

ERICSSON LM TELEPHONE CO
Form 20-F
May 18, 2006
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As filed with the Securities and Exchange Commission on May 18, 2006

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, 2005

or

transition report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the transaction period from/to

Commission file number 0-12033

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)

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

None

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

Title of each class

American Depositary Shares

B Shares

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

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

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

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

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

x Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate by check mark whether the registrant is a shell company. Yes No

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Our Annual Report on Form 20-F consists of the Swedish Annual Report for 2005, with certain adjustments to comply with U.S. requirements, together with certain other information required by Form 20-F which is set forth under the heading Supplemental Information. The following cross reference table indicates where information required by Form 20-F may be found in this document.

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FINANCIAL HIGHLIGHTS

SEK million	2005	2004¹⁾
Net sales	151,821	131,972
Operating income	33,084	26,706
operating margin	21.8%	20.2%
Net income	24,460	17,836
Earnings per share, diluted, SEK	1.53	1.11
Cash dividends per share, SEK	0.45²⁾	0.25
YEAR-END POSITION, SEK million		
Total assets	208,829	186,186
Working capital	86,980	69,268
Capital employed	133,621	115,144
Property, plant and equipment	6,966	5,845
Stockholders' equity	104,677	80,445
Minority interests	850	1,057
Interest-bearing provisions and liabilities	28,094	33,643
Net cash	53,411	42,911
RATIOS		
Return on equity	26.2%	24.2%
Return on capital employed	28.7%	26.4%
Equity ratio	50.5%	43.8%
Capital turnover	1.2	1.2
Inventory turnover	5.0	5.7
Accounts receivable turnover	4.1	4.1
STATISTICAL DATA, YEAR-END		
Number of employees		
Worldwide	56,055	50,534
Of which in Sweden	21,178	21,296
Export sales from Sweden, SEK million	93,879	86,510

* This year, there is only a two-year comparison due to the change to IFRS. For definitions of measures used, please see page 19, Two-Year Summary. For further information on our transition to IFRS, please see Notes to the Consolidated Financial Statements Note C1, Significant Accounting Policies.

- 1) 2004 has been restated in accordance with IFRS.
- 2) For 2005, adopted by the Annual General Meeting, April 10, 2006.

NET SALES:

Strong growth in global services and mobile networks fueled the 15 percent increase.

OPERATING MARGIN:

Record operating margin reflects our commitment to operational excellence.

NET INCOME:

Net income grew by 37 percent making 2005 the most profitable year in Ericsson's history.

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NET CASH:

Net cash increased by 24 percent to our highest level ever. This strong cash generation allowed our Board of Directors to propose an 80 percent dividend increase.

RETURN ON EQUITY AND EQUITY RATIO:

Record profits lead to strong returns for shareholders and 26.2 percent ROE. Equity ratio now above 50 percent.

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WHAT IT MEANS TO BE THE PRIME DRIVER IN AN ALL-COMMUNICATING WORLD

From the time our first cry announces our arrival into the world, our need to communicate starts to grow. Interacting with our parents and friends and sharing ideas, we develop our social skills and communication becomes a fundamental part of our lives. We soon want to communicate over longer distances and while on the move.

Mobile communication is now a part of the everyday lives of some two billion people. New ways to enjoy media are emerging with news, music, gaming, television and other experiences conveniently available any time and any place via fixed and mobile broadband. Communication is also improving our professional lives with greater working efficiency, smarter business processes and increased flexibility in blending private and professional life. These are all vital elements of our vision that motivate us as we lead the way into the all-communicating world of the future.

However, two-thirds of the world's population still do not benefit from communication services. Making communication available and affordable for everybody is an equally important dimension of our vision.

Putting appealing, easy-to-use communication services in the hands of billions of users is a great challenge. It requires not only innovation and technology leadership but also a deep understanding of consumer requirements, market conditions and the ability to undertake large scale assignments. Only a few companies can make this work end-to-end, all the way from one person to another, regardless of which devices and networks they are using.

Ericsson thrives on such technical challenges, but being the prime driver also requires people working together to create new services, new solutions, new ways of communicating for the benefit of all people. At Ericsson we have all of this, and that's one reason why operators choose to partner with us more than with any other supplier. That's also why we can confidently say that we are uniquely positioned to be the Prime Driver in an All-Communicating World.

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TO MY FELLOW SHAREHOLDERS,

2005 was a tremendous year for Ericsson and for the communications industry as a whole. A record number of people signed up for mobile services, raising the total number of mobile subscriptions by 450 million. Almost 800 million mobile phones were sold and shipments of radio network equipment reached an all-time high. With Ericsson's 15 percent sales growth outpacing the rate of the mobile systems market, we clearly benefited from these strong industry trends. Our large installed base enabled us to leverage our position with existing customers to gain market share as we entered into new business agreements in all regions of the world.

Financially, we delivered solid profitability with group operating margins of 21.8 percent and a net income increase of 37 percent. This ability to increase our net income significantly faster than sales, demonstrates the importance of scale and our commitment to operational excellence.

2005 was exciting from other perspectives as well. During the year we started to manufacture GSM systems in India and expanded our research and development capacity in the US and China. Our Marconi acquisition extends our market share and customer base with fixed-line operators worldwide. It also strengthens our offering in the strategically important areas of optical transmission, broadband access and related services, providing us with a new base for growth as operators continue their migration to next generation networks.

