Committee*

Born 1959. Appointed by the union Unionen.

**Holdings in Ericsson:** 3,577 Class B shares<sup>1)</sup>.

Employed since 1998. Working as a Service Engineer within the IT organization.

**Rickard Fredriksson** (first appointed 2012)

*Deputy employee representative*

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Born 1969. Appointed by the union IF Metall.

**Holdings in Ericsson:** 1,688 Class B shares<sup>1)</sup>.

Employed since 2000. Previously working as machine operator within Business Unit Networks and currently working full time as union representative.

**Karin Lennartsson** (first appointed 2010)

*Deputy employee representative*

Born 1957. Appointed by the union Unionen.

**Holdings in Ericsson:** 667 Class B shares<sup>1)</sup>.

Employed since 1976. Working as Process Expert within Group Function Business Excellence & Common Functions.

**Roger Svensson** (first appointed 2011)

*Deputy employee representative*

Born 1971. Appointed by the union The Swedish Association of Graduate Engineers.

**Holdings in Ericsson:** 11,738 Class B shares<sup>1)</sup>.

Employed since 1999. Working as Senior Specialist within Business Unit Networks.

Hans Vestberg was the only Director who held an operational management position at Ericsson in 2014. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person.

1) The number of shares reflects ownership as of December 31, 2014 and includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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### **Management**

#### **The President/CEO and the Executive Leadership Team**

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. The President and CEO is responsible for the management of day-to-day operations and is supported by the Executive Leadership Team (the ELT). The ELT members as of December 31, 2014, are presented on page 125.

The role of the ELT is to:

Establish a strong corporate culture, a long-term vision and Group strategies and policies, all based on objectives stated by the Board.

Determine targets for operational units, allocate resources and monitor unit performance.

Secure operational excellence and realize global synergies through efficient organization of the Group.

#### **Remuneration to the Executive Leadership Team**

Guidelines for remuneration to the ELT were approved by the AGM 2014. For further information on fixed and variable remuneration, see the Remuneration Report and Notes to the consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees in the Annual Report.

#### **The Ericsson Group Management System**

Ericsson has one global management system, known as the Ericsson Group Management System (EGMS) to drive corporate culture and to ensure that the business is managed:

To fulfill the objectives of Ericsson's major stakeholders (customers, shareholders, employees).

Within established risk limits and with reliable internal control.

In compliance with relevant applicable laws, listing requirements, governance codes and corporate responsibilities.

The EGMS is a framework consisting of rules and requirements for Ericsson's business, specified through process and organization descriptions, policies, directives and instructions. The management system is applied in all Ericsson's operations globally, and its consistency and global reach is designed to build trust in the way Ericsson works. The EGMS is founded on ISO 9001 (international standard for quality management systems) but is designed as a dynamic governance system, enabling Ericsson to adapt the system to evolving demands and expectations, including new legislation as well as customers' and other stakeholders' requirements. Ericsson does not implement external requirements without analyzing them and putting them into the Ericsson context.

The EGMS comprises three elements:



Management and control

Ericsson business processes

Organization and resources.

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### **Management and control**

Ericsson's strategy and target-setting processes consider the demands and expectations of customers as well as other key stakeholders. Ericsson uses balanced scorecards as tools for translating strategic objectives into a set of performance indicators for its operational units. Based on annual strategy work, these scorecards are updated with targets for each unit for the next year and are communicated throughout the organization.

Group-wide policies and directives govern how the organization works and are core elements in managing and controlling Ericsson. The Group Policies and Directives include, among other things, a Code of Business Ethics, a Code of Conduct and accounting and reporting directives to fulfill external reporting requirements.

Ericsson has a Group Steering Documents Committee for purposes of aligning policies and directives with Group strategies, values and structures.

### **Ericsson business processes**

As a market leader, Ericsson utilizes the competitive advantages that are gained through global scale and has implemented common processes and IT tools across all operational units worldwide. Customer requirements are identified, clarified and formalized in Ericsson Business Processes where requirements transform from theory to practice. Ericsson attempts to reduce costs with efficient and effective process flows and with standardized internal controls and performance indicators.

### **Organization and resources**

Ericsson is operated in two dimensions: one operational structure and one legal structure. The operational structure aligns accountability and authority regardless of country borders and supports the process flow with cross-country operations. In the operational structure, Ericsson is organized in group functions, business units and regions. The legal structure is the basis for legal requirements and responsibility as well as for tax and statutory reporting purposes. There are more than 200 legal entities within the Ericsson Group with eighty branch offices with representation (via legal entities, branch and representative offices) in more than 150 countries.

### **Chief Compliance Officer**

Ericsson has a Chief Compliance Officer (CCO), reporting to the General Counsel whose responsibilities among other things include to further develop Ericsson's anti-corruption compliance program. Attention from senior-management level on anti-corruption and compliance is crucial, as is ensuring that these matters are addressed from a cross-functional perspective. Ericsson's anti-corruption compliance program is reviewed and evaluated by the Audit Committee at least annually.

### **Audits, assessments and certification**

The purpose of audits and assessments is to determine levels of compliance and to provide valuable information for understanding, analyzing and continually improving performance. Management monitors compliance with policies, directives and processes through internal self-assessment within all units. This is complemented by internal and external audits.

Due to demands and requirements from customers and other external stakeholders, Ericsson sometimes needs to take decisions on certification in order to stay competitive in the market. Certification means that Ericsson's interpretation of standards or requirements are confirmed by a third party assessment.

As the EGMS is a global system, group-wide certificates are issued by a third party certification body proving that the system is efficient throughout the whole organization. Ericsson is currently globally certified to ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Health & Safety). Selected Ericsson units are also certified to additional standards, for example ISO 27001 (Information Security) and TL 9000 (telecom-specific standard). EGMS is also audited within the scope of the audit plan of Ericsson's internal audit function.

Ericsson's external financial audits are performed by PricewaterhouseCoopers, and ISO/management system audits by Intertek. Internal audits are performed by the company's internal audit function which reports to the Audit Committee.

Ericsson conducts audits of suppliers in order to secure compliance with Ericsson's Code of Conduct, which includes rules that suppliers to the Ericsson Group must comply with.

**Risk management**

Ericsson's risk management is integrated into the operational processes of the business, and is a part of the EGMS to ensure accountability, effectiveness, efficiency, business continuity and compliance with corporate governance, legal and other requirements. The Board of Directors is also actively engaged in the Company's risk management. Risks related to long-term objectives are discussed and strategies are formally approved by the Board as part of the annual strategy process. Risks related to annual targets for the Company are also reviewed by the Board and then monitored continuously during the year. Certain transactional risks require specific Board approval, e.g. acquisitions, management remuneration, borrowing or customer finance in excess of pre-defined limits.

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*Operational, financial and compliance risks*

*Operational and financial risk*

Operational risks are owned and managed by operational units. Risk management is embedded in various process controls, such as decision tollgates and approvals. Certain cross-process risks are centrally coordinated, such as information security, IT security, corporate responsibility and business continuity and insurable risks. Financial risk management is governed by a Group policy and carried out by the Treasury and Customer Finance functions, both supervised by the Finance Committee. The policy governs risk exposures related to foreign exchange, liquidity/financing, interest rates, credit risk and market price risk in equity instruments. 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 in the Annual Report.

*Compliance risks*

Ericsson has implemented Group policies and directives in order to comply with applicable laws and regulations, including a Code of Business Ethics and a Code of Conduct. Risk management is integrated in the Company's business processes. Policies and controls are implemented to comply with financial reporting standards and stock market regulations.

*Risk mitigation*

Examples of significant activities to mitigate risks are:

Conducting regular supplier Code of Conduct audits.

Continuously assessing and managing risks relating to Corporate Responsibility.

Conducting business continuity management in an efficient way.

Continuously monitoring information systems to guard against data breaches.

Reviewing top risks and mitigating actions at various internal governance meetings.

*Strategic and tactical risks*

Strategic risks constitute the highest risk to the Company if not managed properly as they could have a long-term impact. Ericsson therefore reviews its long-term objectives, main strategies and business scope on an annual basis and continuously works on its tactics to reach these objectives and to mitigate any risks identified.

In the annual strategy and target setting process, objectives are set for the next three to five years. Risks are assessed and strategies are developed to achieve the objectives. The strategy process in the Company is well established and involves regions, business units and Group functions. The strategy is summarized and discussed in a yearly Leadership Summit with approximately 250 leaders from all parts of the business. By involving all parts of the business in the process, potential risks are identified early and mitigating actions can be incorporated in the strategy and in the annual target-setting process following the finalization of the strategy.



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Key components in the evaluation of risk related to Ericsson's long-term objectives include technology development, cyber security related matters, industry and market fundamentals, the development of the economy, the political environment, health and environmental aspects and laws and regulations.

The outcome of the strategy process forms the basis for the annual target-setting process, which involves regions, business units and Group functions. Risks related to the targets are identified as part of this process together with actions to mitigate the identified risks. Follow-up of targets, risks and mitigating actions are reported and discussed continuously in business unit and region steering groups and are reviewed by the Board of Directors.

Ericsson continuously strives to improve its risk management and believes that it is important that the entire global organization takes part in the risk management and strategy work. The risk management framework implemented during 2012 has been further developed and qualified during 2014. For more information on risks related to Ericsson's business, see the chapter "Risk factors" in the Annual Report.

**Example of risk heat map document**

Risk heat maps are generated by business units, regions and Group functions in four risk categories:

Industry & market

Commercial

Operational

Compliance

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**Members of the Executive Leadership Team**

**Hans Vestberg**

*President and CEO (since 2010)*

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board Chairman:** Svenska Handbollförbundet.

**Board Member:** Telefonaktiebolaget LM Ericsson and Thernlunds AB.

**Holdings in Ericsson<sup>1)</sup>:** 333,329 Class B shares.

**Background:** Previously, First Executive Vice President, CFO and Head of Group Function Finance and Executive Vice President and Head of Business Unit Global Services. Various positions in the Group since 1988, including Vice President and Head of Market Unit Mexico and Head of Finance and Control in USA, Brazil and Chile. International advisor to the Governor of Guangdong, China and co-chairman of the Russian-Swedish Business Council. Founding member of the Broadband Commission for Digital Development, and heading the Commission's task group on the post-2015 development agenda. Member of the Leadership Council of the United Nations Sustainable Development Solutions Network.

**Jan Frykhammar**

*Executive Vice President, Chief Financial Officer and Head of Group Function Finance (since 2009)*

Born 1965. Bachelor of Business Administration and Economics, University of Uppsala, Sweden.

**Board Member:** The Swedish International Chamber of Commerce and Attendo AB.

**Holdings in Ericsson<sup>1)</sup>:** 33,291 Class B shares.

**Background:** Previously Senior Vice President and Head of Business Unit Global Services. Various positions within Ericsson including Sales and Business Control in Business Unit Global Services, CFO in North America and Vice President, Finance and Commercial within the Global Customer Account Vodafone.

**Magnus Mandersson**

*Executive Vice President (since 2011) and Head of Business Unit Global Services (since 2010)*

Born 1959. Bachelor of Business Administration, University of Lund, Sweden.

**Board Member:** None.

**Holdings in Ericsson**<sup>1)</sup>: 44,588 Class B shares.

**Background:** Previously Head of Business Unit CDMA, Market Unit Northern Europe, Global Customer Account Deutsche Telekom AG and Product Area Managed Services. Has also been President and CEO of SEC/Tele2 Europe and COO of Millicom International Cellular S.A.

**Johan Wibergh**

*Executive Vice President (2010 January 15, 2015) and Head of Segment Networks (2008 January 15, 2015)*

Born 1963. Master of Computer Science, Linköping Institute of Technology, Sweden.

**Board Member:** Confederation of Swedish Enterprise, KTH Royal Institute of Technology and Teknikföretagen.

**Holdings in Ericsson**<sup>1)</sup>: 74,006 Class B shares.

**Background:** Head of Business Unit Networks 2008-2014. Previously President of Ericsson Brazil, President of Market Unit Nordic and Baltics and Vice President and Head of Sales at Business Unit Global Services.

The Board memberships and Ericsson holdings reported above are as of December 31, 2014.

1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.



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**Per Borgklint**

*Senior Vice President and Head of Business Unit Support Solutions (since 2011)*

Born 1972. Master of Science in Business Administration, Jönköping International Business School, Sweden.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 5,000 Class B shares.

**Background:** Previously CEO of Net1 (Ice.net), Canal Plus Nordic and Versatel. Has also held several leading positions at Tele2.

**Bina Chaurasia**

*Senior Vice President, Chief Human Resources Officer and Head of Group Function Human Resources (since 2010)*

Born 1962. Master of Science in Management and Human Resources, Ohio State University, USA, and Master of Arts in Philosophy, University of Wisconsin, USA.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 36,009 Class B shares.

**Background:** Joined Ericsson from Hewlett Packard, where she was Vice President of Global Talent Management. Has held senior HR leadership roles at Gap, Sun Microsystems and PepsiCo/Yum.

**Ulf Ewaldsson**

*Senior Vice President, Chief Technology Officer and Head of Group Function Technology (since 2012)*

Born 1965. Master of Science in Engineering and Business Management, Linköping Institute of Technology, Sweden.

**Board Member:** Lund University.

**Holdings in Ericsson<sup>1)</sup>:** 29,913 Class B shares.

**Background:** Previously Head of Product Area Radio within Business Unit Networks. Has held various managerial positions within Ericsson since 1990. Member of the European Cloud Partnership Steering Board.

**Nina Macpherson**

*Senior Vice President, General Counsel, Head of Group Function Legal Affairs and secretary to the Board of Directors (since 2011)*

Born 1958. Master of Laws, LL.M., University of Stockholm, Sweden.

**Board Member:** The Association for Swedish Listed Companies and the Arbitration Institute of the Stockholm Chamber of Commerce (SCC).

**Holdings in Ericsson**<sup>1)</sup>: 16,624 Class B shares.

**Background:** Previously Vice President and Deputy Head of Group Function Legal Affairs at Ericsson. Previous positions also include private practice and in-house attorney. Member of the Swedish Securities Council.

The Board memberships and Ericsson holdings reported above are as of December 31, 2014.

1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**Members of the Executive Leadership Team, cont.**

**Helena Norrman**

*Senior Vice President, Chief Marketing and Communications Officer and Head of Group Function Marketing and Communications (since November 1, 2014)*

Born 1970. Master of International Business Administration, Linköping University, Sweden.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 18,243 Class B shares.

**Background:** Senior Vice President and Head of Group Function Communications 2011-2014. Previously Vice President, Communications Operations at Group Function Communications. Has held various positions within Ericsson's global communications organization since 1998. Previous positions as communications consultant.

**Mats H. Olsson**

*Senior Vice President and Head of Asia-Pacific (since 2013)*

Born 1954. Master of Business Administration, Stockholm School of Economics, Sweden.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 90,051 Class B shares.

**Background:** International economic advisor to a number of Chinese provincial and municipal governments. Head of Region North East Asia, 2010-2012. Has held various executive positions across the Asia-Pacific region for more than 25 years, including Head of Market Unit Greater China and Head of Market Unit South East Asia.

**Rima Qureshi**

*Senior Vice President, Chief Strategy Officer, Head of Group Function Strategy and Head of M&A (since May 1, 2014)*

Born 1965. Bachelor of Information Systems and Master of Business Administration, McGill University, Montreal, Canada.

**Board Member:** MasterCard Incorporated and the Supervisory Board of Wolters Kluwer NV.

**Holdings in Ericsson**<sup>1)</sup>: 9,178 Class B shares.

**Background:** Senior Vice President Strategic Projects 2013 - 2014, and Head of Business Unit CDMA Mobile Systems, 2010 - 2012. Previously Vice President of Strategic Improvement Program and Vice President Product Area Customer Support. Has held various positions within Ericsson since 1993.

**Angel Ruiz**

*Head of Region North America (since 2010)*

Born 1956. Bachelor of Electrical Engineering, University of Central Florida, USA, and Master of Management Science and Information Systems, Johns Hopkins University, USA.

**Board Member:** CTIA - The Wireless Association and Liberty Mutual Holding Company.

**Holdings in Ericsson**<sup>1)</sup>: 79,962 Class B shares.

**Background:** Joined Ericsson in 1990 and has held a variety of technical, sales and managerial positions within the Company, including heading up the global account teams for Cingular/SBC/ BellSouth (now AT&T). Was appointed Head of Market Unit North America in 2001. Member of the US National Security Telecommunications Advisory Committee (NSTAC).

The Board memberships and Ericsson holdings reported above are as of December 31, 2014.

1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

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**Anders Thulin**

*Senior Vice President, Chief Information Officer and Head of Group Function Business Excellence and Common Functions (since 2013)*

Born 1963. Degree in Economics and Business Administration from Stockholm School of Economics, Sweden, including MBA studies at the Western University, Ivey Business School, Canada.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 3,677 Class B shares.