Our rapidly growing global services business now accounts for 28 percent of systems sales. This business consists of more recurring revenues and provides a relationship enhancing offering to our customers. As the year drew to a close, we announced the largest contract in the history of our company—an agreement with the operator 3 to build, manage and develop their 3G/WCDMA network in the United Kingdom. This follows similar contracts with the operator 3 in Australia and Italy. These and other agreements with major global operators demonstrate the power of our end-to-end capabilities. We have now publicly announced more than 60 managed services contracts around the world.

Our progress during the year positions us to bring better communication solutions to more people in all regions of the world. Most of the new mobile subscriptions this year came from emerging markets, with China and Russia reporting the largest number of additions. The continuing strong growth of mobile communications throughout most of Africa, Eastern Europe, Latin America and Asia Pacific contributes to global economic and social development, illustrating the vitality of what we do.

The significance of this should not be underestimated. Putting these statistics in human terms means that in the near future, more than 3 billion people, or almost half the world's population, will be able to instantly connect to each other, essentially conquering the obstructions of time and distance. It means that a mother, miles from medical care can quickly get advice on how to treat a sick child, farmers in rural India can check on commodity prices in New Delhi, an artist in Tanzania can market his products outside of his village. It means that people throughout the world have equal access to information in real time whenever and wherever they are. There are few inventions that have such a profound effect on the lives of so many.

As we enter 2006, operators in the US, Japan and other markets are in the early stages of the world's first HSDPA mobile broadband rollouts, bringing data speeds of several megabits per second to mobile subscribers. We are there, as well as in many other markets, helping to bring communications and new capabilities to the world.

Over 90 WCDMA networks have been launched around the world, of which we are a supplier to 49. We expect to deploy this technology in more than a dozen new markets in the year ahead. By year end, we had already deployed 21 HSDPA networks in 17 countries and expect that most existing WCDMA operators will upgrade to HSDPA during 2006. We are excited about leading this next era of mobile communications.

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On the mobile phone side of the business, our mobile platforms technology is included in more WCDMA handsets than any other suppliers . And Sony Ericsson Mobile Communications reported a record year of volumes, sales and profitability, ending the year with a very competitive product portfolio and strong momentum.

Throughout our 129-year history, we have consistently been at the forefront of innovation, responding to our customers needs and leading the industry into the future. As we continue to pursue our vision, I believe that we are entering 2006 as well positioned as we have ever been. This ability to be the prime driver of our industry is attributable to three crucial elements Our long-term customer relationships, Our commitment to technology leadership and Our passion for operational excellence. I believe that it will be these same three things that will keep us on top in the years to come.

Carl-Henric Svanberg

President & CEO

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LONG-TERM CUSTOMER RELATIONSHIPS

Strong, long-term customer relationships are integral to the success of our business. We have been building the foundations of today's relationships for over 100 years and the benefits are still being seen by our shareholders, our customers and consumers. Only by having local resources on the ground and access to experts around the world, can we understand and respond to the unique needs and specific challenges of each customer. This is one reason why all of the world's top ten mobile operators are our customers, including the largest operators on six continents.

Though our top 20 customers account for the majority of our sales, in total we have more than 425 customers in over 140 countries, and many of these customers have been with us for decades. Why do operators choose Ericsson? When we survey our customers, the responses we most often hear are the most basic: we listen, we are responsive, we are innovative, we understand the consumers and we deliver on our promises.

Of course it is also advantageous to consistently bring new technologies to market, to provide end-to-end solutions including mobile systems, fixed networks and a far-reaching services portfolio as well as cutting-edge mobile platforms and handsets. In this way we ensure that all elements of the network function together, from the core network to the radio base stations, all the way to the subscriber. Our managed services business has been a particularly strong relationship builder during 2005, as handling the day-to-day operations of a customer's network creates a true partnership.

The mutual trust we build with our customers not only translates into business wins today but it enables us to better meet their future needs as well. Bringing us into the network planning process early enables us to coordinate our development efforts to correspond with where operators see their businesses going in the years ahead. While we receive valuable feedback from our customers, we are able to provide equally valuable consumer research back to them through Ericsson Consumer & Enterprise Lab. And through our Mobility World unit we have created a global network of over 100,000 content providers, application developers and operators to bring all elements of the communications value chain together to help drive the future of mobile data.

Ericsson and Maxis:

HELPING MAXIS INTRODUCE NEW DATA APPLICATIONS

Kugan Thirunavakarasu, head of Mobile Data, Maxis:

Maxis is deploying 3G services to capitalize on the growth potential of new broadband applications and address the competitive dynamics of the Malaysian market. To do this effectively, we needed to work with a partner with a clear vision. Ericsson's global reputation made them the obvious choice. We did not want to sit around and wait for the content market to develop; we wanted to create demand. Ericsson's personalized mobile music portal and existing content relationships helped us to move forward. Ericsson's ability to host, manage and integrate networks enabled us to reduce initial spending and focus on our core competencies. We are very pleased with the reliability of the network. Usage and revenue growth have exceeded our expectations and we foresee mobile music being a growth catalyst for the industry.

THE ADVANTAGE OF TECHNOLOGY LEADERSHIP

Bringing faster, more reliable and cost-efficient networks to the world is what we do best. When operators choose their equipment suppliers they are often selecting a partner for the next 10-15 years to take them through not only the initial deployment but also the subsequent expansion and upgrade phase as new solutions come to market.

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Our early involvement with, and substantial contribution toward, creating the world's leading technology standards enable us to be first-to-market with many of these solutions. This is a key differentiator for Ericsson and a significant advantage for operators that choose Ericsson as their network partner.

With nearly one-third of our employees working in Research and Development and one of the industry's largest mobile systems R&D programs, we are a technology leader. We hold over 20,000 patents worldwide and are a leading contributor to the standards of GSM and WCDMA technologies, as well as a considerable holder of Intellectual Property Rights (IPRs) in many other technologies. While our ability to license IPRs to other vendors generates additional profits for Ericsson, our deep commitment to developing technology based on open standards is key to our success.

In addition to both mobile and fixed networks, we also develop and license technology platforms, including the chip design and software that are inside many of the world's most advanced GPRS and WCDMA handsets.

We have become much more efficient in recent years as we have consolidated R&D centers and focused our investments on fewer core technologies. This has enabled us to improve time-to-market and invest in new areas, such as multimedia solutions, while decreasing R&D as a percentage of sales. This is yet one more aspect of our technology leadership and a key component of our drive for operational excellence.

PASSION FOR OPERATIONAL EXCELLENCE

We believe that our business processes must be simple, efficient and better than those of our competitors and thus our operational excellence will be a competitive advantage. As a result of this focus and the dedication of our employees, this past year our operating expenses increased by only five percent while generating sales growth of 15 percent, resulting in record profitability. We also improved our on-time delivery to an all-time high while significantly increasing our radio base station volumes.

These are some of the results of operational excellence, but the daily effort it takes to get there is much more complex.

As we entered 2005 we introduced a new senior management position tasked with driving operational excellence throughout the company. By focusing on operational excellence and creating a more efficient organization we can shorten lead times, improve quality, reduce costs and motivate employees, all of which have helped us to generate very positive feedback from our customers in our annual satisfaction survey.

Some of the actions that we have taken include moving parts of our development function closer to the customer by including it within our business units. In this way we ensure that we are efficiently applying our resources to those areas that are most important for our customers. We have also created a new Multimedia Solutions group that is focused on leveraging our end-to-end capabilities to generate new consumer-focused solutions.

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We have made strides toward streamlining our organization with a focus on improving clarity and purpose in every unit and simplicity in every process. It is apparent in our interaction with customers, in the quality of our products and in the pride that our employees take in developing those products faster than our competitors and delivering on-time with our commitments.

There is still much work to be done. In the year ahead, one important area will be to ensure operational excellence as we integrate the recently acquired Marconi operations, particularly in relation to sourcing, sales and delivery precision.

Operational Excellence requires innovation and long-term planning to ensure that we are all working in the simplest and smartest way possible. We will continue to pursue this in all of our business processes. This will enable us to meet the customers' needs and outperform the competition, a prerequisite for Ericsson to achieve true world leadership.

UNDERSTANDING OUR MARKETS

Our long-term presence in many of the world's markets translates into a deep understanding of local market conditions for business and insights into the global trends driving change.

Consolidation has picked up momentum in recent years, creating larger multinational operators. This is primarily driven by the need for improved economies of scale, business growth, expansion into new markets and the desire to better serve subscribers. More complex technology and the need to reduce costs have increasingly led operators to outsource network management to vendors like Ericsson. While these drivers are constant throughout many parts of the world, markets are in different stages of developing their communications sector.

EMERGING MARKETS*

(45 percent of Ericsson's Sales)

For people in many parts of the world, access to traditional fixed network services is very limited. Here mobile networks are the best solution for rapid large-scale deployment. While GSM networks have been rolled out in most big cities, there is still much work to do to increase coverage in rural areas and boost capacity in larger cities. With subscriber penetration still low in most of these markets, we are working with our customers to shrink the digital divide. We are doing this by reducing the total cost of ownership for operators and developing relevant local applications. Progress is being made as Africa has been doubling its subscriber base every two years and India is adding well over two million subscribers per month. Despite the fact that many of the new users are coming from areas with much lower average income than today's subscribers, their collective purchasing power is significant. In some of these markets, the rollout of mobile broadband is leading to an acceleration of data usage. We expect that this will spread to many more markets in the years ahead as governments award 3G licenses and locally relevant content continues to be developed.

* The GSM Association (GSMA) defines an emerging market as a country with a GNP per capita index below the World Bank average and a mobile penetration below 60 percent.

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DEVELOPED MARKETS

(55 percent of Ericsson's sales)

Despite high penetration levels, there is still room to grow. Operators are focused on retaining subscribers, stimulating increased usage and introducing attractive new data services to generate additional revenues. This is driving capacity additions to existing GSM networks and the rollout of WCDMA/HSDPA. As of year-end, there were almost 50 million WCDMA subscriptions worldwide and this number is expected to grow significantly in the years ahead. Operators are now beginning to upgrade their WCDMA networks to HSDPA to further improve speed and efficiency. As usage is on the rise and both fixed and mobile data are experiencing rapid growth, many of these operators will need to make additional investments into capacity and transmission. Meanwhile, operators are in the initial stages of making the evolution to all-IP converged networks. This will enable operators who operate both fixed and mobile networks to cost-effectively deliver multimedia content including pictures, music, video and television over either of these access points.

OUR MARKET-SPECIFIC APPROACH

Regardless of the individual market and the level of development, our approach is the same – we leverage our local presence, consumer understanding, global scale and technology leadership to win business and serve the customer. Being able to understand the local markets and rely on the knowledge and expertise of a global organization brings a very powerful proposition to our customers. It is the Ericsson people that make the difference.

Consumer & enterprise Lab: Understanding the End User

Consumer & Enterprise Lab is our specialized unit for understanding consumer behavior, which is crucial to successfully bring new products and services to market. To help gain such knowledge, we annually conduct over 20,000 consumer interviews in key markets. Henrik Pals-son, Head of Consumer & Enterprise Lab, emphasizes the importance of understanding market trends; In most countries, adoption of new services is driven by teenagers and young adults, so knowing their habits and attitudes towards different products and services is vital. For operators to

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be successful they must define the segments they are targeting and package their offerings accordingly. Our long-term presence in most markets and our understanding of consumer behavior are key differentiators that enable us to provide market-specific solutions to our customers as we work to develop revenue-generating services.