**Background:** Joined Ericsson from McKinsey & Co where he was senior partner. Has more than 20 years of experience in implementing business excellence across diverse industries, including IT and telecom.

**Jan Wäreby**

*Senior Vice President and Head of Group Function Sales (since November 1, 2014)*

Born 1956. Master of Science, Chalmers University, Gothenburg, Sweden.

**Board Member:** None.

**Holdings in Ericsson<sup>1)</sup>:** 98,314 Class B shares.

**Background:** Senior Vice President and Head of Group Function Sales and Marketing 2011-2014. Previously Senior Vice President and Head of Business Unit Multimedia and Executive Vice President and Head of Sales and Marketing for Sony Ericsson Mobile Communications.

The Board memberships and Ericsson holdings reported above are as of December 31, 2014.

1) The number of shares includes holdings by related natural and legal persons, as well as holdings of any ADS, if applicable.

**Auditor**

According to the Articles of Association, the Parent Company shall have no less than one and no more than three registered public accounting firms as external independent auditor. Ericsson's auditor is currently elected each year at the AGM pursuant to the Swedish Companies Act for a one-year mandate period. The auditor reports to the shareholders at General Meetings.

The duties of the auditor include:

Updating the Board of Directors regarding the planning, scope and content of the annual audit work

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Reviewing the interim reports to assess that the financial statements are presented fairly in all material respects and providing review opinions over the interim reports for the third and fourth quarters and the year-end financial statements

Reviewing and providing an audit opinion over the Annual Report

Advising the Board of Directors of non-audit services performed, the consideration paid and other issues that determine the auditor's independence.

Auditing work is carried out by the auditor continuously throughout the year. For further information on the contacts between the Board and the auditor, please see "Work of the Board of Directors" earlier in this Corporate Governance Report.

### **Current auditor**

PricewaterhouseCoopers AB was elected auditor at the AGM 2014 for a period of one year, i.e. until the close of the AGM 2015.

PricewaterhouseCoopers AB has appointed Peter Nyllinge, Authorized Public Accountant, to serve as auditor in charge.

### **Fees to the auditor**

Ericsson paid the fees (including expenses) for audit-related and other services listed in the table in Notes to the consolidated financial statements Note C30, "Fees to auditors" in the Annual Report.

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**Internal control over financial reporting 2014**

This section has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code and is limited to internal control over financial reporting.

Since Ericsson is listed in the United States, the requirements outlined in the Sarbanes-Oxley Act (SOX) apply. These regulate the establishment and maintenance of internal controls over financial reporting as well as management's assessment of the effectiveness of the controls.

In order to support high quality reporting and to meet the requirement of SOX, the Company has implemented detailed documented controls and testing and reporting procedures based on the internationally established 2013 COSO framework for internal control. The COSO framework is issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's internal control report according to SOX will be included in Ericsson's Annual Report on Form 20-F and filed with the SEC in the United States.

**Disclosure policies**

Ericsson's financial disclosure policies aim to ensure transparent, relevant and consistent communication with equity and debt investors on a timely, fair and equal basis. This will support a fair market value for Ericsson securities. Ericsson wants current and potential investors to have a good understanding of how the Company works, including operational performance, prospects and potential risks.

To achieve these objectives, financial reporting and disclosure must be:

Transparent – enhancing understanding of the economic drivers and operational performance of the business, building trust and credibility.

Consistent – comparable in scope and level of detail to facilitate comparison between reporting periods.

Simple – to support understanding of business operations and performance and to avoid misinterpretations.

Relevant – with focus on what is relevant to Ericsson's stakeholders or required by regulation or listing agreements, to avoid information overload.

Timely – with regularly scheduled disclosures as well as ad-hoc information, such as press releases on important events, performed in a timely manner.

Fair and equal – where all material information is published via press releases to ensure that the whole investor community receives the information at the same time.

Complete, free from material errors and a reflection of best practice – disclosures compliant with applicable financial reporting standards and listing requirements and in line with industry norms.

Ericsson's website comprises comprehensive information on the Group, including:

An archive of annual and interim reports.

Access to recent news.

**Disclosure controls and procedures**

Ericsson has controls and procedures in place to allow for timely disclosure in accordance with applicable laws and regulations, including the US Securities Exchange Act of 1934, and under agreements with Nasdaq Stockholm and NASDAQ New York. These procedures also require that such information is provided to management, including the CEO and the CFO, so timely decisions can be made regarding required disclosure.

The Disclosure Committee comprises members with various expertise. It assists management in fulfilling their responsibility regarding disclosures made to the shareholders and the investment community. One of the main tasks of the committee is to monitor the integrity and effectiveness of the disclosure controls and procedures.

Ericsson has investments in certain entities that the Company does not control or manage. With respect to such entities, disclosure controls and procedures are substantially more limited than those maintained with respect to subsidiaries.

Ericsson's President and CEO and the CFO evaluated the Company's disclosure controls and procedures and concluded that they were effective at a reasonable assurance level as of December 31, 2014. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

**Internal control over financial reporting**

Ericsson has integrated risk management and internal control into its business processes. As defined in the COSO framework, internal control is an aggregation of components such as a control environment, risk assessment, control activities, information and communication and monitoring.

During the period covered by the Annual Report 2014, there were no changes to the internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

*Control environment*

The Company's internal control structure is based on the division of tasks between the Board of Directors and its Committees and the President and CEO. The Company has implemented a management system that is based on:

Steering documents, such as policies, directives and a Code of Business Ethics.

A strong corporate culture.

The Company's organization and mode of operations, with well-defined roles and responsibilities and delegations of authority.

Several well-defined Group-wide processes for planning, operations and support.



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The most essential parts of the control environment relative to financial reporting are included in steering documents and processes for accounting and financial reporting. These steering documents are updated regularly to include, among other things:

Changes to laws.

Financial reporting standards and listing requirements, such as IFRS and SOX.

The processes include specific controls to be performed to ensure high quality financial reports. The management of each reporting legal entity, region and business unit is supported by a financial controller function with execution of controls related to transactions and reporting. The financial controller functions are organized in a number of Company Control Hubs, each supporting a number of legal entities within a geographical area. A financial controller function is also established on Group level, reporting to the CFO.

*Risk assessment*

Risks of material misstatements in financial reporting may exist in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure. Other risks related to financial reporting include fraud, loss or embezzlement of assets and undue favorable treatment of counterparties at the expense of the Company.

Policies and directives regarding accounting and financial reporting cover areas of particular significance to support correct, complete and timely accounting, reporting and disclosure.

Identified types of risks are mitigated through well-defined business processes with integrated risk management activities, segregation of duties and appropriate delegation of authority. This requires specific approval of material transactions and ensures adequate asset management.

*Control activities*

The Company's business processes include financial controls regarding the approval and accounting of business transactions. The financial closing and reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

Regular analyses of the financial results for each subsidiary, region and business unit cover the significant elements of assets, liabilities, revenues, costs and cash flow. Together with further analysis of the consolidated financial statements performed at Group level, these procedures are designed to produce financial reports without material errors.

For external financial reporting purposes, the Disclosure Committee performs additional control procedures to review whether the disclosure requirements are fulfilled.

The Company has implemented controls to ensure that financial reports are prepared in accordance with its internal accounting and reporting policies and IFRS as well as with relevant listing regulations. It maintains detailed documentation on internal controls related to accounting and financial reporting. It also keeps records on the monitoring of the execution and results of such controls. This allows the President and CEO and the CFO to assess the effectiveness of the controls in a way that is compliant with SOX.

Entity-wide controls, focusing on the control environment and compliance with financial reporting policies and directives, are implemented in all subsidiaries. Detailed process controls and documentation of controls performed are also implemented in almost all subsidiaries, covering the items with significant materiality and risk.

In order to secure compliance, governance and risk management in the areas of legal entity accounting and taxation, as well as securing funding and equity levels, the Company operates through a Company Control hub structure, covering subsidiaries in each respective geographical area.

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Based on a common IT platform, a common chart of account and common master data, the hubs and shared services centers perform accounting and financial reporting services for most subsidiaries.

### *Information and communication*

The Company's information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned. Regular updates and briefing documents regarding changes in accounting policies, reporting and disclosure requirements are also supplied.

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Subsidiaries and operating units prepare regular financial and management reports for internal steering groups and Company management. These include analysis and comments on financial performance and risks. The Board of Directors receives financial reports monthly. Ericsson has established whistleblower procedures for the reporting of alleged violations that:

are conducted by Group or local management, and

relate to corruption, questionable accounting or auditing matters or otherwise seriously affect vital interests of the Group or personal health and safety.

### *Monitoring*

The Company's process for financial reporting is reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The shared service center and company control hub management continuously monitor accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and company controllers in all subsidiaries as well as in business units and regions.

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The Company's financial performance is also reviewed at each Board meeting. The Committees of the Board fulfill important monitoring functions regarding remuneration, borrowing, investments, customer finance, cash management, financial reporting and internal control. The Audit Committee and the Board of Directors review all interim and annual financial reports before they are released to the market. The Company's internal audit function reports directly to the Audit Committee. The Audit Committee also receives regular reports from the external auditor. The Audit Committee follows up on any actions taken to improve or modify controls.

**Board of Directors**

Stockholm, February 20, 2015

Telefonaktiebolaget LM Ericsson (publ)

Org. no. 556016 0680

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**REMUNERATION REPORT**

**Introduction**

This report outlines how the remuneration policy is implemented throughout Ericsson in line with corporate governance best practice, with specific references to Group management.

The work of the Remuneration Committee in 2014 and the remuneration policy are explained at the beginning of the report, followed by descriptions of plans and their outcome.

More details on the remuneration of Group management and Board members' fees can be found in the Notes to the Consolidated financial statements' Note C28, 'Information regarding members of the Board of Directors, the Group management and employees.

Board member remuneration is resolved annually by the Annual General Meeting.

**The Remuneration Committee**

The Remuneration Committee advises the Board of Directors on a regular basis on the remuneration to the Group management, consisting of the Executive Leadership Team (ELT). This includes fixed salaries, pensions, other benefits and short-term and long-term variable compensation, all in the context of pay and employment conditions throughout Ericsson. The Remuneration Committee reviews and prepares for resolution by the Board:

Proposals on salary and other remuneration, including retirement compensation, for the President and CEO.

Proposals on targets for the short-term variable compensation for the President and CEO.

Proposals to the Annual General Meeting on guidelines for remuneration to the ELT.

Proposals to the Annual General Meeting on long-term variable compensation and similar equity arrangements.  
The responsibility of the Remuneration Committee is also to:

Approve proposals on salary and other remuneration, including retirement compensation, for the Executive Vice Presidents and other ELT members.

Approve proposals on targets for the short-term variable compensation for the Executive Vice Presidents and other ELT members.

Approve pay out of the short-term variable compensation for the ELT, based on achievements and performance.  
The Remuneration Committee's work forms the foundation for the governance of Ericsson's remuneration processes, together with Ericsson's internal systems and audit controls. The Committee is chaired by Leif Johansson and its other members are Börje Ekholm, Roxanne S. Austin, and Karin Åberg. All the members are non-executive directors, independent (except for the employee representative) as required by the Swedish

Corporate Governance Code and have relevant knowledge and experience of remuneration matters.

The Company's General Counsel acts as secretary to the Committee. The President and CEO, the Senior Vice President, Head of Human Resources and the Vice President, Head of Total Rewards attend Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed.

The Remuneration Committee has appointed an independent expert advisor, Piia Pilv, to assist and advise the Committee. The independent advisor provided no other services to the Company during 2014. The Remuneration Committee is also furnished with national and international pay data collected from external survey providers and can call on other independent expertise, should it so require. The Chairman strives to ensure that contact is maintained, as necessary and appropriate, with shareholders regarding remuneration.

Further information on the Remuneration Committee and its responsibilities can be found in the Corporate Governance Report. These responsibilities, together with the Guidelines for remuneration to Group management (ELT) and the Long-Term Variable (LTV) compensation program is reviewed and evaluated annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy.

The Guidelines for remuneration to Group management are, in accordance with Swedish law, brought to shareholders annually for approval.

The Remuneration Committee met six times during the year 2014.

### **Remuneration policy**

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. The remuneration policy, together with the mix of remuneration elements, is designed to reflect these principles by creating a balanced remuneration package. The Guidelines for remuneration to Group management 2014, approved by the AGM, can be found in Note C28. The auditor's report regarding whether the company has complied with the guidelines for remuneration to the ELT during 2014 is posted on the Ericsson website.

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The winter meetings focused on following up on results from the 2013 variable compensation programs and preparing proposals to shareholders for the 2014 Annual General Meeting (AGM). Based on the Committee's proposal, the AGM decided to adjust the 2014 Guidelines for Remuneration to Group management by deleting the reference to normal retirement age between 60 and 65 years. The reason for this change is that all new retirement schemes for ELT members are defined contribution plans and thus the retirement age is not relevant. Also, the Committee proposed to the Board of Directors to approve the LTV 2011 vesting result. In the summer, the committee reviewed alternative LTV plan designs. The Committee based its considerations on business needs, analyses and reviews of the global market trends and feedback from shareholders and institutions. Supported by the independent advisor, the Committee reviewed the competitiveness of the ELT remuneration in the global market. The Committee also reviewed the ELT severance conditions and adjusted two ELT members' remuneration following a re-organization.

**Evaluation of the Guidelines for remuneration to Group management and of the LTV program**

The Remuneration Committee supports the Board with the review and evaluation of the Guidelines for remuneration to Group management and Ericsson's application of these guidelines. The Committee and the Board have concluded that the guidelines remain valid and right for Ericsson and that the guidelines should not be materially changed for 2015.

Furthermore, the Remuneration Committee is of the opinion that the LTV program fulfills the defined objectives to promote One Ericsson. The number of participants as of December 1, 2014 was approximately 32,000 employees, compared to 29,000 employees as of December 1, 2013. The evaluation also confirms that the Key Contributor Retention Plan meets the purpose of retaining the Company's key employees. The voluntary attrition rate among Key Contributors is about two-thirds compared to the attrition rate in the total number of employees. After a thorough review of alternative LTV designs, the Committee concluded not to propose any changes in the 2015 Executive Performance Stock plan, but will continue to explore alternatives.

**Total remuneration**

When considering the remuneration of an individual, it is the total remuneration that matters. First, the total annual cash compensation is defined, consisting of the target level of short-term variable compensation plus fixed salary. Thereafter, target long-term variable compensation may be added to get to the total target compensation and, finally, pension and other benefits may be added to arrive at the total remuneration.

For the ELT, remuneration consists of fixed salary, short-term and long-term variable compensation, pension and other benefits. If the size of any one of these elements is increased or decreased when setting the remuneration, at least one other element has to change if the competitive position is to remain unchanged.

The remuneration costs for the CEO and the ELT are reported in Note C28.

**Fixed salary**

When setting fixed salaries, the Remuneration Committee considers the impact on total remuneration, including pensions and associated costs. The absolute levels are determined based on the size and complexity of the position and the year-to-year performance of the individual. Together with other elements of remuneration, ELT salaries are subject to an annual review by the Remuneration Committee, which considers external pay data to ensure that levels of pay remain competitive and appropriate to the remuneration policy.

**Variable compensation**

Ericsson strongly believes that, where possible, variable compensation should be encouraged as an integral part of total remuneration. First and foremost, this aligns employees with clear and relevant targets, but it also enables more flexible payroll costs and emphasizes the link between performance and pay.

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All variable compensation plans have maximum award and vesting limits. Short-term variable compensation is to a greater extent dependent on the performance of the specific unit or function, while long-term variable compensation is dependent on the achievements of the Ericsson Group.



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**Summaries of 2014 short- and long-term variable compensation**

<b>What we call it</b>	<b>What is it?</b>	<b>What is the objective?</b>	<b>Who participates?</b>	<b>How is it earned?</b>
<b><u>Short-term: Compensation delivered over twelve months or less</u></b>				
Fixed salary	Fixed compensation paid at set times	Attract and retain employees, delivering part of annual compensation in a predictable format	All employees	Market appropriate levels set according to position and evaluated according to individual performance
Short-Term Variable compensation (STV)	A variable plan that is measured and paid over a single year	Align employees with clear and relevant targets, providing an earnings opportunity in return for performance, and flexible cost	Enrolled employees, including Executive Leadership Team. Approximately 86,000 in 2014	Achievements against set targets. Reward can increase to up to twice the target level and decrease to zero, depending on performance
Sales Incentive Plans	Tailored versions of the STV	As for STV, tailored for local or business requirements, such as sales	Employees in sales. Approximately 3,000 in 2014	Similar to STV. All plans have maximum award and vesting limits
<b><u>Long-term: Compensation delivered over three years or more</u></b>				
Stock Purchase Plan (SPP)	All-employee stock-based plan	Reinforce a One Ericsson mentality and align employees interests with those of shareholders	All employees are eligible	Buy one share and it will be matched by one share after three years if still employed
Key Contributor Retention Plan (KC)	Share-based plan for selected individuals	Recognize, retain and motivate key contributors for performance, critical skills and potential	Up to 10% of employees	If selected, get one more matching share in addition to the SPP one

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Executive Performance Stock Plan (EPSP)	Share-based plan for senior managers	Compensation for long-term commitment and value creation	Senior managers, including Executive Leadership Team	Get up to four, six or, for CEO, nine further shares matched to each SPP share for long-term performance
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Ericsson measures business performance according to five categories of measurements derived from the overall strategy: growing sales faster than market, best-in-class operating margin, strong cash conversion, customer satisfaction and employee engagement. These categories form the basis for the short- and long-term variable compensation programs and set the framework of what measurements shall be used for variable compensation.

### *Short-term variable compensation*

Annual variable compensation is delivered through cash-based programs. Specific business targets are derived from the annual business plan approved by the Board of Directors and, in turn, defined by the Company's long-term strategy. Ericsson strives to grow faster than the market with best-in-class margins and strong cash conversion and therefore the starting point is to have three core targets:

Net sales growth

Operating income

Cash flow

For the ELT, targets are thus predominantly financial at either Group level (for Heads of Group functions) or at the individual unit level (for Heads of regions or business units) and may also include operational targets like customer satisfaction and employee engagement.

The chart on previous page illustrates how payouts to the ELT have varied with performance over the past five years.

The Board of Directors and the Remuneration Committee decide on all targets for Group management which are cascaded to unit-related targets throughout the Company, always subject to a two-level management approval process. The Remuneration Committee monitors the appropriateness and fairness of Group target levels throughout the performance year and has the authority to revise them should they cease to be relevant or stretching or to enhance shareholder value.

During 2014, approximately 89,000 employees participated in short-term variable compensation plans.

### **Short-term variable compensation structure**

	Short-term variable compensation as percentage of fixed salary			Percentage of short-term variable compensation maximal opportunity		
	Target level	Maximum level	Actual paid	Group financial targets	Unit/functional financial targets	Non-financial targets
CEO 2013	40%	80%	25%	100%	0%	0%
CEO 2014	80%	160%	99%	100%	0%	0%
Average ELT 2013 <sup>1)</sup>	37%	74%	36%	53%	25%	22%
Average ELT 2014 <sup>1)</sup>	54%	107%	59%	46%	23%	31%

1) Excludes CEO, differences in target and maximum levels from year to year are due to changes in the composition of the ELT.

*Long-term variable compensation*

Share-based long-term variable compensation plans are submitted each year for approval by shareholders at the AGM. All long-term variable compensation plans are designed to form part of a well-balanced total remuneration package and to span over a minimum of three years. As these are variable plans, outcomes are unknown and rewards depend on long-term personal investment, corporate performance and resulting share price performance. During 2014, share-based compensation was made up of three different but linked plans: the all-employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

*The Stock Purchase Plan*

The all-employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate. This reinforces One Ericsson, aligned with shareholder interests. Employees can save up to 7.5% of gross fixed salary (the President and CEO can save up to 10% of gross fixed salary and short-term variable compensation) for purchase of Class B shares at market price on Nasdaq Stockholm or ADSs on NASDAQ New York (contribution shares) over a 12-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of Class B shares or ADSs, as applicable. The plan was introduced in 2002 and employees in 71 countries participated during its first year. In December 2014, the number of participants was over 32,000, or approximately 30% of eligible employees in 102 countries.

Participants save each month, beginning with the August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment and hence the matching spans over two financial years and two tax years.

*The Key Contributor Retention Plan*

The Key Contributor Retention Plan is part of Ericsson's talent management strategy. It is designed to recognize individuals for performance, critical skills and potential as well as to encourage retention of key employees.

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Under the program, operating units around the world can nominate up to 10% of employees worldwide. Each unit nominates individuals that have been identified according to performance, critical skills and potential. The nominations are calibrated in management teams locally and are reviewed by both local and corporate Human Resources to ensure that there is a minimum of bias and a strong belief in the system.

Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a 12-month investment period. The plan was introduced in 2004.

### *The Executive Performance Stock Plan*

The Executive Performance Stock Plan was first introduced in 2004. The plan is designed to focus management on driving long-term financial performance and to provide market-competitive remuneration. Senior managers, including the ELT, are selected to obtain up to four or six extra shares (performance-matching shares). This is in addition to the one matching share for each contribution share purchased under the all-employee Stock Purchase Plan. Performance matching is subject to the fulfillment of performance targets. Since 2010, the President and CEO may obtain up to nine performance-matching shares in addition to the Stock Purchase Plan matching share for each contribution share.

In the 2004 to 2010 plans, the performance targets were Earnings Per Share (EPS) targets.

To support the long-term strategy and value creation of the Company, new targets have been in place since the 2011 plan. At the AGM 2014, the following targets for the 2014 Executive Performance Stock Plan were resolved on proposal by the Board:

**Net Sales Growth:** Up to one-third of the award will vest if the compound annual growth rate of consolidated net sales is between 2 and 8% comparing 2016 financial results to 2013.

**Operating Income Growth:** Up to one-third of the award will vest if the compound annual growth rate of consolidated operating income is between 5 and 15% comparing 2016 financial results to 2013.

**Cash Conversion:** Up to one third of the award will vest if cash conversion is at or above 70% during each of the years 2014-2016 and vesting one ninth of the total award for each year the target is achieved.

Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, as determined by the Board of Directors, reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors. When undertaking its evaluation of performance, the Board of Directors will consider, in particular, the impact of larger acquisitions, divestitures, the creation of joint ventures and any other significant capital event on the three targets on a case-by-case basis.

## **Benefits and terms of employment**

Pension benefits follow the competitive practice in the employee's home country and may contain various supplementary plans, in addition to any national system for social security. Where possible, pension plans are operated on a defined contribution basis. Under these plans, Ericsson pays in contributions but does not guarantee the ultimate benefit, unless local regulations or legislation prescribe that defined benefit plans that do give such guarantees have to be offered.

For the President and CEO and other members of the ELT employed in Sweden before 2011, a supplementary pension plan is applied in addition to the occupational pension plan for salaried staff on the Swedish labor market (ITP). The retirement age for these ELT members is normally 60 years.

The ELT members employed in Sweden from 2011 are normally covered by the defined contribution plan under the ITPI scheme, with a retirement age of 65 years.

For members of the ELT who are not employed in Sweden, local market competitive pension arrangements apply.

Other benefits, such as company cars and medical insurance, are also set to be competitive in the local market. The ELT members may not receive loans from the Company.

The ELT members locally employed in Sweden have a mutual notice period of up to six months. Upon termination of employment by the Company, severance pay can amount to up to 18 months fixed salary. For other ELT members, different notice periods and severance pay agreements apply; however, no agreement exceeds the notice period of six months or the severance pay period of 18 months.

#### **Remuneration policy in practice**

Ericsson has taken a number of measures over the years to enhance the understanding of how the company translates remuneration principles and policy into practice. The first step was the launch of an internal remuneration website, which provides e-learning and training program solutions targeted for line managers. This was followed by the development and implementation of an Integrated Human Resources IT tool. During 2014 enhancements of the IT tool and intensified briefings of line managers on pay principles and their practical execution enabled further progress towards a globally consistent implementation of core principles while allowing room for adaptation to local legislation and pay markets.

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## **ERICSSON AND THE CAPITAL MARKET**

### **Purpose of the capital markets communications**

Ericsson's overall goal is to create shareholder value. This is achieved through a number of objectives, both financial and non-financial, including growing faster than the market with best-in-class margins and strong cash conversion.

The communication with the capital market aims to support the Company's overall goal by ensuring increased understanding and decreased volatility through transparency and clear messages. The Investor Relations department serves as the bridge between the Company's strategic planning, development and activities, and the external valuation and perception.

Transparency means giving transparent, relevant and consistent communication, on a timely, fair and equal basis and making sure the stakeholders are updated. Over the years, the stakeholders have become more diverse, which has increased the importance of clear and concise messages to the financial market.

### **Goals and measurement**

Perception studies are carried out on a regular basis to gauge the perceptions of messages at capital markets days, the web site, road shows and the availability of IR and the executive management.

Ericsson aims to maintain a long-term relationship with its owners, and the IR department monitors shareholder turnover on a regular basis.

### **IR activities are linked to the Company strategy and development**

Throughout the year, the IR department carries out a number of activities aiming at meeting the goals of transparent communication and increased understanding: capital markets days, road shows, meetings with investors and analysts etc. IR also participates in all communications surrounding the Company's activities, product launches, quarterly earnings, M&A-activities etc, to ensure that financial communication is clear and relevant for the capital market.

### **Working with other functions in the company**

IR also works together with other Group functions, e.g. Strategy and Treasury. While communication with the rating institutions primarily falls with Treasury, the IR department is also involved on a regular basis.

With strong growth in Ericsson's operations in the US, coupled with a larger shareholder base, the US market has grown in importance in recent years. To match strong operations with local funding, Ericsson launched a bond program in the US in 2012. Treasury and IR do a joint annual roadshow to meet bondholders in the US market.

### **Activities at Industry events**

IR also participates at important industry events such as the annual Mobile World Congress. The IR activities include communication relating to important Company news, but also setting up meetings between Company spokespeople and different stakeholders to facilitate their understanding of how important news and activities relate to the Company's goals and strategy.

### **IR in Transformation**

Ericsson is transforming from a leader in telecommunications and related services into a leader in the ICT arena.

**Important activities during the year**

At the Mobile World Congress in Barcelona in February, Ericsson announced several new products and contracts. Investor and analysts meetings were held with management and spokespersons.

At the Annual General Meeting of shareholders in April, CEO Hans Vestberg outlined the vision to hold the leadership position in the rapidly developing Networked Society, and talked about the ongoing transition in the Company.

CEO Hans Vestberg made a key note speech and held investor meetings at an investor conference in Paris in June.

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**Important events during the year**

**New stakeholders new focus areas**

Simultaneously, the stakeholders in the capital market have also transformed in recent years; from industry-specialists focusing on the technology sector to generalists covering several sectors. It has become increasingly important for the financial communication to make it easy for stakeholders to make the connection between the Company's activities and development and its long-term strategy, thus putting higher demands on clear messages.

With almost two thirds of Ericsson's holdings outside of Sweden, IR needs to have an understanding of focus areas, questions and issues in other parts of the world. The demand for availability at a global level also means working with other tools besides regular meetings, such as digital media.

During the UN week in New York, CEO Hans Vestberg and Elaine Weidman-Grunewald, head of Sustainability and Corporate Responsibility (CR), talked about Ericsson's role and vision of the Networked Society and how Sustainability and CR is an integral part of this vision.

In November, Ericsson arranged the annual Capital Markets Day in Stockholm with more than 200 participants.

CFO Jan Frykhammar held a speech and investor meetings at an investor conference in Barcelona in November.



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**SHARE INFORMATION****Share trading**

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

In 2014, approximately 1.9 (2.0) billion shares were traded on Nasdaq Stockholm and approximately 1.0 (1.0) billion ADS were traded in the United States (incl. NASDAQ New York). A total of 2.9 (3.0) billion Ericsson shares were thus traded on the exchanges in Stockholm and in the United States. Trading volume in Ericsson shares decreased by approximately 4% on Nasdaq Stockholm and is unchanged in the United States compared to 2013. With the implementation of the Mifid directive in the EU, share trading has become increasingly fragmented across a number of venues and trading categories. Trading on multilateral trading facilities (MTFs) and other venues have gained market shares from stock exchanges like Nasdaq Stockholm.

Trading in Stockholm represented 37 percent of total trading in 2014, compared with more than 50 percent in 2010. Total trading in Ericsson B on all venues combined, has decreased slightly over the past five years, from 6.8 billion shares in 2010 to 5.5 billion shares in 2014. Over the same period, trading of Ericsson ADS in the US has decreased from 1.6 billion ADS to 1 billion ADS.

This development, with decreasing share of trading volumes in Stockholm, is in line with the development for other Swedish Large Cap shares.

**The Ericsson share**Share listings

Nasdaq Stockholm  
NASDAQ New York

Share data

Total number of shares in issue	3,305,051,735
<i>of which Class A shares, each carrying one vote<sup>1)</sup></i>	261,755,983
<i>of which Class B shares, each carrying one tenth of one vote<sup>1)</sup></i>	3,043,295,752
Ericsson treasury shares, Class B	63,450,558
Quotient value	SEK 5.00
Market capitalization, December 31, 2014	approx. SEK 310 b.
ICB (Industry Classification Benchmark)	9500

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

Ticker codes

Nasdaq Stockholm	ERIC A/ERIC B
NASDAQ New York	ERIC
Bloomberg Nasdaq Stockholm	ERICA SS/ERICB SS
Bloomberg NASDAQ	ERIC US
Reuters Nasdaq Stockholm	ERICa.ST/ERICb.ST

**Changes in number of shares and capital stock 2010 - 2014**

		Number of shares	Share capital (SEK)
2010	December 31	3,273,351,735	16,366,758,678
2011	December 31	3,273,351,735	16,366,758,678
2012	June 29, new issue (Class C shares, later converted to Class B)	31,700,000	158,500,000
2012	December 31	3,305,051,735	16,525,258,678
2013	December 31	3,305,051,735	16,525,258,678
2014	December 31	3,305,051,735	16,525,258,678

**Share performance indicators**

	2014	2013	2012	2011	2010
Earnings per share, diluted (SEK) <sup>1)</sup>	3.54	3.69	1.78	3.77	3.46
Operating income per share (SEK) <sup>2)3)</sup>	5.19	5.53	3.25	5.58	7.42
Stockholders' equity per share, basic, end of period (SEK) <sup>4)</sup>	44.51	43.39	42.51	44.57	45.34
P/E ratio	26	21	36	19	22
Total shareholder return (%)	24	25	3	7	22
Dividend per share (SEK) <sup>5)</sup>	3.40	3.00	2.75	2.50	2.25

1) Calculated on average number of shares outstanding, diluted.

2) Calculated on average number of shares outstanding, basic.

3) For 2010 excluding restructuring charges.

4) Calculated on number of shares, end of period.

5) For 2014 as proposed by the Board of Directors.

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

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**Share trend**

In 2014, Ericsson's total market capitalization increased by 20.1% to SEK 310 billion, compared to an increase by 20.3% reaching SEK 258 billion in 2013. The index, OMX Stockholm, on Nasdaq Stockholm increased by 11.9% in 2014 and the NASDAQ composite index increased by 13.4%. The S&P 500 Index increased by 11.4%.

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**Share and ADS prices****Principal trading market Nasdaq Stockholm share prices**

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

Nasdaq Stockholm publishes a daily Official Price List of Shares which includes the volume of recorded transactions in each listed stock, together with the prices of the highest and lowest recorded trades of the day. The Official Price List of Shares reflects price and volume information for trades completed by the members. The equity securities listed on the Nasdaq Stockholm Official Price List of Shares currently comprise the shares of 269 companies.

**Host market NASDAQ New York ADS prices**

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

**Share prices on Nasdaq Stockholm**

(SEK)	2014	2013	2012	2011	2010
Class A at last day of trading	88.25	74.50	63.90	69.55	74.00
Class A high (December 29, 2014)	91.80	86.95	72.00	93.60	88.40
Class A low (January 23, 2014)	71.55	50.00	55.55	59.05	65.20
Class B at last day of trading	94.35	78.50	65.10	70.40	78.15
Class B high (December 29, 2014)	96.40	90.95	71.90	96.65	90.45
Class B low (January 24, 2014)	75.05	64.50	55.90	61.70	65.90

Source: Nasdaq Stockholm.

**Share prices on NASDAQ New York**

(USD)	2014	2013	2012	2011	2010
ADS at last day of trading	12.10	12.24	10.10	10.13	11.53
ADS high (April 9, 2014)	13.61	14.22	10.60	15.44	12.39
ADS low (October 27, 2013)	11.20	9.78	8.23	8.83	9.40

Source: NASDAQ New York.