OUR BUSINESS STRATEGY

To ensure that we are focusing our resources on the most important solutions needed to drive the industry forward, we prioritize our work around five clear areas that have been discussed and agreed to by Ericsson's 200 top managers at our annual Global Management Conference. These concepts are then shared with the entire organization and put into practice in our daily business. This is one more way that we ensure that all of us at Ericsson are working toward the same goals:

LEAD wireless in 2G, 3G and beyond

We will reinforce our market leadership and further develop our wireless technology to make 2G more efficient and 3G more advanced.

DRIVE complete solutions using telecom grade standards

Working end-to-end and being a major contributor to the world's leading technology standards means that we see the whole picture, ensuring operators have access to everything they need to launch consumer services.

CREATE more efficient and flexible networks using IP and IMS

Internet Protocol (IP) is transforming telecommunications, and our investments into IMS are starting to be rewarded. We will continue to lead the industry in migrating both fixed and mobile operators towards converged IP-based networks which are able to handle all forms of communications traffic.

EXPAND into high potential business areas

Over the last several years we have built the largest global services business in our sector and in 2005 clearly anchored our leadership with a number of strategic wins. Our Marconi acquisition will also expand our offerings in optical transmission and broadband access, areas where we see strong opportunities going forward.

INNOVATE to develop the market-leading products and services of tomorrow

Our technology leadership enables us to play a significant role in defining standards, developing technologies, growing our patent portfolio and launching innovative products and services.

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LEADING THE WAY TO THE FUTURE

As one of the world's largest multinational operators, with networks in 18 countries, Telefonica is a valued customer of Ericsson and a prime example of how we can leverage our global footprint and end-to-end solutions to expand our business opportunities. Ericsson is the prime vendor for Telefonica's GSM/WCDMA network in their home country of Spain. So when it came time to rollout GSM in their Latin American markets, they chose Ericsson to supply most of their equipment and services once again. But it didn't stop there. In April 2005, Telefonica announced that it had turned to Ericsson for its most ambitious project yet—the world's first commercial launch of an IP Multimedia Subsystem (IMS). IMS is an important step on the road toward the converged networks of the future, where new and enriched services and common functions will be reused for multiple fixed and mobile applications. In this way, operators that have both fixed and mobile operations can add additional revenue streams and reduce their operating costs while delivering exciting new applications to their subscribers. This includes video telephony, conference calling, presence management, instant messaging, email and much more. Telefonica and Ericsson are leading the way to the converged world of the future, where consumers have access to richer content and advanced applications on the device that best suits their individual needs.

WINNING PROPOSITIONS

Our winning propositions address growth opportunities as well as cost savings for our customers. Our approach is to apply our competence, technology and large-scale efficiency with innovative business solutions. Focus is on optimized total cost of ownership for operators—lowering financial hurdles while providing new services to encourage subscriber growth and increased usage.

ENTERING NEW GEOGRAPHIC TERRITORIES EXPANDER SOLUTIONS

In many countries, operators face the challenge of cost effectively addressing new geographic markets where subscriber density may initially be very low. Our studies show that consumers in these markets have similar needs as those in more developed markets with higher penetration levels. The main differences are found in monthly spending and affordability of handsets.

To serve this segment, operators must be able to profitably run operations at much lower revenue levels. An operator's network cost is mainly driven by the number of radio base station sites needed to provide the coverage and capacity for the required quality of service.

Applying the advanced functionality and flexibility of our high performance radio base stations, we can reduce the number of sites an operator needs by one-third. With capital expenditures as well as operating costs some 30 percent lower than traditional configurations, operators can offer services at prices affordable to a much larger population.

Taking a total cost of ownership approach also means that our Expander solutions have been designed to not only provide basic services at low cost, but also to prepare for the rollout of more advanced services and increased capacity in a simple and scalable way, without having to add more sites.

BROADBAND EVERYWHERE EFFICIENT EVOLUTION TO ALL-IP

The Internet community, with more than one billion users, is driving the rapid growth of broadband access. With faster speed and better performance, Internet users are discovering new ways to communicate and easy access to content. Now, the introduction of mobile broadband is making it possible to stay connected and enjoy these Internet services while on the move.

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Evolving today's voice and data networks into more adaptable, cost-efficient all-IP networks is a critical challenge to the future success of many operators. But operators cannot afford to abandon their existing investments and convert to all-IP in one giant step. They need an incremental step-by-step approach.

Our evolution path to an all-IP network combines the best of today's telephony services with broadband data and entertainment services. Application of our softswitch solution can reduce core network operating costs by 50 percent while preserving existing services and prior investments in transmission and switching nodes. The addition of Ericsson IMS enables new IP-based services for both mobile and fixed access users, and facilitates the smooth introduction of new services in parallel to legacy services supported by softswitch.

INCREASED OPERATIONAL EFFICIENCY SERVICES

Operators are continuously challenged to keep spending under control while launching a wider range of services for new revenue streams. Many operators are considering outsourcing non-core business operations to increase their flexibility in meeting these challenges. As an industry leader in this area, we are well placed to advise operators on the strategies and solutions that best support their goals.

Cost reductions of some 15-20 percent can typically be achieved with our managed services offerings. Our approach targets the operator's business objectives, seeking powerful and flexible solutions with consumer benefits. For operators, this means reduced risks, lower costs and a faster time to market. Consumers enjoy attractive, reliable services, strengthening the operator's market position.