**Share prices on Nasdaq Stockholm and NASDAQ New York**

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Period	Nasdaq Stockholm		Nasdaq Stockholm		NASDAQ New York	
	SEK per Class A share	SEK per Class B share	SEK per Class A share	SEK per Class B share	USD per ADS <sup>1)</sup>	USD per ADS <sup>1)</sup>
	High	Low	High	Low	High	Low
<b>Annual high and low</b>						
2010	88.40	65.20	90.45	65.90	12.39	9.40
2011	93.60	59.05	96.65	61.70	15.44	8.83
2012	72.00	55.55	71.90	55.90	10.60	8.23
2013	86.95	50.00	90.95	64.50	14.22	9.78
2014	91.80	71.55	96.40	75.05	13.61	11.20
<b>Quarterly high and low</b>						
2013 First Quarter	84.55	62.90	86.40	64.50	13.46	9.78
2013 Second Quarter	80.20	69.65	83.15	72.40	12.60	10.67
2013 Third Quarter	86.95	71.00	90.95	74.10	14.22	11.26
2013 Fourth Quarter	82.75	50.00	87.10	76.05	13.71	11.59
2014 First Quarter	82.00	71.55	86.25	75.05	13.37	11.52
2014 Second Quarter	84.10	74.15	88.55	77.55	13.61	11.83
2014 Third Quarter	89.95	74.50	94.45	77.90	13.28	11.50
2014 Fourth Quarter	91.80	76.05	96.40	81.05	12.74	11.20
<b>Monthly high and low</b>						
September 2014	89.95	82.00	94.45	86.15	13.28	12.30
October 2014	87.35	76.05	91.95	81.05	12.59	11.20
November 2014	89.85	81.00	94.45	85.65	12.71	11.57
December 2014	91.80	83.45	96.40	88.45	12.74	11.70
January 2015	99.00	88.75	104.80	92.90	12.44	11.75
February 2015	104.90	95.50	109.90	99.85	13.07	12.01

1) One ADS = 1 Class B share.

Source: Nasdaq Stockholm and NASDAQ New York.

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**Shareholders**

As of December 31, 2014, the Parent Company had 482,025 shareholders registered at Euroclear Sweden AB (the Central Securities Depository CSD), of which 952 holders had a US address. According to information provided by the Company's depository, Deutsche Bank, there were 233,146,314 ADSs outstanding as of December 31, 2014, and 4,127 registered holders of such ADSs. A significant number of Ericsson ADSs are held by banks, brokers and/or nominees for the accounts of their customers. As of January 15, 2015, the total number of bank, broker and/or nominee accounts holding Ericsson ADSs was 156,271.

According to information known at year-end 2014, approximately 87% of the Class A and Class B shares were owned by institutions, Swedish and international. The major shareholders do not have different voting rights than other shareholders holding the same classes of shares. As far as Ericsson knows, the Company is not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person(s) separately or jointly.

The table shows the total number of shares in the Parent Company owned by the Executive Leadership Team and Board members (including Deputy employee representatives) as a group as of December 31, 2014.

**The Executive Leadership Team and Board members, ownership**

	Number of Class A shares	Number of Class B shares	Voting rights, percent
The Executive Leadership Team and Board members as a group (31 persons)	0	1,060,685	0.02%

Includes shares held via endowment insurance, for more info see page 117, note 3 For individual holdings, see Corporate Governance Report.

**Share distribution<sup>1)</sup>**

Holding	No. of shareholders	No. of shares A	No. of shares B	Percentage of share capital	Percentage of voting rights	Market value (MSEK)
1 500	383,779	1,334,383	51,676,575	1.60%	1.15%	4,993
501 1,000	45,662	984,648	33,135,228	1.03%	0.76%	3,213
1,001 5,000	43,524	2,911,050	90,255,636	2.82%	2.11%	8,773
5,001 10,000	5,019	1,132,802	34,349,148	1.07%	0.81%	3,341
10,001 15,000	1,260	559,143	14,946,325	0.47%	0.36%	1,460
15,001 20,000	593	355,152	10,165,451	0.32%	0.24%	990
20,001	2,188	254,478,805	2,808,653,740	92.68%	94.57%	287,454

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Total, December 31, 2014<sup>2)</sup> 482,027 261,755,983 3,043,295,752 100.00% 100.00% 310,235

1) Source: Euroclear

2) Includes a nominee reporting discrepancy of 113,649 shares.

The following table shows share information, as of December 31, 2014, with respect to the 15 largest shareholders, ranked by voting rights, as well as their percentage of voting rights as of December 31, 2014, 2013 and 2012.

**Largest shareholders, December 31, 2014 and percentage of voting rights, December 31, 2014, 2013 and 2012**

Identity of person or group <sup>1)</sup>	Number of Class A shares	Of total Class	Number of Class B shares	Of total Class	2014 Voting rights, percent	2013 Voting rights, percent	2012 Voting rights, percent
		A		B			
Investor AB	115,762,803	44.23	59,284,545	1.95	21.50	21.50	21.37
AB Industrivärden	86,052,615	32.88	0	0.00	15.20	15.21	14.96
Handelsbankens Pensionsstiftelse	27,430,790	10.48	0	0.00	4.85	3.62	3.72
Dodge & Cox, Inc.	0	0.00	117,579,896	3.79	2.08	1.36	1.14
AFA Försäkring AB	11,423,000	4.36	2,171,761	0.07	2.06	2.10	2.18
Swedbank Robur AB	13,270	0.01	107,803,564	3.54	1.91	2.16	2.71
AMF Pensionsförsäkring AB	0	0.00	104,826,878	3.44	1.85	1.34	1.26
Livförsäkringsbolaget Skandia	7,218,395	2.76	16,539,057	0.54	1.57	1.32	1.31
BlackRock Fund Advisors	0	0.00	82,330,468	2.71	1.45	1.45	1.37
Aberdeen Asset Managers Ltd.	0	0.00	67,308,122	2.21	1.19	0.71	1.16
Norges Bank Investment Management	0	0.00	64,394,664	2.12	1.14	1.15	1.36
Handelsbanken Asset Management	630,341	0.24	51,612,963	1.70	1.02	0.85	1.07
OppenheimerFunds, Inc.	0	0.00	57,884,322	1.90	1.02	1.09	1.10
State Street Global Advisors (US)	603	0.00	51,819,852	1.69	0.92	0.77	0.07
The Vanguard Group, Inc.	0	0.00	43,488,591	1.42	0.77	0.66	0.53
Others	13,224,166	5.05	2,216,251,069	72.92	41.49	44.71	44.69
<b>Total</b>	<b>261,755,983</b>	<b>100</b>	<b>3,043,295,752</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

1) Source: Nasdaq

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**SUPPLEMENTAL INFORMATION**

**The following information is provided to comply with certain requirements of Form 20-F which are not satisfied in full by the information in the Swedish Annual Report.**

**General facts on the company**

**Legal name of the Parent Company:** Telefonaktiebolaget LM Ericsson (publ). The terms Ericsson, the Company, the Group, us, we, and all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries.

**Organization number:** 556016-0680

**Legal form of the Parent Company:** A Swedish limited liability company, organized under the Swedish Companies Act.

**Country of incorporation:** Sweden.

**Date of incorporation:** The Parent Company was incorporated on August 18, 1918, as a result of a merger between AB LM Ericsson & Co. and Stockholms Allmänna Telefon AB.

**Domicile:** Our registered office is Telefonaktiebolaget LM Ericsson, SE 164 83 Stockholm, Sweden. Our headquarters are located at Torshamnsgatan 21, Kista, Sweden.

**Telephone number:** +46 10 719 0000

**Website:** [www.ericsson.com](http://www.ericsson.com)

The information included on our website is not incorporated herein by reference.

**Agent in the US:** Ericsson Inc., Vice President Legal Affairs, 6300 Legacy Drive, Plano, Texas 75024. Telephone number: +1 972 583 0000.

**Shares:** Ericsson's Class A and Class B shares are traded on Nasdaq Stockholm. In the US, our American Depository Shares (ADS), each representing one underlying Class B share, are traded on NASDAQ New York.

**Parent Company operations:** The business of the Parent Company, Telefonaktiebolaget LM Ericsson, consists mainly of corporate management, holding company functions and internal banking activities. Parent Company operations also include customer credit management activities performed by Ericsson Credit AB on a commission basis.

**Subsidiaries and associated companies:** For a listing of our significant subsidiaries, please see section Investments. In addition to our joint venture ST-Ericsson (up until August 2, 2013), we are engaged in a number of minor joint ventures and cooperative arrangements. For more information regarding risks associated with joint ventures, strategic alliances and third-party agreements please see Risk Factors, Market, Technology and Business Risks.

**Filings in the US:** Annual reports and other information are filed with, or furnished to, the Securities and Exchange Commission (SEC) in the United States, pursuant to the rules and regulations that apply to foreign private issuers. Electronic access to these documents may be obtained from the SEC's website, [www.sec.gov](http://www.sec.gov), where they are stored in the EDGAR database.

**Company history and development**

**Innovating to empower people, business and society**



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Our origins date back to 1876 when Alexander Graham Bell filed a patent application in the United States for the telephone. The same year, Lars Magnus Ericsson opened a small workshop in Stockholm to repair telegraph instruments and sell his own telephone equipment.

Today, Ericsson is a leading provider of communications equipment, telecom services and support solutions. Our customers, in over 180 countries, are mainly operators of communications networks worldwide. We manage networks, or parts of networks, for one billion subscribers.

**Exchange rates**

The following tables provide information with respect to the exchange rate for SEK per USD 1.00, based on the noon buying rate for cable transfers in SEK as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate of March 20, 2015, was SEK 8.6443 per USD 1.00. The average is computed using the noon buying rate on the last business day of each month during the period indicated.

**Average Exchange rates**

<b>Year ended December 31</b>	<b>Average</b>
2010	7.1895
2011	6.4263
2012	6.7247
2013	6.5152
2014	6.9222

**Exchange rates, monthly high and low**

<b>Month</b>	<b>High</b>	<b>Low</b>
September 2014	7.2600	7.0127
October 2014	7.3971	7.1632
November 2014	7.4754	7.3605
December 2014	7.8245	7.4119
January 2015	8.2732	7.8847
February 2015	8.2265	8.4193

Effects of exchange rate fluctuations on our business is described in the Notes to the Consolidated Financial Statements Note C20, Financial Risk Management and Financial Instruments. Noon buying rates are not used in the preparation of our financial statements.

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**Primary manufacturing and assembly facilities**

We continuously adjust our production capacity to meet expected customer demand. During 2014, our overall capacity utilization was around 85%. The table Primary manufacturing and assembly facilities summarizes where we have major sites and the total floor space at year-end. The majority of the floor space within our production facilities is used for assembly and verification.

**Primary manufacturing and assembly facilities**

	2014		2013		2012	
	Sites	Thousands of sq meters	Sites	Thousands of sq meters	Sites	Thousands of sq meters
Sweden	4	20.7	4	67.2	7	125.1
China	3	19.8	5	32.8	5	83.5
Estonia	1	9.1	1	23.7	1	23.7
Italy	1	16.0	1	16.0	1	10.5
Brazil	1	25.3	1	25.3	1	37.4
Mexico	1	0.8	1	0.8	1	0.6
India	1	24.5	1	24.5	1	25.0
Total	12	116.2	14	190.3	17	305.8

**Operating results for the years ended December 31, 2013 and 2014**

Refer to Board of Directors Report.

**Operating results for the years ended December 31, 2012 and 2013****Business in 2013**

Ericsson's sales ended at SEK 227.4 billion. The focus on profitability started to pay off and operating margin for the Group gradually improved in 2013, despite significant currency headwind, driven primarily by improvements in Networks and Network Roll-out.

The business mix, with a higher share of coverage projects than capacity projects, started to shift towards more capacity during the year.

As anticipated, sales came under some pressure towards the end of the year. As previously communicated, the major reasons behind this development are the two large mobile broadband coverage projects, which peaked in North America in the first half of 2013, and the impact from reduced activity in Japan.

While executing on the large rollout projects in the US, Ericsson has also strengthened its professional services position and capabilities. In the second half of the year, Global Services accounted for more than half of the region's sales and today the Company is the market leader in both telecom services and mobile infrastructure in one of the world's most advanced and dynamic ICT markets.

The LTE tenders in China continued and so far the two major operators that have made their vendor selections have included Ericsson as a vendor. In the latter part of the year, sales in China improved as a result of deliveries to ongoing mobile broadband coverage projects.

Also in the latter part of 2013, Ericsson continued to grow in some of its European key markets. During the last years, the position in Europe has been strengthened through the network modernization projects. These have been delivered according to plan and the major part of the negative margin impact from these projects is now over. Over time, it is expected that the telecom industry in Europe will improve.

During 2013, Ericsson executed on a number of strategic initiatives to both manage the ongoing technology transition in the industry and to transform the company for future business opportunities. Ericsson has solidified its core business as well as taken important steps to build a leadership position in new and targeted key areas. This includes consolidation of the modems business and the acquisition of the IPTV business Mediarama from Microsoft. The Company will gradually increase resource and capital allocation in these areas as well as in IP, Cloud, OSS and BSS.

The Company has also successfully completed an IPR cross-licensing agreement with Samsung. This agreement ends complaints made by both companies against each other before the International Trade Commission (ITC) as well as the lawsuits before the U.S. District Court for the Eastern District of Texas.

The long-term fundamentals in the industry remain attractive and with ongoing strategic initiatives Ericsson is well positioned to continue to support its customers in a transforming ICT market.

The Company has worked diligently to improve working capital and ended the year with a strong operating cash flow of SEK 17.4 (22.0) billion and a full-year cash conversion of 79%, above the target of 70%, giving Ericsson a solid balance sheet to continue to execute on its strategy.

### **Financial Highlights**

#### *Impact of Samsung IPR agreement*

On January 27, 2014, Ericsson and Samsung signed an agreement on global patent licenses between the two companies.

The industry is built on scale and a strong tradition of sharing technologies through licensing on fair, reasonable and non-discriminatory (FRAND) terms. The agreement shows the value of Ericsson's R&D investments and enables both companies to continue to innovate and bring new technologies to the market. The cross-license agreement covers patents relating to GSM, UMTS, and LTE standards for both networks and handsets.

The agreement includes an initial payment and ongoing royalty payments from Samsung to Ericsson for the term of the new multi-year license agreement.

The transaction contributed to net sales of SEK 4.2 billion, operating income of SEK 4.2 billion and net income of SEK 3.3 billion in 2013. Ericsson expects that the initial payment will impact operating cash flow in the beginning of 2014. This specific agreement impacts segments Networks and Support Solutions.

#### *Income statement*

Reported sales for 2013 were flat and amounted to SEK 227.4 (227.8) billion. During the year sales were negatively impacted by strong currency headwind and lower sales in North East Asia, driven by lower GSM investments in China combined with lower project activity in Japan and South Korea. In North America CDMA sales declined by 50% to SEK 4.2 (8.4) billion.

Revenues for IPR and licensing were SEK 10.6 (6.6) billion, of which the Samsung agreement contributed with SEK 4.2 billion.

With a large share of coverage projects in the beginning of the year and with slightly improved business mix from the second quarter, the commodity mix remained stable compared to last year. Software represented 24% (23%), hardware 34% (35%) and services 42% (42%) of total sales.

Restructuring charges amounted to SEK 4.5 (3.4) billion, mainly related to continued execution of the service delivery strategy and headcount reductions in Sweden. The proactive work to drive efficiency and cost reductions continues.

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Gross margin increased to 33.6% (31.6%), due to the agreement with Samsung, reduced negative effect from network modernization projects in Europe and improved business mix. The Global Services share of Group sales was flat at 43%.

Total operating expenses were basically flat and amounted to SEK 58.5 (58.9) billion. Expenses related to the modems business added SEK 0.5 billion to operating expenses. A one-time charge related to the acquisition of Airvana Network Solutions Inc. impacted the operating expenses negatively by SEK 0.4 billion. Excluding restructuring charges, operating expenses were down 2% compared to 2012. Selling, general and administrative expenses (SG&A) amounted to SEK 26.3 (26.0) billion and represented 11.6% of sales compared to 11.4% in 2012. For comments on research and development expenses (R&D), see the section Research and development, patents and licensing.

Other operating income and expenses decreased to SEK 0.1 (9.0) billion. During the year, one-time charges related to the divestment of Applied Communication Sciences (ACS), the former research and engineering arm of Telcordia Technologies, and the exiting of the telecom and power cable operations of SEK 0.9 billion impacted other operating income negatively.

For new hedges taken in 2013, hedge accounting is not applied. The total re-evaluation effect for 2013 hedges on other operating income was SEK 0.5 billion. In 2012, other operating income included a gain related to the divestment of Sony Ericsson of SEK 7.7 billion and to Multimedia brokering (IPX) of SEK 0.2 billion.

Ericsson's share in earnings of JV and associated companies was SEK 0.1 (11.7) billion. In 2012 a non-cash charge of SEK 8.0 billion related to ST-Ericsson was made.