Ericsson and Rogers Communications inc.

LAUNCHING NEW SERVICES

Bob Berner, Chief Technical Officer, Rogers Communications Inc.:

Ericsson has consistently provided high-quality, wireless network equipment and services for Rogers and our customers across the country. Their global experience, technology leadership and on-the-ground expertise make them an invaluable part of our success in the Canadian market.

Our end-to-end approach brings us closer to our customers. Nowhere is this more evident than with Canadian-based Rogers Communications. Rogers is known for its unique asset mix of mobile wireless, broadband data, digital cable services, telephony, and media properties. For the past 20+ years, Ericsson and Rogers have cultivated a strong partnership which has helped position Rogers as a leader in the Canadian market, providing a high-quality network and innovative service offerings to their customers. We provide expertise that assists Rogers in a wide variety of areas including consumer understanding, deployment services, and network integration and optimization. This value-added support demonstrates Ericsson's understanding of the end-user trends, requirements and opportunities. Recently, Rogers chose Ericsson as its exclusive systems integrator and supplier for the deployment of its high-speed WCDMA/HSDPA voice and data network. With the introduction of HSDPA, Rogers extends its leadership as Canada's largest supplier of wireless data services. By aligning our efforts with Rogers specific needs at specific points in time, we have created a partnership that enables us to help drive the customer's strategy.

Ericsson in Nigeria

RAPID SUBSCRIBER GROWTH

Nigeria is the largest country in Africa with a population of more than 140 million. Though Nigeria currently has less than 10 percent mobile penetration, this number is growing rapidly. Five years ago Nigeria represented limited business opportunity, but the beginning of the GSM rollouts in 2001 changed that. Nigeria is

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now a top 20 market in terms of sales and we have a leading market share, supplying more than two-thirds of the country's network equipment. We provide a variety of solutions to four of the top operators in Nigeria including GSM, GPRS and EDGE networks, softswitch, mobile applications and professional services. According to Leif Edwall, Managing Director of Ericsson Nigeria, Nigeria is a perfect example of Ericsson's ability to use our local presence and global scale to win new business. When South Africa based MTN entered the Nigerian market our existing relationship with them through our previous work in many other markets put us in an excellent position to be their primary supplier here as well. Our hardworking team in Nigeria enables us to be the supplier of choice, not only for MTN, but also for M-Tel, VMobile and Nitel. Our dedicated local team maintains very good business relations with our customers.

OUR MARKET POSITION

MOBILE TECHNOLOGY LEADERSHIP

We are the world's leading supplier of GSM, GPRS, EDGE, WCDMA and HSDPA equipment and services, the technology family that connects more than 80 percent of the world's mobile subscribers. We are also leading the market in upgrading networks to mobile broadband via WCDMA/HSDPA.

UPGRADING NETWORKS TO IMS AND SOFTSWITCH

Ericsson has comprehensive solutions for upgrading networks to IMS and Softswitch architectures. Ericsson Mobile Platforms includes IMS client architecture in their new releases. We have a leading position in IMS and Softswitch, with solutions for both fixed and mobile networks.

GROWING WITH GLOBAL SERVICES

Our Global Services include network rollout, systems integration, technical support and managed services (network operation and hosting). As a result of our world-class expertise, Ericsson was entrusted to plan, build and integrate over 800 networks during 2005.

EMPOWERING FIXED BROADBAND

Our IP-solutions for upgrading fixed networks to accommodate broadband traffic enable operators to offer their subscribers richer data content and a faster, lower-cost experience. We have a strong position in Ethernet-based broadband access and with Marconi's ATM-based broadband access we will establish a top-tier global position.

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SONY ERICSSON OUR LINK TO THE CONSUMER

Sony Ericsson Mobile Communications is a 50/50 joint venture that combines our technology leadership with Sony's consumer electronics expertise. These complementary strengths enable Sony Ericsson to bring innovative products to market and provide us with valuable insight into consumer trends. In 2005, Sony Ericsson once again started a mobile phone trend with the introduction of several Walkmans®-branded music phones. The W800 was the first in the industry to offer a quality digital music experience and a high-performance 2 mega pixel auto-focus camera, combined with a full-feature mobile phone. Another innovative and popular model, the K750, raised the bar for imaging quality in mobile phones, winning a number of industry awards including the coveted TIPPA (Technical Image Press Association) award for Best Mobile Imaging Device.

These successful 2005 launches helped to propel Sony Ericsson to new heights in 2005. The joint venture reported record sales and profitability and enhanced its position with a number of leading operators and distributors.

Sony Ericsson continues to expand its portfolio by adding a variety of handsets designed and priced for different market segments. In the emerging WCDMA market, the K600 offers an attractive and affordable handset with no compromise on size or design. Additions to the 2G portfolio include basic affordable models, camera phones and sleek clamshell designs. This broadening phone portfolio, combined with Sony Ericsson's accessories, PC-cards and Machine-to-Machine solutions, demonstrate the company's progress in becoming a leading supplier of a full range of innovative and feature-rich products.

COMMITMENT TO OUR EMPLOYEES

Ericsson is a knowledge company and, as such, we depend on the competence and productive engagement of all of our employees. This is brought into the business context every day through technology leadership, customer responsiveness and operational excellence. Though over 20,000 patents have been registered under Ericsson's name, the true power of this accomplishment is that each of these patents represents an innovation created by an Ericsson employee.

Our ways of working are based on our core values of professionalism, respect and perseverance. Together they form an essential part of the Ericsson brand and are a key contributor to the company's continued success. We strive to foster an organization and culture where employees meet challenges with confidence, passion, responsiveness and accountability. They are also well prepared with the most up-to-date industry practices and technological expertise that support the company's goals and strategies.

To facilitate this, we have built an efficient infrastructure to access and share information including knowledge networks and training centers with customized web-based learning tools.

To ensure the level of expertise of individual employees as well as the company as a whole, we regularly assess our competency requirements and the capabilities of our workforce. We solicit employee input through an

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annual survey and in 2005 almost 93 percent of our employees participated. This extraordinarily high level of participation reflects our commitment to employee development and our employees' strong commitment to help continuously improve our preparedness for future opportunities.

Motivated and competent employees, working for a common cause and acting as one company, are the foundation of our success and the prerequisite to achieve our ultimate goals—customer satisfaction and strong profitability. We strive to provide a stimulating work environment characterized by continuous learning and commitment to innovation. In return, our employees take pride in their work and make the difference with our customers.

It is important for Ericsson to be the employer of choice. We work hard to ensure that employees feel that they are making a real contribution to something important and that their efforts are recognized and appreciated. Only by clearly understanding what the company stands for and where our opportunities lie, can we work in unison to ensure success.

Ericsson and 3

MANAGING NETWORKS FOR OPERATOR 3

Jacqueline Hey, Head of Ericsson Northwest Europe:

Though we are a very innovative company with excellent technology and strong service delivery, at the end of the day our biggest strength is the people we have on the ground.

When the operator 3 of the Hutchison Whampoa Group asked us to manage their U.K. network in a 7-year deal signed this past December, it was celebrated throughout our company. This is true not only because this partnership represents the largest contract in our 129-year history, but because it was the 3rd country where 3 decided to trust us with this critical function.

This is not a decision that an operator takes lightly as it requires a great deal of trust to commit to this handover. Yet when 3 asked themselves who do they trust to run their network, Ericsson was the answer all three times—first in Australia, then in Italy and now in the United Kingdom.

Unlike the previous two managed services deals where we were actively supplying the equipment for their network buildout, in the case of 3 UK Ericsson was not an infrastructure supplier before the managed services agreement. That is one more reason why 3 UK is particularly rewarding. As a result of this partnership, a supply of equipment, additional technology and related services will also be part of our future relationship.

The size and breadth of these agreements are prime examples of how our industry leading services organization, technology leadership, geographic reach and consistent performance make us the supplier of choice for most of the world's leading operators.

OUR BUSINESS HELPS CREATE A BETTER WORLD

Ericsson is committed to making positive contributions to the communities in which we work and the world in which we live. Corporate Responsibility encompasses everything we do to build an enduring value-creation capability for all our stakeholders; customers, employees, investors and society as a whole. We strive to maintain the necessary controls to minimize risk, and we link our products and services to an overall business goal of sustainable growth.

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Our corporate responsibilities are founded on three main principles:

Economic Prosperity: Pursuing sustainability based on sound economic principles. We contribute to growth in the communities in which we do business; we reduce our customers' operating costs with an energy-lean portfolio; we help to bridge the digital divide by making communication affordable to all.

Environmental Performance: Designing products and services to minimize impacts. We use design for environment (DfE) to avoid hazardous substances and decrease power consumption. Also, telecommunication reduces the need for personal transportation.

Social Equity: Supporting the UN Global Compact. Ericsson was one of the first companies to commit to the Compact's ten principles, covering human rights, fair labor practices, the environment and anti-corruption.

ERICSSON AND THE ENVIRONMENT

Ericsson supports the UN Global Compact.

In 2005, we were again included in the FTSE4Good and the global DJSI World indexes. And 2005 we were also included in the European DJSI STOXX Index for the first time, where we were named the Technology Equipment Supersector Leader.

We are also listed as one of the top 100 most sustainable companies by Global 100.

2005 Highlights

We adopted a risk-based approach to supply chain management to better govern implementation of our code of conduct.

Ericsson launched a new business model in Tanzania, designed to provide affordable and profitable mobile services to rural users, further building on our partnership with the United Nations Development Program (UNDP) and the Swedish International Development Cooperation Agency (SIDA) in Tanzania.

Ericsson Response is our global initiative to rapidly establish communications anywhere in the world in response to human suffering caused by disasters. We provided support following many natural disasters, including tsunamis, earthquakes and hurricanes in Asia, the Middle East and the Americas.

Ericsson employees made numerous positive contributions to society in the countries where they work and live. These activities were determined by employees according to local needs.

We improved our focus on product energy efficiency. Our 2005 WCDMA radio base stations consume 60 percent less energy than 2001 models. And we plan to reach another 50 percent reduction from 2005 levels by 2008.

From August 13, 2005 Ericsson complies with the EU Directive on Waste Electrical and Electronic Equipment (WEEE). Our Ecology Management Take-Back implementation has begun in more than 30 markets to reduce waste and promote recycling.

We worked to ensure compliance with the EU RoHS (Restriction of the Use of Certain Hazardous Substances) directive by July 1, 2006. RoHS concerns the use of certain substances in electrical and electronic equipment.

For more information, see www.ericsson.com/corporate_responsibility

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ANTICIPATING THE FUTURE

Over the past decade, developments in computers, telecommunications and television have been remarkable leading to a new era of social and economic progress. While these changes may seem to have occurred overnight, in reality, they were many years in the making.

Looking back at forecasts from the mid-1990 s, the International Telecommunications Union (ITU) expected one billion mobile subscribers by 2005. In actuality, the two billion subscriber mark was passed during 2005 and is now on the way to three billion before 2010, making mobility the preferred and more often, the only method of telecommunications.