Operating income, including JV, increased to SEK 17.8 (10.5) billion, positively impacted by improved gross margin, and no negative effect from ST-Ericsson. Operating income was negatively impacted by one-time charges of SEK 1.3 billion related to the divestment of ACS, the exiting of the telecom and power cable operations and the acquisition of Airvana. Operating margin, including JV, was 7.8% (4.6%). Operating income including JV and excluding the Samsung agreement was SEK 13.6 billion with an operating margin of 6.1%. 2012 included a gain of SEK 7.7 billion related to the divestment of Sony Ericsson.

Financial net amounted to SEK 0.7 (0.3) billion. The difference is partly attributable to lower interest income as an effect of lower interest rates during 2013 compared to 2012. The tax rate for 2013 was 29% compared to 42% in 2012, positively impacted by product and market mix. Tax costs were SEK 4.9 (4.2) billion.

Net income increased to SEK 12.2 (5.9) billion, positively impacted by the Samsung agreement by SEK 3.3 billion.

EPS diluted was SEK 3.69 (1.78).

*Balance sheet and other performance indicators*

Compared to December 31, 2012, trade receivables increased from SEK 63.7 billion to 71.0 billion, mainly due to the Samsung agreement. Days sales outstanding (DSO) increased from 86 to 97 days.

Inventory decreased from SEK 28.8 billion to 22.8 billion, positively impacted by improved business mix and efficiency measures.

Inventory turnover days (ITO) improved from 73 to 62 days. Accounts payable days decreased from 57 to 53 days.

During the year, Ericsson concluded the following refinancing activities to extend the average debt maturity profile:

A EUR 313 million bond was repaid

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Ericsson refinanced a USD 2 billion Revolving Credit Facility (RCF). The new facility is a five-year facility with two one-year extension options

A USD 684 million European Investment Bank (EIB) loan was disbursed. The loan agreement was signed in 2012 and the loan supports R&D activities. The loan will mature in 2020.

A SEK 4 billion EIB loan, with original maturity in 2015, will be repaid early 2014.

Provisions amounted to SEK 5.4 (8.6) billion by the end of the year. The reduction was mainly due to utilization of the 2012 ST-Ericsson provision.

Cash flow from operating activities was positive at SEK 17.4 (22.0) billion, negatively impacted by higher working capital. There was no impact on cash flow from the Samsung agreement.

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Cash, cash equivalents and short-term investments amounted to SEK 77.1 (76.7) billion. The net cash position decreased from SEK 38.5 to 37.8 billion. Cash conversion for 2013 ended at 79%.

In 2013, the net number of employees increased by 4,085, of which 3,293 were in services and 741 in R&D. By the end of 2013, the total number of employees was 114,340 (110,255) of which 5,377 people joined Ericsson through acquisitions and through managed services contracts. At the same time, approximately 13,000 employees left Ericsson, reflecting the natural attrition rate and ongoing company transformation.

### **Research and development, patents and licensing**

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses (see table below) amounted to SEK 32.2 (32.8) billion. During 2014, R&D expenses, excluding expenses related to Modems, Mediaroom and restructuring, are expected to increase somewhat, mainly due to investments in IP.

### **Research and development, patents and licensing**

	2013	2012	2011
Expenses (SEK billion)	32.2	32.8	32.6
As percent of Net sales	14.2%	14.4%	14.4%
Employees within R&D as of December 31 <sup>1)</sup>	25,300	24,100	22,400
Patents <sup>1)</sup>	35,000	33,000	30,000
IPR revenue, net (SEK billion)	10.6	6.6	6.2

1) The number of employees and patents are approximate.

### **Seasonality**

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

### **Most recent five-year average seasonality of sales**

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	21%	6%	3%	24%
Share of annual sales	23%	24%	24%	29%

### **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 material effect on the Company's financial condition, revenues, expenses, result of operations, liquidity, capital expenditures or capital resources.

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**Capital expenditures**

For 2013, capital expenditures amounted to SEK 4.5 billion, 2% of sales. Annual capital expenditures are normally around 2% of sales. This corresponds to the needs for keeping and maintaining the current capacity level, including the introduction of new technology and methods. Expenditures are largely related to test sites and equipment for R&D and network operations centers as well as manufacturing and repair operations. The Board of Directors reviews the Company's investment plans and proposals.

Ericsson is planning to invest in three new global ICT Centers, of which two in Sweden and one in Canada, over the coming five years. The centers will support R&D and Services in developing and verifying solutions, bringing innovation to the market faster. Apart from this investment Ericsson believes that the Company's property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2013, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

The Company believes it has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2014.

**Capital expenditures 2009 - 2013**

SEK billion	2013	2012	2011	2010	2009
Capital expenditures	4.5	5.4	5.0	3.7	4.0
of which in Sweden	1.9	1.3	1.7	1.4	1.3
Share of annual sales	2.0%	2.4%	2.2%	1.8%	1.9%

**Business results - segments****Networks**

Sales were basically flat. The Samsung agreement and increased sales in Latin America, Europe and the Middle East impacted sales positively, but this was partly offset by lower sales in North America, where CDMA related sales declined by 50%. North East Asia sales declined as an effect of lower project activities in Japan and South Korea and lower GSM investments in China.

At the end of the year there was solid demand for our IMS and data layered architecture UDC (User Data Consolidation). However, this was not enough to offset the continued structural decline in circuit-switched core.

Operating margin gradually improved during the year and ended at 10% (6%). This was a result of the Samsung agreement, reduced negative effect from network modernization projects in Europe, improved business mix and strong focus on improving profitability. Restructuring charges amounted to SEK 2.2 ( 1.3) billion. This was primarily related to reductions of operations in Sweden and dismantling of the CDMA operations. Operating margin excluding the Samsung agreement was 7%.

**Global Services**

Reported sales for Global Services were flat in comparison to a strong 2012. Network Rollout reported sales grew 4% driven by high coverage project activities, primarily in North America. Professional Services had a strong development in region North America and India.

Global Services operating margin was 6% (6%). Network Roll-out margin gradually improved during the year due to the declining dilutive effect from European network modernization projects as well as the ongoing efficiency programs. Professional Services operating margin was 14% (14%).

Restructuring charges amounted to SEK 2.0 ( 1.9) billion.



### **Support Solutions**

Sales development was primarily driven by portfolio changes and decline in sales of TV compression technology while OSS and BSS showed stable development. The Samsung agreement had an overall positive impact on sales.

Operating margin increased to 12% (9%) due to the Samsung agreement. Lower sales and a charge related to the divestment of ACS had a negative impact on the margin.

### **From ST-Ericsson to segment Modems**

ST-Ericsson was created in 2008 as a joint venture between Ericsson and STMicroelectronics. Early in 2013, the parents agreed to split up and close the joint venture.

Ericsson decided to take over the design, development and sales of the thin LTE multi-mode modem solutions as these are seen as an important part of the Ericsson vision of 50 billion connected devices in the Networked Society. The ambition is to be among the top three suppliers in the thin-modem market.

In 2013, all ST-Ericsson businesses have been transferred to parents or divested. In 2012, Ericsson made a provision of SEK 3.3 billion, related to the ongoing implementation of strategic options at hand.

Ericsson now has a highly focused thin-modem operation with industry-leading technology and intellectual property. A new segment was established as of October 1, 2013, and the modems business is now consolidated into Ericsson. For 2013, segment Modems generated an operating loss of SEK 0.5 billion, primarily related to R&D expenses.

### **Business results regions**

**North America:** Networks sales declined in 2013, with a strong first half while the second half was weaker as a result of the two large mobile broadband coverage projects that peaked in the first half of the year. While executing on the large rollout projects in the US, Ericsson has also strengthened its professional services position and capabilities. Global Services accounted for more than 50% of the region's sales in the second half of the year.

**Latin America:** LTE deployments ramped up after a slow start, and together with 3G network quality investments, drove sales growth for 2013. However, macroeconomic development mostly in Brazil and Mexico continued to slow down during the year.

**Northern Europe and Central Asia:** Sales growth was mainly driven by Networks sales in Russia. Operators continued to show high interest in OSS and BSS.

**Western and Central Europe:** Sales growth was driven by network modernization projects in several countries and also by a high activity level in managed services.

**Mediterranean:** Sales in 2013 grew, driven by 3G deployments in Northwest Africa and modernization projects.

**Middle East:** Sales grew in 2013, driven by increased investments in mobile broadband.

**Sub-Saharan Africa:** Sales came from 2G and 3G deployment and managed services, although the deployment pace slowed down in the latter part of the year. Long-term industry fundamentals remain positive as mobile broadband and smartphone penetration is still at low levels.

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**India:** Sales were negatively impacted by poor macroeconomic environment and delays in regulatory legislation. Global Services grew largely due to an increase in Managed Services.

**North East Asia:** Sales declined in 2013. Japan was negatively impacted by currency and reduced activity. GSM in China structurally declined whilst LTE deployments commenced towards the end of the year. In Japan, KDDI has selected Ericsson as one of the prime vendors to deploy its LTE system and evolved packet core network.

**South East Asia and Oceania:** Sales grew in 2013 with 3G deployments in Thailand and LTE deployments in Singapore and Australia. In Indonesia major capacity projects were finalized. Smartphone penetration continues to increase from a low level.

**Other:** Sales increased, positively impacted by the Samsung agreement but negatively impacted by the divestment of IPX in 2012 and the exit of the telecom and power cable business. Sales of broadcast services, cables, power modules and other businesses are also included in Other.

**Memorandum and articles of association**

Telefonaktiebolaget LM Ericsson is registered under no. 556016 0680 in the Company Register kept by the Swedish Companies Registration Office. Our Company's objective and purposes are described in §2 of the Articles of Association.

Our Articles of Association do not stipulate anything regarding:

a director's power to vote on a proposal, arrangement, or contract in which the director is materially interested

our directors' power to vote for compensation to themselves

our directors' borrowing powers

retirements rules for our directors or

the number of shares required for a director's qualification.

Applicable provisions are found in the Swedish Companies Act, as referred to in Certain Powers of Directors and the President below.

There are no age limit restrictions for directors and they are not required to own any shares in the Company.

**Share Capital, Increases of Share Capital and Preferential Rights of Shareholders**

The Articles of Association of Ericsson provide that the share capital of the Company may not be less than SEK 6,000,000,000 nor more than SEK 24,000,000,000, and that the number of shares in the Company shall amount to no less than 3,000,000,000 and no more than 12,000,000,000. The registered share capital is SEK 16,525,258,678 and the Company has in total issued 3,305,051,735 shares.

The Company's shares are divided into three series: Class A shares, Class B shares and Class C shares; however, no Class C shares are currently outstanding. Under the Swedish Companies Act (2005:551) (the Swedish Companies Act), shareholders must approve each issue of additional shares either by deciding on the share issue at a shareholders' meeting, or by a shareholders' approval of a decision on a share issue by the Board, or by giving an authorization to the Board to decide about a share issue. If we decide to issue new Class A, Class B and Class C shares by means

of a cash issue, or an issue against payment through set-off of claims, Class A, Class B and Class C shareholders (except for Ericsson and its subsidiaries, in the event they hold shares in Ericsson) have a primary preferential right to subscribe for new shares of the same type in relation to the number of shares previously held by them. Shares not subscribed for through a preferential right shall be offered to all shareholders for subscription on a pro rata basis. If we decide to issue new shares of only one series by means of a cash issue or an issue against payment through set-off of claims, all shareholders, regardless of whether their shares are Class A, Class B or Class C, are entitled to a preferential right to subscribe for new shares in proportion to the number of shares previously held by them. Shareholders may vote to waive shareholders preferential rights at a general meeting.

If we decide to issue warrants or convertibles through a cash issue or an issue against payment through set-off of claims, the shareholders have preferential rights to subscribe to warrants as if the issue were of the shares that may be subscribed to pursuant to the warrant and, respectively, preferential rights to subscribe to convertibles as if the issue were of the shares that the convertibles may be converted to.

The above does not constitute any restriction to waive the shareholders preferential rights when deciding on either a cash issue, an issue against payment through set-off of claims, an issue of warrants or an issue of convertibles.

### **Dividends**

Our Class A and Class B shareholders have the same right to dividends, while Class C shareholders have a right to a yearly dividend as described in article 15 of our Articles of Association. No Class C shares are currently outstanding.

Under Swedish law, only a general meeting of shareholders may decide on payment of dividends, which may not exceed the amount proposed by the Board of Directors (except in certain limited circumstances), and may only be paid from funds legally available for that purpose. Under Swedish law, no interim dividends may be paid in respect of any fiscal period for which audited financial statements of the company have not yet been adopted by the annual general meeting of shareholders. The market practice in Sweden is for dividends to be paid annually. Under the Swedish Companies Act, dividends to shareholders and other transfers of value from a company such as purchases of own shares (see below) may only be made in case the company's restricted equity remains fully covered after the transfer of value has been made. The calculation shall be based upon the most recently adopted balance sheet, and any changes in the restricted equity that has occurred after the balance sheet date shall be taken into account. In addition, dividends to shareholders and other transfers of value from the company may only be made if this is justifiable taken into account the type of business activities of the company, their scope and risks related thereto and the company's need for financial resources, its liquidity and financial position. In respect of parent companies, also the business activities of the group, their scope and risks related thereto and the group's need for financial resources, its liquidity and financial position should be taken into account.

The Company's shares are registered in the computerized book-entry share registration system administered by Euroclear Sweden AB (Euroclear). The rights attached to shares eligible for dividends accrue to those persons whose names are recorded in the register of shareholders on the record day. The dividends are then sent to a specified account as directed by the person registered with Euroclear, or to the address of that person. The relevant record day must, in most circumstances, be specified in the resolution declaring a dividend or resolving upon a capital increase or any similar matter in which shareholders have preferential rights, or the Board of Directors must be authorized to determine the relevant record day.

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Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on issues of shares with preferential rights for the shareholders, shares, as well as rights. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is adopted for share issues. Specific authority to act as a nominee must be obtained from Euroclear. At the request of Euroclear, the nominee must provide information about all beneficial holders of shares to Euroclear. Euroclear is required to keep a register with regard to any holding on behalf of a single beneficial owner in excess of 500 shares in any one company. This list is prepared every third month and must reveal the names of the beneficial owner and be open to public inspection.

**Voting**

In a general meeting of Ericsson, each Class A share shall carry one vote, each Class B share one tenth of one vote and each Class C share one-thousandth of one vote.

We are required to publish notices to attend annual general meetings no earlier than six weeks and no later than four weeks prior to the annual general meeting and the same notice period requirements apply regarding extraordinary general meetings concerning changes in our articles of association. Notices to attend other types of extraordinary general meetings at Ericsson must be published no earlier than six weeks and no later than three weeks prior to the general meeting.

Directors are elected during the annual general meeting for a period of one year at a time and do not stand for reelection at staggered intervals.

A shareholder may attend and vote at the meeting in person or by proxy. For companies whose shares are registered in a central securities depository register, proxies are valid for up to five years from the date of issuance. Any shareholder wishing to attend a general meeting must notify us no later than on the day specified in the notice, preferably before 4:00 p.m. (CET). We are required to accept all notifications of attendance received at least five business days (Saturdays normally included) prior to the meeting. A person designated in the register as a nominee (including the depository of the ADSs) is not entitled to vote at a general meeting, nor is a beneficial owner whose share is registered in the name of a nominee (including the depository of the ADSs) unless the beneficial owner first arranges to have such owner's own name entered in the register of shareholders maintained by Euroclear no later than the designated record day.

Under the Swedish Companies Act, resolutions are passed by a simple majority of votes cast at the meeting with the chairman of the meeting having a decisive vote (except in respect of elections), unless otherwise required by law or a company's articles of association. Under the Swedish Companies Act, certain resolutions require special quorums and majorities, including, but not limited to, the following:

- A** a resolution to amend the articles of association requires a majority of two-thirds of the votes cast as well as two-thirds of the shares represented at the meeting, except in those circumstances described in B-D below;
- B** a resolution to amend the articles of association which reduces any shareholder's rights to profits or assets, restricts the transferability of shares or alters the legal relationship between shares, normally requires the unanimous approval of the shareholders present at the meeting and who hold nine-tenths of all outstanding shares;
- C** a resolution to amend the articles of association for the purpose of limiting the number of shares with which a shareholder may vote at a general meeting or allocating part of the net profit for the fiscal year to a restricted fund or limiting the use of the company's profits or assets in a liquidation or dissolution, normally requires the approval of shareholders representing two-thirds of the votes cast and nine-tenths of the shares represented at the meeting;
- D** a resolution of the kind referred to under B or C above may, however, be taken with a lower supermajority requirement if the amendments referred to therein will only adversely affect specific shares or classes of shares. In such cases, the requirement under a

above will apply together with the following separate supermajority: (a) where only a class of shares is adversely affected, approval of the owners of one-half of all shares of such class and nine-tenths of the shares of such class represented at the meeting, or (b) where the shares adversely affected do not constitute a class of shares, the unanimous approval of all such affected outstanding shares present at the meeting and who hold nine-tenths of all outstanding shares adversely affected;

- E** a resolution to issue, approve or authorize the issuance for cash of new shares, warrants or convertibles with a deviation from the preferential right for existing shareholders requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting;
- F** a resolution to reduce the outstanding share capital requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting. In case there are several classes of shares in a company, the above described majority requirement shall apply also within each share class represented at the meeting and for which the rights of the shares are adversely affected; and
- G** a resolution to approve a merger requires a two-thirds majority of the votes cast at the meeting and two-thirds of the shares represented at the meeting (however, under certain circumstances a higher majority is required).