Consumer demographics are shaping the market. Today s teenagers and young adults spend more on mobile, Internet and entertainment services than previous generations. As this mobile generation matures, and new generations are born into a mobile world, consumer spending on mobile communications should increase. This is a great opportunity for our customers to attract new subscribers and grow their business, but only if they have a good technology partner one that understands the consumer and is prepared for the future.

Our products have very long life cycles, often stretching 20 years or more. Volume deployments of GSM started in the mid 1990 s and 2005 saw the highest ever shipments. While volume deployments of WCDMA are just beginning, we are already investing R&D into the development of even more advanced technologies so that we will be ready for the next technology wave.

Looking ahead, fixed and mobile networks will converge around a common core network and service layer, providing operators with substantial cost savings. Broadband access combined with an all-IP network environment will offer consumers transparent access to services in the most convenient way. This combined with the rapidly increasing subscriber base and consumer demographics bodes well for our business.

With a long-term-plan and a guiding vision to be the prime driver in an all-communicating world, we will continue to lead our customers into the future as we drive the growth of this fascinating industry.

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SHARE INFORMATION

STOCK EXCHANGE TRADING

Ericsson's Class A and Class B shares are traded on the Stockholm Stock Exchange (Stockholmsbörsen) and the Class B shares are also traded on the London Stock Exchange.

In the United States, the Class B shares are traded on NASDAQ in the form of American Depositary Shares (ADS) evidenced by American Depositary Receipts (ADR) under the symbol ERICY. Each ADS represents 10 Class B shares.

Approximately 43 (62) billion shares were traded in 2005, of which about 73 (74) percent on the Stockholm Stock Exchange, about 16 (15) percent on NASDAQ, and 11 (11) percent on the London Stock Exchange. Trading volume in Ericsson shares decreased by approximately 31 percent on the Stockholm Stock Exchange and by approximately 31 percent on NASDAQ as compared to 2004.

In 2005, Ericsson was included in the Dow Jones STOXX Sustainability Index.

SHARE PRICE TREND

In 2005, Ericsson's total market value increased by about 29 percent to approximately SEK 441 billion (SEK 343 billion in 2004). The OMX SPI index on the Stockholm Stock Exchange increased by 31 percent, the NASDAQ telecom index decreased by approximately 7 percent and the NASDAQ composite index increased by approximately 2 percent in 2005.

SHARE CAPITAL

As of December 31, 2005, Ericsson's share capital was SEK 16,132,258,678 (16,132,258,678) represented by 16,132,258,678 shares. The par value of each share is SEK 1.00. As of December 31, 2005, the shares were divided into 1,308,779,918 (1,308,779,918) Class A shares, each carrying one vote, and 14,823,478,760 (14,823,478,760) Class B shares, each carrying one-tenth of one vote. As of December 31, 2005, Ericsson held 268,065,241 of its Class B shares.

No Class C shares, each carrying one-thousandth of one vote, are outstanding.

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SHARE DATA

	2005	2004
Earnings per share, diluted (SEK) ¹⁾	1.53	1.11
P/E ratio, Class B shares ¹⁾	18	19
Dividend (SEK) ²⁾	0.45	0.25

¹⁾ For 2004 restated in accordance with IFRS.

²⁾ For 2005, adopted by the Annual General Meeting, April 10, 2006.

SHARE PRICES ON THE STOCKHOLM STOCK EXCHANGE (SEK)

	2005	2004	2003	2002	2001
Class A at last day of trading	27.50	21.70	13.90	8.60	42.25
Class A high for year (October 4, 2005)	28.70	26.10	16.80	42.89	91.00
Class A low for year (February 22, 2005)	19.80	14.00	5.55	3.80	23.98
Class B at last day of trading	27.30	21.20	12.90	6.10	41.35
Class B high for year (October 4, 2005)	29.00	24.50	14.60	44.78	88.11
Class B low for year (February 22, 2005)	19.40	12.70	4.11	2.96	23.18

Offer and listing details**Host market NASDAQ ADS Prices**

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

Principal trading market the Stockholm Stock Exchange Share prices

The tables below state the high and low sales prices for our Class A and Class B shares as reported by the Stockholm Stock Exchange for the last five years. The equity securities listed on the A-list of the Stockholm Stock Exchange's Official Price List of Shares currently comprise the shares of 53 companies. Trading on the exchange generally continues until 5:30 p.m. each business day. In addition to official trading on the exchange, there is also trading off the exchange during official trading hours and also after 5:30 p.m. Trading on the exchange tends to involve a higher percentage of retail clients, while trading off the exchange often involves larger Swedish institutions, banks arbitraging between the Swedish market and foreign markets, and foreign buyers and sellers purchasing shares from or selling shares to Swedish institutions.

The exchange 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 annual high and low market prices on these markets were as follows:

ANNUAL HIGH AND LOW MARKET PRICES

NASDAQ

THE STOCKHOLM STOCK EXCHANGE

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Period	USD per ADS ¹⁾		SEK per Class A share		SEK per Class B share	
	High	Low	High	Low	High	Low
2001	97.50	22.03	91.00	23.98	88.11	23.18
2002	43.33	3.40	42.89	3.80	44.78	2.96
2003	18.85	5.20	16.80	5.55	14.60	4.11
2004	34.57	17.93	26.10	14.00	24.50	12.70
2005	37.19	27.78	28.70	19.80	29.00	19.40

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Share market prices prior to August 8, 2002, have been adjusted for the stock dividend element of the stock issue.