At a general meeting of shareholders, a shareholder or proxy for one or more shareholders may cast full number of votes represented by the holder's shares.

#### **Purchase of Own Shares**

A Swedish public limited liability company whose shares are traded on a regulated market place within the European Economic Area ( EEA ) or a market place comparable to a regulated market place outside the EEA is entitled to purchase its own shares under certain conditions. A purchase by us of our own shares may take place only if (a) the purchase has been decided upon by a general meeting of shareholders or the Board has been authorized by a general meeting of shareholders, in both cases by a two thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting, (b) the purchase is effected on a regulated market place within the EEA or a market place comparable to a regulated market place outside the EEA (in the latter case with the approval of the Swedish Financial Supervisory Authority the SFSA ) or pursuant to an offer to all shareholders or holders of a specific class of shares, (c) the Company's restricted equity will still be fully covered and the purchase is justifiable taken into account the type of business activities of the Company and the group, their scope and risks related thereto and the Company's and the group's need for financial resources, its liquidity and

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financial position, and (d) we and our subsidiaries do not hold or, as a result of purchase, will not hold in excess of 10% of all our outstanding shares. As of December 31, 2014, the Company held an aggregate of 63,450,558 treasury stock of Class B shares.

**Investment Restrictions**

There are no limitations imposed by Swedish law or by our Articles of Association in respect of the rights of non-residents or foreign persons to purchase, own or sell securities issued by us.

There are, however, certain flagging and ownership examination rules that apply, irrespective of nationality.

Pursuant to the Swedish Financial Instruments Trading Act any change in a holding of shares, depository receipts with voting rights or financial instruments that entitle the holder to acquire shares in issue in a Swedish limited liability company whose shares are admitted for trading on a regulated market place within the EEA shall be reported by the holder to the company and the SFSA, where the change entails that the holder's portion of all shares or votes in the company reaches, exceeds or falls below any of the limits of 5, 10, 15, 20, 25, 30, 50, 66 2/3 or 90 per cent. Such a change should, as a main rule, be reported not later than the trading day following the day on which the party with a duty to report has entered into an agreement for the acquisition or transfer of shares or any other change to the shareholding has occurred.

In addition, the Act on Reporting Obligations Regarding Certain Holdings of Financial Instruments requires, among other things, certain individuals who own shares representing 10% or more of the share capital or the voting rights in a Swedish public limited liability company whose shares are traded on a regulated market within the EEA to report such ownership to the SFSA, which keeps a public register based on the information contained in such reports, and also to report any changes in such ownership within five business days.

**Exchange controls**

There is no Swedish legislation affecting a) the import or export of capital or b) the remittance of dividends, interest or other payments to non-resident holders of our securities except that, subject to the provisions in any tax treaty, dividends are subject to withholding tax.

**Taxation**

**General**

The taxation discussion set forth below does not purport to be a complete analysis or listing of all potential tax effects relevant to the acquisition, ownership or disposition of Class B shares or ADSs. The statements of United States and Swedish tax laws set forth below are based on the laws in force as of the date of this report and may be subject to any changes in United States or Swedish law, and in any double taxation convention or treaty between the United States and Sweden, occurring after that date, which changes may then have retroactive effect.

Specific tax provisions may apply for certain categories of taxpayers. Your tax treatment if you are a holder of Class B shares or ADSs depends in part on your particular situation. If you are a holder of Class B shares or ADSs, you should therefore consult a tax advisor as to the tax consequences relating to your particular circumstances resulting from the ownership of Class B shares or ADSs.

The tax consequences to holders of ADSs, as discussed below, apply equally to holders of Class B shares.

**Certain Swedish Tax Considerations**

This section describes the material Swedish income and net wealth tax consequences for a holder of ADSs or Class B shares who is not considered to be a Swedish resident for Swedish tax purposes. This section applies to you only if you are a holder of portfolio investments representing less than 10% of capital and votes and is not applicable if the ADSs or Class B shares pertain to a permanent establishment or fixed place of business in Sweden.

**Taxation on Capital Gains**

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Generally, non-residents of Sweden are not liable for Swedish capital gains taxation with respect to the sale of ADSs or Class B shares. However, under Swedish tax law, capital gains from the sale of shares in Swedish companies and certain other securities by an individual may be taxed in Sweden at a rate of 30% if the seller has been a resident of Sweden or has lived permanently in Sweden at any time during the year of the sale or the 10 calendar years preceding the year of the sale (absent treaty provisions to the contrary). The provision is applicable to ADSs or Class B shares. From 1 January 2008 the rule has been extended so that it also applies to shares in foreign companies, provided that the shares were acquired during the time that the person was liable to tax in Sweden.

This provision may, however, be limited by tax treaties that Sweden has concluded with other countries. Under the tax treaty between Sweden and the United States (the U.S. Tax Treaty ), this provision applies for ten years from the date the individual became a non-resident of Sweden.

#### **Taxation on Dividends**

A Swedish dividend withholding tax at a rate of 30% is imposed on dividends paid by a Swedish corporation, such as us, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish corporation, including payments as a result of redemption of shares and repurchase of stock through an offer directed to its shareholders. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under the U.S. Tax Treaty, the withholding tax on dividends paid on portfolio investments to eligible U.S. holders is reduced to 15%.

Under all Swedish tax treaties, except the tax treaty with Switzerland, withholding tax at the applicable treaty rate should be withheld by the payer of the dividends. With regard to dividends paid from shares in corporations registered with the Euroclear Sweden (such as our shares), a reduced rate of dividend withholding tax under a tax treaty is generally applied at the source by the Euroclear Sweden or, if the shares are registered with a nominee, the nominee, as long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to the Euroclear Sweden or the nominee.

In those cases where Swedish withholding tax is withheld at the rate of 30% and the person who received the dividends is entitled to a reduced rate of withholding tax under a tax treaty, a refund may be claimed from the Swedish tax authorities before the end of the fifth calendar year following the year that the distribution was made.



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**Taxation on Interest**

No Swedish withholding tax is payable on interest paid to non-residents of Sweden.

**Net Wealth Taxation**

The Swedish net wealth tax has been abolished from 1 January 2007.

**Certain United States Federal Income Tax Consequences**

The following discussion is a summary of the material United States federal income tax consequences relevant to the ownership and disposition of ADSs or Class B shares. This discussion is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. The discussion is not a full discussion of all tax considerations that may be relevant to the ownership and disposition of ADSs or Class B shares. The discussion applies only if you will hold the ADSs and/or the Class B shares as capital assets and you use the USD as your functional currency. It does not deal with the tax treatment of investors subject to special rules, such as grantor trusts, real estate investment trusts, regulated investment companies, banks, brokers or dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of recording for their securities holdings, financial institutions, insurance companies, tax-exempt entities, investors liable for alternative minimum tax, holders (either actually or constructively) of 10% or more of the voting power of our shares, persons holding ADSs and/or Class B shares as part of a hedging, straddle, conversion or constructive sale transaction and persons who are resident or ordinarily resident in Sweden. In addition, investors holding ADSs and/or Class B shares indirectly through partnerships are subject to special rules not discussed below. You should consult your own tax advisors about the United States federal, state, local and foreign tax consequences to you of the ownership and disposition of the ADSs or Class B shares.

The discussion below applies to you only if you are a beneficial owner of ADSs and/or Class B shares not resident in Sweden for purposes of the U.S. Tax Treaty and you are, for United States federal income tax purposes, (1) a citizen or resident of the United States, (2) a corporation or any other entity treated as a corporation that is organized in or under the laws of the United States or its political subdivisions, including the District of Columbia, (3) a trust if all of the trust's substantial decisions are subject to the control of one or more United States persons and the primary supervision of the trust is subject to a United States court, or if a valid election is in effect with respect to the trust to be taxed as a United States person, or (4) an estate the income of which is subject to United States federal income taxation regardless of its source.

The discussion below assumes that the representations contained in the deposit agreement governing the ADSs are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with the terms. If you hold ADSs, you will be treated as the holder of the underlying Class B shares represented by those ADSs for United States federal income tax purposes.

**Dividends**

Subject to the passive foreign investment company rules discussed below, the gross amount of dividends paid (before reduction for any Swedish withholding taxes) with respect to the ADSs or Class B shares generally will be included in your gross income as ordinary income from foreign sources to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of earnings and profits will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADSs or Class B shares and thereafter as capital gain. The dividends will not be eligible for the dividends received deduction available to corporations in respect of dividends received from other U.S. corporations. The amount of any dividend paid in SEK will be the USD value of the dividend payment based on the exchange rate in effect on the date of receipt (or constructive receipt) by you, in the case of Class B shares or by the depositary, in the case of ADSs, whether or not the payment is converted into USD at that time. Your tax basis in the SEK received will equal such USD amount. Gain or loss, if any, recognized on a subsequent sale or conversion of the SEK will be U.S. source ordinary income or loss.

If you are a non-corporate holder of ADSs or Class B shares, dividends you receive on the ADSs or Class B shares may be taxed at the lower applicable capital gains rate provided that (1) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, (2) certain holding period requirements are met, (3) you are not under any obligation to make related payments with respect to substantially similar or related property and (4) either (a) in the case of ADSs our ADSs

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continue to be listed on the Nasdaq Stock Market (or a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended) or (b) we are eligible for the benefits of the U.S. Tax Treaty. You should consult your own tax advisors regarding the availability of the lower rate for dividends paid with respect to ADSs or Class B shares.

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Subject to certain limitations, you will generally be entitled to receive credit against your United States federal income tax liability (or a deduction against your United States federal taxable income) with respect to any Swedish tax withheld in accordance with the U.S. Tax Treaty and paid over to Sweden. If a refund of the tax withheld is available to you under the laws of Sweden or under the U.S. Tax Treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your United States federal income tax liability (and will not be eligible for the deduction in computing your United States federal taxable income). For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, and will generally be treated as passive category income (or, in the case of certain holders, general category income).

### **Sale or Exchange of ADSs or Class B shares**

Subject to the passive foreign investment company rules discussed below, you will generally recognize capital gain or loss on the sale or other disposition of the ADSs or Class B shares equal to the difference between the USD value of the amount realized and your adjusted tax basis (determined in USD) in the ADSs or Class B shares. Such gain or loss will generally be treated as arising from U.S. sources for foreign tax credit limitation purposes.

The amount realized on a disposition of ADSs or Class B shares will generally be the amount of cash you receive for the

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ADSs or Class B shares (which, in the case of payment in a non-U.S. currency, will equal the USD value of the payment received determined on (a) the date of receipt of payment if you are a cash basis taxpayer and (b) the date of disposition if you are an accrual basis taxpayer). If the ADSs or Class B shares are treated as traded on an established securities market, if you are a cash basis taxpayer (or, if you are an accrual basis taxpayer, if you so elect) you will determine the USD value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

You will have a tax basis in any foreign currency received equal to the USD amount realized. Any gain or loss you realize on a subsequent sale or conversion of foreign currency will be U.S. source ordinary income or loss.

**Passive Foreign Investment Company Status**

A non-U.S. corporation is a passive foreign investment company (a PFIC) in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (a) at least 75% of its gross income is passive income or (b) at least 50% of the quarterly average value of its assets is attributable to assets that produce or are held to produce passive income. Based on the market value of our shares, the composition of our assets and income and our operations, we believe we were not a PFIC during the year 2014. However, whether or not we will be considered a PFIC will depend on the nature and source of our income and the value of our assets, as determined from time to time. If we are treated as a PFIC, we will not provide information necessary for the qualified electing fund election as the term is defined in the relevant provisions of the Code. You should consult your own tax advisors about the consequences of our potential classification as a PFIC.

If we were classified as a PFIC with respect to your ADSs or Class B shares for any taxable year we would generally continue to be a PFIC (unless certain conditions are met) and you would be subject to special rules with respect to:

any gain realized on the sale or other disposition of ADSs or Class B shares; or

any other excess distribution made to you (generally, any distributions to you in respect of ADSs or Class B shares during a single taxable year that are, in the aggregate, greater than 125% of the average annual distributions received by you in respect of ADSs or Class B shares during the three preceding taxable years or, if shorter, your holding period for ADSs or Class B shares).

Under these rules:

the gain or any other excess distribution would be allocated ratably over your holding period for ADSs or Class B shares;

the amount allocated to the taxable year in which the gain or excess distribution was realized and any year before we became a PFIC would be taxable as ordinary income and

the amount allocated to each prior year, other than the current year and any taxable year prior to the first taxable year in which we were a PFIC, would be subject to tax at the highest applicable marginal tax rate in effect for each such year; and an interest charge would be imposed.

If we are a PFIC for any taxable year, you will also be deemed to own shares in any of our subsidiaries that are also PFICs in such a year. As an alternative to the special rules described above, holders of marketable stock in a PFIC may elect mark-to-market treatment with respect to their ADSs or Class B shares. ADSs or Class B shares will not be considered marketable stock unless they are regularly traded on a qualified exchange or other market. If the mark-to-market election is available and you elect mark-to-market treatment you will, in general, include as ordinary income each year an amount equal to the increase in value of your ADSs or Class B shares for that year (measured at the close of your taxable year) and will generally be allowed a deduction for any decrease in the value of your ADSs or Class B shares for the year, but only to the extent of previously included mark-to-market income. In addition, any gain you recognize upon the sale or other disposition of the ADSs or

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Class B shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of previously included mark-to-market income. Any loss in excess of previously included mark-to-market income will be treated as a capital loss. However, a mark-to-market election would likely be unavailable with respect to your proportionate share in any of our subsidiaries that are PFICs.

If you own ADSs or Class B shares during any year in which we are a PFIC, you will generally be required to make an annual return on IRS Form 8621.

**Information Reporting and Backup Withholding**

In general, information reporting requirements may apply to dividends paid in respect of ADSs or Class B shares and the proceeds received on the sale or exchange of the ADSs or Class B shares within the United States or by a broker with certain United States connections. Backup withholding may apply to payments to you of dividends paid in respect of ADSs or Class B shares or the proceeds of a sale or other disposition of ADSs or Class B shares if you fail to provide an accurate taxpayer identification number (certified on IRS Form W-9) or, upon request, to certify that you are not subject to backup withholding, or otherwise to comply with the applicable requirements of backup withholding. The amount of any backup withholding from a payment to you will be allowed as a credit against your United States federal income tax liability and a refund of any excess amount withheld under the backup withholding rules may be obtained by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

**Additional Reporting Requirements**

Certain holders who are individuals may be required to report information relating to an interest in ADSs or Class B shares, subject to certain exceptions (including an exception for ADSs or Class B shares held in accounts maintained by certain financial institutions). Holders should consult their tax advisors regarding the effects, if any, of these requirements on their ownership and disposition of ADSs or Class B shares.

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**Depository fees and charges****Fees and charges payable by ADS holders**

	<b>Service</b>	<b>Rate</b>	<b>By whom paid</b>
1)	Receipt of deposits and issuance of receipts	Up to USD 5 per 100 American Depositary Shares of fraction thereof	Party to whom receipts are issued
2)	Delivery of deposited shares against surrender of receipts	Up to USD 5 per 100 American Depositary Shares or fraction thereof	Party surrendering receipts
3)	Distribution of Cash Dividends and Cash Proceeds	Up to USD 2 per 100 American Depositary Shares	All holders of American Depositary Shares
4)	Administration of the ADSs	Up to USD 2 per 100 American Depositary Shares per annum	All holders of American Depositary Shares

Except as otherwise provided in the Deposit Agreement, any and all other expenses of the Depository, including without limitation, expenses or charges for printing, stationery, postage, insurances, cables, etc, are to be borne by the Depository, or by the Company in accordance with agreements entered into from time to time with the Company.

**Fees payable by the Depository to the Issuer**

On January 7, 2014, Ericsson entered into a deposit agreement with Deutsche Bank Trust Company America ( Deutsche Bank ), which replaced Citibank as the depository of our ADSs. Deutsche Bank has agreed to reimburse Ericsson a minimum of USD 4.2 million per year for expenses related to our ADS program (the Program ), including Program-related legal fees, expenses related to investor relations in the US, US investor presentations, fees in relation to the preparation of our Form 20-F and Form 6-K reports and SOX and NASDAQ compliance. In addition, Deutsche Bank has agreed to reimburse Ericsson a percentage of the revenues collected by Deutsche Bank as a result of charging dividend or administrative fees from our ADS holders.

Deutsche Bank has further agreed to waive the costs associated with the administration of the Program and reporting services. In 2014, the total amount of such expenses was USD 88,261.14.

During 2014, Deutsche Bank also reimbursed Ericsson an amount of USD 25,000 for expenses related to the transfer of the depository bank program from Citibank to Deutsche Bank.

**NASDAQ and SEC corporate governance requirements**

Ericsson, as a company whose shares are listed on NASDAQ New York, is subject to the listing requirements and certain of the corporate governance requirements of NASDAQ New York and to the rules of the SEC.

All members of the Audit Committee of a NASDAQ New York-listed company must be independent in accordance with NASDAQ New York and SEC rules. SEC rules include a specific exemption from these independence requirements for Audit Committee members of foreign private issuers who are non-executive employee representatives appointed to the Audit Committee pursuant to local law. The Company relies on this exemption, and does not consider that such reliance materially adversely affects the ability of the Audit Committee to act independently or to satisfy other SEC requirements applicable to Audit Committees.

Under NASDAQ New York rules, Ericsson is permitted to follow home country practices in lieu of certain NASDAQ corporate governance requirements that would apply to US companies listed on NASDAQ New York. The rules require disclosures regarding the ways in which Ericsson's corporate governance practices differ from those required of US companies under the rules of NASDAQ New York.

These differences include the following:

Employee representatives are appointed to Ericsson's Board of Directors and serve on Committees (including the Audit and the Remuneration Committees) in accordance with Swedish law

Employee representatives on the Ericsson Board and Committees may attend all meetings of the Board and committees on which they serve (including those of the Audit and the Remuneration Committees) in accordance with Swedish law

In accordance with Swedish market practices, the Nomination Committee is not fully comprised of Board members. In addition to the Chairman of the Board, representatives of the four largest shareholders are appointed as members of the Nomination Committee of Ericsson.

The determination regarding independence of Board members for purposes of the NASDAQ New York rules is made by the Nomination Committee prior to the Annual General Meeting ( AGM ) instead of the Board. Before the AGM 2014, the Nomination Committee determined that the following Board members were independent under the NASDAQ rules: Roxanne S. Austin, Sir Peter L. Bonfield, Nora Denzel, Börje Ekholm, Alexander Izosimov, Leif Johansson, Ulf J. Johansson, Sverker Martin-Löf, Kristin Skogen Lund, Jacob Wallenberg and Pär Östberg. When appointing members to the Committees of the Board, the Board of Directors makes determinations regarding Committee member independence.

The Board of Directors does not have regularly scheduled meetings with only independent directors present.

The external auditor is proposed by the Nomination Committee in cooperation with the Audit Committee and is elected by the shareholders.

NASDAQ New York rules applicable to US companies require the consideration of six factors relating to the independence of compensation consultants, legal counsel or other advisers retained by compensation or remuneration committees. Consistent with Swedish practices, the Remuneration Committee's procedures addressing independence of advisers do not expressly require the consideration of those six factors.

Ericsson does not solicit proxies for shareholder meetings, which is in accordance with Swedish practices and rules.

There are no minimum quorum requirements for shareholder meetings under Swedish law, except under certain limited circumstances. Certain resolutions requiring special quorums and majorities are described in our Memorandum and Articles of Association.

Some of the requirements addressed by NASDAQ New York rules are included in the Swedish Corporate Governance Code or the work procedure for the Board of Directors instead of Committee charters. The work procedure establishes the attribution of various responsibilities among the Board, its Committees and the President and CEO. It is reviewed, evaluated and adopted by the Board whenever necessary, but at least once a year.



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**Audit committee pre-approval policies and procedures**

The Audit Committee reviews and approves the scope of audits to be performed (external and internal) and analyzes the results and costs of the audits. The Committee makes recommendations to the Board of Directors regarding the auditor's performance. It also makes recommendations to the Nomination Committee regarding the external auditor's fees. In order to ensure the auditor's independence, the Audit Committee has established pre-approval policies and procedures for non-audit related services to be performed by the external auditor. Pre-approval authority may not be delegated to management. The policies and procedures include a list of prohibited services and services that require pre-approval by the Committee. Such services fall into two broad categories:

**General pre-approval** certain services regarding taxes, transactions, risk management, business improvement, corporate finance, attestation and accounting and so called general services. These services have received general pre-approval by the Audit Committee, provided that the estimated fee for each project does not exceed SEK 1 million. The external auditor must advise the Audit Committee of services rendered under the general pre-approval policy.

**Specific pre-approval** all other non-audit related services must receive specific pre-approval. The Audit Committee Chairman has the delegated authority for specific pre-approval in between Committee meetings, provided that the fee in each case does not exceed SEK 2.5 million. The Chairman reports any pre-approval to the Audit Committee at its next meeting. For matters which may not be handled by the Chairman and require specific pre-approval by the Audit Committee, the auditor submits an application to the Parent Company for final approval by the Audit Committee.

All non-audit related services provided by the independent auditors were pre-approved in 2014.

**Disclosure pursuant to section 219 of the Iran threat reduction and Syria human rights act of 2012 (ITRA)**

Ericsson has conducted business in Iran/Persia since the late nineteenth century, opened an office in Iran in 1973 and later established a local subsidiary in the country. Ericsson strongly believes in enabling communication for all and believes that access to communications can enable the right to health, education and freedom of expression. Ericsson's business activities in Iran principally involve the sale of telecommunications infrastructure related products and services, including support, installation and maintenance services. Ericsson's exports from the European Union (the EU) to Iran are performed under export licenses from the Swedish Agency for Non-Proliferation and Export Controls. The EU sanctions towards Iran grant an exemption for the supply of certain telecommunications equipment and software based on which these export licenses are granted.

Due to its operations in Iran, and having staff permanently in the country, Ericsson has contacts with its local customers and retains certain local suppliers and service providers. In addition, Ericsson has other dealings incidental to its local activities, such as making payments for taxes, salaries, rents, utilities and office and similar supplies and customs related services. As a result, Ericsson has contact with companies that may be owned or controlled by the government of Iran. While Ericsson seeks to obtain information regarding the ownership of customers and other counterparties in Iran, it is sometimes difficult to determine ownership and control with certainty, particularly with respect to determining whether an entity engaged in commercial activities is owned or controlled by the government.

During 2014, Ericsson sold telecommunications infrastructure related products and services in Iran to MTN Irancell and to Mobile Communication Company of Iran (MCCI), telecommunications companies operating in Iran. During the year, Ericsson also had discussions with Sherkate Khadamate Ertebati Rightel (Rightel) relating to sales by Ericsson of telecommunications infrastructure related product and services to Rightel. During 2014, Ericsson's gross revenue (reported as net sales) related to sales to MTN Irancell and MCCI in Iran was approximately SEK 3,057 million. Ericsson does not normally allocate net profit (reported as net income) on a country-by-country or activity-by-activity basis, other than as set forth in Ericsson's consolidated financial statements prepared in accordance with IFRS as issued by the IASB. However, Ericsson has estimated that its operating income (income before taxes and financial net) from such sales, after internal cost allocation was less than SEK 725 million during 2014. Ericsson intends to continue to engage with existing customers and explore opportunities with new customers in Iran while continuously monitoring international developments as they relate to Iran and its government.

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In some instances, Ericsson has had to arrange performance bonds or similar financial guarantees to secure Ericsson's performance of obligations under the commercial agreements Ericsson has entered into relating to the business in Iran. In such instances, Ericsson usually engages its banks outside Iran, who in turn engage local banks in the country. These local banks include Tejarat Bank, Melli Bank and Saderat Bank. Although some bonds and guarantees involving these banks are still in place, no new performance bonds or similar guarantees with respect to Ericsson's business activities in Iran were issued during 2014, nor were payments made to beneficiaries under any such existing bond or guarantee.

Some payments made to Ericsson's local subsidiary and payments required to be made by the local subsidiary to suppliers involve banks controlled by the government of Iran, such as Bank Mellat, Tejarat Bank, Bank Melli, Saderat Bank, Keshavarzi Bank, Eghtesad Novin Bank, Refah Bank and Bank Sepah. Ericsson also received payments from customers to Ericsson's accounts outside Iran.

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**Investments**

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2014.

A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External Reporting, SE-164 83 Stockholm, Sweden.

**Shares owned directly by the Parent Company**

Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK million
<b>Subsidiary companies</b>					
Ericsson AB	556056-6258	Sweden	100	50	20,731
Ericsson Shared Services AB	556251-3266	Sweden	100	361	2,216
Netwise AB	556404-4286	Sweden	100	2	306
Datacenter i Rosersberg AB	556895-3748	Sweden	100		88
Datacenter i Mjärdevi Aktiebolag	556366-2302	Sweden	100	10	69
AB Aulis	556030-9899	Sweden	100	14	6
Ericsson Credit AB	556326-0552	Sweden	100	5	5
Other (Sweden)					1,640
Ericsson Austria GmbH		Austria	100	4	65
Ericsson Danmark A/S		Denmark	100	90	216
Oy LM Ericsson Ab		Finland	100	13	196
Ericsson Participations France SAS		France	100	26	524
Ericsson Germany GmbH		Germany	100		4,232
Ericsson Hungary Ltd.		Hungary	100	1,301	120
LM Ericsson Holdings Ltd.		Ireland	100	2	15
L M Ericsson Limited		Ireland	100		33
Ericsson Telecomunicazioni S.p.A.		Italy	100	44	5,357
Ericsson Holding International B.V.		The Netherlands	100	222	3,199
Ericsson A/S		Norway	100	75	114
Ericsson Television AS		Norway	100	161	1,788
Ericsson Corporatia AO		Russia	100	5	5
Ericsson España S.A.		Spain	100	43	170
Ericsson AG		Switzerland	100		
Ericsson Holdings Ltd.		United Kingdom	100	328	4,094
Other (Europe, excluding Sweden)					295
Ericsson Holding II Inc.		United States	100	2,896	29,006
Compañía Ericsson S.A.C.I.		Argentina	95 <sup>1)</sup>	41	15
Ericsson Canada Inc.		Canada	100		51
Belair Networks		Canada	100		170
Ericsson Telecom S.A. de C.V.		Mexico	100		1,050
Other (United States, Latin America)					166
Teleric Pty Ltd.		Australia	100	20	100
Ericsson Ltd.		China	100	2	2
Ericsson (China) Company Ltd.		China	100	65	475
Ericsson India Private Ltd.		India	100	725	147
Ericsson India Global Services PVT. Ltd		India	100	389	64

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Fabrix Systems Ltd	Israel	100		704
Ericsson-LG CO Ltd.	Korea	75	600	3,285
Ericsson (Malaysia) Sdn. Bhd.	Malaysia	70	2	4
Ericsson Telecommunications Pte. Ltd.	Singapore	100	2	1
Ericsson South Africa PTY. Ltd	South Africa	75		144
Ericsson Taiwan Ltd.	Taiwan	90	270	36
Ericsson (Thailand) Ltd.	Thailand	49 <sup>2)</sup>	90	17
Other countries (the rest of the world)				344

**Total** 81,265

**Joint ventures and associated companies**

ST-Ericsson SA	Switzerland	50	137	
Rockstar Consortium Group	Canada	21	1	7
Ericsson Nikola Tesla d.d.	Croatia	49	65	330

**Total** 337

- 1) Through subsidiary holdings, total holdings amount to 100% of Compania Ericsson S.A.C.I.
- 2) Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.

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**Shares owned by subsidiary companies**

Company	Reg. No.	Domicile	Percentage of ownership
<b>Subsidiary companies</b>			
Ericsson Cables Holding AB	556044-9489	Sweden	100
Ericsson France SAS		France	100
Ericsson Telekommunikation GmbH <sup>1)</sup>		Germany	100
Ericsson Telecommunicatie B.V.		The Netherlands	100
Ericsson Telekomunikasyon A.S.		Turkey	100
Ericsson Ltd.		United Kingdom	100
Redbee Media		United Kingdom	100
Ericsson Inc.		United States	100
Ericsson Wifi Inc.		United States	100
Drutt Corporation Inc.		United States	100
Redback Networks Inc.		United States	100
Telcordia Technologies Inc.		United States	100
Ericsson Telecomunicações S.A.		Brazil	100
Ericsson Australia Pty. Ltd.		Australia	100
Ericsson (China) Communications Co. Ltd.		China	100
Nanjing Ericsson Panda Communication Co. Ltd.		China	51
Ericsson Japan K.K.		Japan	100
Ericsson Communication Solutions Pte Ltd.		Singapore	100

1) Disclosures Pursuant to Section 264b of the German Commercial Code (Handelsgesetzbuch HGB)

Applying Section 264b HGB, Ericsson Holding GmbH and Ericsson Telekommunikation GmbH, located in Frankfurt am Main/Germany, are exempted from the obligation to prepare, have audited and disclose financial statements and a management report in accordance with the legal requirements being applicable for German corporations.

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**RECONCILIATIONS TO IFRS**

This section includes a reconciliation of certain non-IFRS financial measures to the most directly comparable IFRS financial measures. The presentation of non-IFRS financial measures has limitations as analytical tools and should not be considered in isolation or as a substitute for our related financial measures prepared in accordance with IFRS.

We present non-IFRS financial measures to enhance an investor's evaluation of our ongoing operating results, to aid in forecasting future periods and to facilitate meaningful comparison of our results between periods. Our management uses these non-IFRS financial measures to, among other things, evaluate our ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of certain performance-based compensation.

The non-IFRS financial measures presented in this report may differ from similarly-titled measures used by other companies.

**Ericsson EBITA margin**

SEK billion	2014	2013	2012	2011	2010
Net income	11.1	12.2	5.9	12.6	11.2
Interest	1.0	0.7	0.3	0.2	0.7
Tax	4.7	4.9	4.2	5.6	4.5
Amortization and write-downs of acquired intangibles	4.3	4.5	4.6	4.5	5.9
EBITA	21.1	22.4	15.0	22.4	22.4
Net sales	228.0	227.4	227.8	226.9	203.3
EBITA margin (%)	9.3%	9.8%	6.6%	9.9%	11.0%

**Capital employed**

	2014	2013	2012	2011	2010
Total assets	293,558	269,190	274,996	280,349	281,815
Non-interest-bearing provisions and liabilities					
Provisions, non-current	202	222	211	280	353
Deferred tax liabilities	3,177	2,650	3,120	2,250	2,571
Other non-current liabilities	1,797	1,459	2,377	2,248	3,296
Provisions, current	4,225	5,140	8,427	5,985	9,391
Trade payables	24,473	20,502	23,100	25,309	24,959
Other current liabilities	69,845	58,314	61,108	57,970	58,605
Capital employed	189,839	180,903	176,653	186,307	182,640

**Return on capital employed**

	2014	2013	2012	2011	2010
Operating income	16,807	17,845	10,458	17,900	16,455
Financial income	1,277	1,346	1,708	2,882	1,047

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<b>Average capital employed<sup>1)</sup></b>					
Capital employed at January 1	180,903	176,653	186,307	182,640	181,680
Capital employed at December 31	189,839	180,903	176,653	186,307	182,640
Average capital employed	185,371	178,778	181,480	184,474	182,160
<b>Return on capital employed<sup>2)</sup></b>	<b>9.8%</b>	<b>10.7%</b>	<b>6.7%</b>	<b>11.3%</b>	<b>9.6%</b>

1) Average capital employed is the average of the amounts of capital employed at January 1 and December 31.

2) Return on capital employed is the total of operating income and financial income as a percentage of average capital employed.

**Gross cash and Net cash**

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	40,988	42,095	44,682	38,676	30,864
Short-term investments	31,171	34,994	32,026	41,866	56,286
<b>Gross cash</b>	<b>72,159</b>	<b>77,089</b>	<b>76,708</b>	<b>80,542</b>	<b>87,150</b>
Post-employment benefits	20,385	9,825	9,503	10,016	5,092
<b>Interest-bearing liabilities</b>					
Borrowings non-current	21,864	22,067	23,898	23,256	26,955
Borrowings current	2,281	7,388	4,769	7,765	3,808
<b>Net cash</b>	<b>27,629</b>	<b>37,809</b>	<b>38,538</b>	<b>39,505</b>	<b>51,295</b>

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**Return on equity**

	2014	2013	2012	2011	2010
Net income attributable to stockholders of the Parent Company	11,568	12,005	5,775	12,194	11,146
Average stockholders' equity					
Stockholders' equity on January 1	140,204	136,883	143,105	145,106	139,870
Stockholders' equity on December 31	144,306	140,204	136,883	143,105	145,106
Average stockholders' equity	142,255	138,544	139,994	144,106	142,488
<b>Return on equity<sup>2)</sup></b>	8.1%	8.7%	4.1%	8.5%	7.8%

1) Average stockholders' equity is based on the amounts on January 1 and December 31.

2) Return on equity is Net income attributable to stockholders of the Parent Company as a percentage of average Stockholders' equity (based on the amounts on January 1 and December 31).

**Working capital**

	2014	2013	2012	2011	2010
Current assets	201,789	190,896	193,254	198,816	198,443
Current non-interest-bearing provisions and liabilities					
Provisions, current	4,225	5,140	8,427	5,985	9,391
Trade payables	24,473	20,502	23,100	25,309	24,959
Other current liabilities	69,845	58,314	61,108	57,970	58,605
<b>Working capital<sup>1)</sup></b>	103,246	106,940	100,619	109,552	105,488

1) Working capital is Current assets less current non-interest-bearing provisions and liabilities

**Cash conversion**

		2014	2013	2012	2011	2010
Cash flow from operating activities	A	18,702	17,389	22,031	9,982	26,583
Net income	B	11,143	12,174	5,938	12,569	11,235
Adjustments to reconcile net income to cash, see Note C25	C	11,200	9,828	13,077	12,613	12,490
Cash conversion = A/(B+C)		84%	79%	116%	40%	112%

**Capital turnover**



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	2014	2013	2012	2011	2010
Net Sales	227,983	227,376	227,779	226,921	203,348
Average capital employed <sup>1)</sup>					
Capital employed on January 1	180,903	176,653	186,307	182,640	181,680
Capital employed on December 31	189,839	180,903	176,653	186,307	182,640
Average capital employed	185,371	178,778	181,480	184,474	182,160
<b>Capital turnover<sup>2)</sup></b>	1.2	1.3	1.3	1.2	1.1

1) Average capital employed is the average of the amounts of capital employed on January 1 and December 31.

2) Capital turnover is Net sales divided by average capital employed

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**FIVE-YEAR SUMMARY**

For definitions of the financial terms used, see Glossary, Financial terminology and Exchange rates.

**Ten-year summary**

SEK million	2014	Change	2013	2012	2011	2010
<b>Income statement items</b>						
Net sales	227,983	0%	227,376	227,779	226,921	203,348
Operating income	16,807	6%	17,845	10,458	17,900	16,455
Financial net	996	33%	747	276	221	672
Net income	11,143	8%	12,174	5,938	12,569	11,235
<b>Year-end position</b>						
Total assets	293,558	9%	269,190	274,996	280,349	281,815
Working capital as defined <sup>1)</sup>	103,246	3%	106,940	100,619	109,552	105,488
Capital employed as defined <sup>1)</sup>	189,839	5%	180,903	176,653	186,307	182,640
Gross cash as defined <sup>1)</sup>	72,159	6%	77,089	76,708	80,542	87,150
Net cash as defined <sup>1)</sup>	27,629	27%	37,809	38,538	39,505	51,295
Property, plant and equipment	13,341	17%	11,433	11,493	10,788	9,434
Stockholders' equity	144,306	3%	140,204	136,883	143,105	145,106
Non-controlling interest	1,003	29%	1,419	1,600	2,165	1,679
Interest-bearing liabilities and post-employment benefits	44,530	13%	39,280	38,170	41,037	35,855
<b>Per share indicators</b>						
Earnings per share, basic, SEK, as defined	3.57	4%	3.72	1.80	3.80	3.49
Earnings per share, diluted, SEK, as defined	3.54	4%	3.69	1.78	3.77	3.46
Cash dividends per share, SEK, as defined	3.40 <sup>2)</sup>	13%	3.00	2.75	2.50	2.25
Cash dividends per ADS, USD	0.41 <sup>2)</sup>	11%	0.46	0.42	0.38	0.37
Stockholders' equity per share, SEK, as defined	44.51	3%	43.39	42.51	44.57	45.34
<b>Number of shares outstanding (in millions)</b>						
<i>end of period, basic</i>	3,242		3,231	3,220	3,211	3,200
<i>average, basic</i>	3,237		3,226	3,216	3,206	3,197
<i>average, diluted</i>	3,270		3,257	3,247	3,233	3,226
<b>Other information</b>						
Additions to property, plant and equipment	5,322	18%	4,503	5,429	4,994	3,686
Depreciation and write-downs/impairments of property, plant and equipment	4,316	3%	4,209	4,012	3,546	3,296
Acquisitions/capitalization of intangible assets	6,184	30%	4,759	13,247	2,748	7,246
Amortization and write-downs/impairments of intangible assets	5,629	5%	5,928	5,877	5,490	6,657
Research and development expenses	36,308	13%	32,236	32,833	32,638	31,558
<i>as percentage of net sales</i>	15.9%		14.2%	14.4%	14.4%	15.5%
Export sales from Sweden, SEK million	113,734	4%	108,944	106,997	116,507	100,070
<b>Ratios</b>						
Operating margin excluding joint ventures and associated companies	7.4%		7.9%	9.7%	9.6%	8.7%
Operating margin	7.4%		7.8%	4.6%	7.9%	8.1%
EBITA margin, as defined <sup>1)</sup>	9.3%		9.8%	6.6%	9.9%	11.0%
Cash conversion, as defined <sup>1)</sup>	84%		79%	116%	40%	112%
Return on equity, as defined <sup>1)</sup>	8.1%		8.7%	4.1%	8.5%	7.8%

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Return on capital employed, as defined <sup>1)</sup>	9.8%		10.7%	6.7%	11.3%	9.6%
Equity ratio, as defined	49.5%		52.6%	50.4%	51.8%	52.1%
Capital turnover, as defined <sup>1)</sup>	1.2		1.3	1.3	1.2	1.1
Inventory turnover days, as defined	64		62	73	78	74
Trade receivables turnover, as defined	3.1		3.4	3.6	3.6	3.2
<b>Statistical data, year-end</b>						
Number of employees	118,055	3%	114,340	110,255	104,525	90,261
<i>of which in Sweden</i>	17,580	2%	17,858	17,712	17,500	17,848

- 1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 155-156.
- 2) For 2014, as proposed by the Board of Directors.

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**GLOSSARY**

**2G**

The first digital generation of mobile systems. Includes GSM, TDMA, PDC and cdmaOne.

**3G**

Third generation mobile system. Includes WCDMA/HSPA, CDMA2000 and TD-SCDMA.

**4G**

See LTE.

**All-IP**

A single, common IP infrastructure that can handle all network services, including fixed and mobile communications, for voice and data services as well as video services such as TV.

**Backhaul**

Transmission between radio base stations and the core network.

**BSS**

Business support systems.

**CAGR**

Compound Annual Growth Rate.

**Capex**

Capital expenditure.

**Carrier grade**

(Also telecom grade) refers to a system, or a hardware or software component, with at least five nines, i.e. 99.999%, availability.

**CDMA**

Code Division Multiple Access. A radio technology on which the cdmaOne (2G) and CDMA2000 (3G) mobile communication standards are both based.

**Cloud**

When data and applications reside in the network.

**EDGE**

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An enhancement of GSM. Enables the transmission of data at speeds up to 250 kbps (Evolved EDGE up to 1 Mbps.)

### **GSM**

Global System for Mobile Communications. A first digital generation mobile system.

### **CO<sub>2</sub>e**

The amount of a particular greenhouse gas, expressed as the amount of carbon dioxide that gives the same greenhouse effect.

### **EPC**

Evolved Packet Core. The core network of the LTE system.

### **Heterogeneous network**

Densification and enhancement of a network to increase capacity.

### **HSPA**

High Speed Packet Access. Enhancement of 3G/WCDMA that enables mobile broadband.

### **ICT**

Information and Communication Technology.

### **IMS**

IP Multimedia Subsystem. A standard for voice and multimedia services over mobile and fixed networks using IP.

### **IP**

Internet Protocol. Defines how information travels between network elements across the internet.

### **IPR**

Intellectual Property Rights.

### **IPTV**

IP Television. A technology that delivers digital television via fixed broadband access.

### **JV**

Joint Venture.

### **LTE**

Long-Term Evolution. 4G; the evolutionary step of mobile technology beyond HSPA, allowing data rate above 100 Mbps.

### **M-commerce**

Mobile commerce.

### **M2M**

Machine-to-machine communication.

**Managed services**

Management of operator networks and/or hosting of their services.

**Mobile broadband**

Wireless high-speed internet access using the HSPA, LTE and CDMA2000EV-DO technologies.

**Networked Society**

Ericsson's vision of what will happen when everything that can benefit from being connected is connected, empowering people, business and society.

**NFV**

Network Functions Virtualization. Software implementation of network functions that can be deployed in virtualized infrastructure, offering efficient orchestration, automation and scalability.

**OSS**

Operations Support Systems.

**Penetration**

The number of subscriptions divided by the population in a geographical area.

**RAN**

Radio Access Network.

**SDN**

Software-Defined Network. A programmable network with physical separation of decisions about where network traffic is sent (control plane), from the underlying system that forward traffic to the selected destinations (data plane).

**VoLTE (Voice over LTE)**

VoLTE, based on the IP Multimedia Subsystem (IMS), is a voice service delivered as data flows in LTE, over time replacing the legacy circuit-switched voice network.

**WCDMA**

Wideband Code Division Multiple Access. A 3G mobile communication standard. WCDMA builds on the same core network infrastructure as GSM.

**xDSL**

Digital Subscriber Line technologies for broadband multimedia communications in fixed-line networks. Examples: IP-DSL, ADSL and VDSL.

The terms Ericsson, the Company, the Group, us, we, and our all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries.

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**FINANCIAL TERMINOLOGY**

**Capital employed**

Total assets less non-interest-bearing provisions and liabilities. (which includes: non-current provisions; deferred tax liabilities; other non-current liabilities; current provisions; trade payables; other current liabilities).

**Capital turnover**

Net sales divided by average capital employed.

**Cash conversion**

Cash flow from operating activities divided by the sum of net income and adjustments to reconcile net income to cash, expressed as percent.

**Cash dividends per share**

Dividends paid divided by average number of basic shares.

**Compound annual growth rate (CAGR)**

The year-over-year growth rate over a specified period of time.

**Days sales outstanding (DSO)**

Trade receivables balance at quarter end divided by net sales in the quarter and multiplied by 90 days. If the amount of trade receivables is larger than last quarter's sales, the excess amount is divided by net sales in the previous quarter and multiplied by 90 days, and total DSO are the 90 days of the most current quarter plus the additional days from the previous quarter.

**Earnings per share (EPS)**

Basic earnings per share: profit or loss attributable to stockholders of the Parent Company divided by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share: the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

**EPS (non-IFRS)**

EPS, diluted, excluding amortizations and write-down of acquired intangible assets and including restructuring charges.

**EBITA margin**

Earnings before interest, taxes, amortization and write-downs of acquired intangibles (intellectual property rights, trademarks and other intangible assets; see Note C10 Intangible assets ) as a percentage of net sales.

**Equity ratio**

Equity, expressed as a percentage of total assets.

**Gross cash**

Cash and cash equivalents plus short-term investments.

**Inventory turnover days (ITO days)**

365 divided by inventory turnover, calculated as total cost of sales divided by the average inventories for the year (net of advances from customers).

**Net cash**

Cash and cash equivalents plus short-term investments less interest-bearing liabilities (which include: non-current borrowings and current borrowings) and post-employment benefits.



**P/E ratio**

The P/E ratio is calculated as the price of a Class B share at last day of trading divided by Earnings per basic share.

**Payable days**

The average balance of trade payables at the beginning and at the end of the year divided by cost of sales for the year, and multiplied by 365 days.

**Return on capital employed**

The total of Operating income plus Financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31).

**Return on equity**

Net income attributable to stockholders of the Parent Company as a percentage of average Stockholders equity (based on the amounts at January 1 and December 31).

**Stockholders equity per share**

Stockholders equity divided by the number of shares outstanding at end of period, basic.

**Total Shareholder Return (TSR)**

The increase or decrease in Class B share price during the period, including dividend, expressed as a percentage of the share price at the start of the period.

**Trade receivables turnover**

Net sales divided by average trade receivables.

**Value at Risk (VaR)**

A statistical method that expresses the maximum potential loss that can arise with a certain degree of probability during a certain period of time.

**Working capital**

Current assets less current non-interest-bearing provisions and liabilities (which include: current provisions; trade payables; other current liabilities).

**Exchange rates**

**Exchange rates used in the consolidation**

	January 2014	December 2013
<b>SEK/EUR</b>		
Average rate	9.11	8.67
Closing rate	9.47	8.90
<b>SEK/USD</b>		
Average rate	6.89	6.52
Closing rate	7.79	6.46



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**SHAREHOLDER INFORMATION**

Telefonaktiebolaget LM Ericsson's Annual General Meeting of shareholders 2015 will be held on Tuesday, April 14, 2015, at 3 p.m. at Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, Stockholm, Sweden.

**Registration and notice of attendance**

Shareholders who wish to attend the Annual General Meeting must:

Be recorded in the share register kept by Euroclear Sweden AB (the Swedish Securities Registry) on Wednesday, April 8, 2015; and

Give notice of attendance to the Company at the latest on Wednesday April 8, 2015. Notice of attendance can be given by telephone: +46 8 402 90 54 on weekdays between 10 a.m. and 4 p.m., or on Ericsson's website: [www.ericsson.com](http://www.ericsson.com)

Notice of attendance may also be given in writing to:

Telefonaktiebolaget LM Ericsson

General Meeting of shareholders

Box 7835, SE-103 98 Stockholm, Sweden

Notice of attendance can be given as from the publication of the notice convening the Annual General Meeting.

When giving notice of attendance, please state the name, date of birth or registration number, address, telephone number and number of assistants, if any.

The meeting will be conducted in Swedish and simultaneously translated into English.

**Shares registered in the name of a nominee**

In addition to giving notice of attendance, shareholders having their shares registered in the name of a nominee, must request the nominee to temporarily enter the shareholder into the share register as per Wednesday, April 8, 2015, in order to be entitled to attend the meeting. The shareholder should inform the nominee to that effect well before that day.

**Proxy**

Shareholders represented by proxy shall issue and submit to the Company a power of attorney for the representative. A power of attorney issued by a legal entity must be accompanied by a copy of the entity's certificate of registration, or if no such certificate exists, a corresponding document of authority. Such documents must not be older than one year unless the power of attorney explicitly provides that it is valid for a longer period, up to a maximum of five years. In order to facilitate the registration at the Annual General Meeting, the original power of attorney, certificates of registration and other documents of authority should be sent to the Company in advance to the address above for receipt by Monday, April 13, 2015. Forms of power of attorney in Swedish and English are available on Ericsson's website: [www.ericsson.com/investors](http://www.ericsson.com/investors).

**Dividend**

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The Board of Directors has decided to propose the Annual General Meeting to resolve on a dividend of SEK 3.40 per share for the year 2014 and that Thursday, April 16, 2015 will be the record date for dividend.

### **Financial information from Ericsson**

2014 Form 20-F for the US market: March 2015

Interim reports 2015:

Q1, April 23, 2015

Q3, October 23, 2015

Q2, July 17, 2015

Q4, January 27, 2016

Annual Report 2015: March 2016

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**For printed publications**

A printed copy of the Annual Report is provided on request.

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**Registered holders:**

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**Where you can find out more**

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Information about Ericsson and its development is available on the website: [www.ericsson.com](http://www.ericsson.com).

Annual and interim reports and other relevant shareholder information can be found at: [www.ericsson.com/investors](http://www.ericsson.com/investors)

### **Ericsson headquarters**

Torshamnsgatan 21

Kista, Stockholm, Sweden

### **Registered office**

Telefonaktiebolaget LM Ericsson

SE-164 83 Stockholm, Sweden

### **Investor relations**

For questions on the Company,

please contact Investor Relations:

Phone: +46 (10) 719 00 00

Email: [investor.relations@ericsson.com](mailto:investor.relations@ericsson.com).

### **Ericsson Annual Report 2014:**

#### **Project management:**

Ericsson Investor Relations

#### **Design and production:**

Hallvarsson&Halvarsson

#### **Group Management, Board of Directors photography:**

Per Myrehed

#### **Printing:**

Göteborgstryckeriet 2015

Printed on UPM Sol Matt and Munken Lynx



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TELEFONAKTIEBOLAGET LM ERICSSON

March 31, 2015

By: /s/ ROLAND HAGMAN  
**Roland Hagman**

By: /s/ NINA MACPHERSON  
**Nina Macpherson**