¹⁾ One ADS = 10 Class B shares. (Prior to October 23, 2002, one ADS = one Class B share. Share prices have been adjusted accordingly.)

Quarterly high and low market prices

The table below states the high and low sales prices for each quarter of 2004 and 2005.

Period	NASDAQ USD per ADS ¹⁾		THE STOCKHOLM STOCK EXCHANGE			
	High	Low	SEK per Class A share		SEK per Class B share	
			High	Low	High	Low
2004						
First Quarter	31.41	17.93	25.10	14.00	23.50	12.70
Second Quarter	32.32	24.72	26.10	20.50	24.50	19.10
Third Quarter	31.37	23.18	24.50	19.50	23.20	17.40
Fourth Quarter	34.57	27.76	24.10	20.70	23.80	19.80
2005						
First Quarter	32.49	27.78	22.40	19.80	22.10	19.40
Second Quarter	33.87	27.80	26.10	19.80	26.30	19.70
Third Quarter	36.99	31.74	28.40	24.30	28.50	24.30
Fourth Quarter	37.19	32.17	28.70	25.30	29.00	25.20

¹⁾ One ADS = 10 Class B shares

Monthly high and low market prices

The table below states the high and low sales prices for each of the last nine months (August 2005 to April 2006).

Month	NASDAQ USD per ADS ¹⁾		THE STOCKHOLM STOCK EXCHANGE			
	High	Low	SEK per Class A share		SEK per Class B share	
			High	Low	High	Low
August 2005	36.99	33.50	27.70	25.50	27.80	25.30
September 2005	36.87	34.75	28.40	25.70	28.50	25.70
October 2005	37.19	32.19	28.70	25.30	29.00	25.20
November 2005	33.91	32.17	27.50	25.80	27.50	25.60
December 2005	35.15	32.86	28.30	26.50	28.10	26.40
January 2006	37.00	33.63	28.90	25.80	28.80	25.60
February 2006	36.44	33.94	28.10	26.40	28.00	26.30
March 2006	39.37	33.78	30.90	26.60	31.00	26.70
April 2006	39.28	34.62	29.90	26.00	30.00	26.10

¹⁾ One ADS = 10 Class B shares

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CHANGES IN NUMBER OF SHARES AND CAPITAL STOCK 2001-2005

		Number of shares	Capital stock
2001	Conversions of convertible debentures	168,395	168,395
2001	New issue (Class C shares) (later converted to Class B)	155,000,000	155,000,000
2002	Conversions of convertible debentures	560	560
2002	New issue (Class B shares) 1:1	7,908,754,111	7,908,754,111
2003	New issue (Class C shares) (later converted to Class B)	158,000,000	158,000,000
2003	December 31	16,132,258,678	16,132,258,678
2004	December 31 (no changes)	16,132,258,678	16,132,258,678
2005	December 31 (no changes)	16,132,258,678	16,132,258,678

SHAREHOLDERS

As of December 31, 2005, we had 869,861 shareholders registered at VPC (the Swedish Securities Register Center). According to information provided by Citibank, there were 119,361,288 ADSs outstanding as of December 31, 2005 and 6,298 registered holders of such ADSs. A significant number of the ADSs are held of record by banks, brokers and/or nominees for the accounts of their customers. As of December 31, 2005, banks, brokers and/or nominees held ADSs on behalf of 224,696 accounts.

According to information known by year-end 2005, approximately 81 (80) percent of our Class A and Class B shares were owned by Swedish and international institutions.

TEN LARGEST COUNTRIES OF OWNERSHIP

Percent of capital	As of December 31,	
	2005	2004
Sweden	54.1%	53.7%
United States	26.5%	26.9%
United Kingdom	4.3%	4.7%
Luxembourg	3.8%	4.1%
Switzerland	1.8%	1.7%
Germany	1.1%	1.2%
France	1.1%	0.9%
Netherlands	0.9%	
Belgium	0.9%	0.9%
Denmark	0.9%	0.8%
Japan	0.6%	
Other countries	4.0%	4.1%

Source: SIS Ägarservice AB

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The following table sets forth share information, as of December 31, 2005, with respect to our largest shareholders registered at VPC and known by us, ranked by percentage of voting rights:

LARGEST SHAREHOLDERS BY VOTING RIGHTS, DECEMBER 31, 2005

Identity of person or group ¹⁾	Number of Class A shares	Percentage of total Class A shares	Number of		Voting rights, percent	Percentage of capital
			Class B shares	Percentage of total Class B shares		
Investor AB	513,320,192	39.22	297,073,324	2.00	19.46	5.02
AB Industrivärden	372,000,000	28.42	5,100,000	0.03	13.35	2.34
Svenska Handelsbankens Pensionsstiftelse	83,903,000	6.41			3.01	0.52
Livförsäkrings AB Skandia	58,960,986	4.51	81,258,181	0.55	2.40	0.87
Pensionskassan SHB Försäkringsförening	63,360,000	4.84			2.27	0.39
Alecta	13,725,000	1.05	371,160,279	2.50	1.82	2.39
Robur Fonder	7,438,773	0.57	376,867,325	2.54	1.62	2.38
SEB-Trygg Försäkring	27,923,095	2.13	58,045,000	0.39	1.21	0.53
SHB/SPP fonder	664,089	0.05	315,040,121	2.13	1.15	1.96
AMF Pension	4,763,682	0.36	268,000,000	1.81	1.13	1.69
Nordea Fonder	2,593,202	0.20	247,448,828	1.67	0.98	1.55
Tredje AP-fonden	11,945,095	0.91	151,570,735	1.02	0.97	1.01
Första AP-fonden	7,472,938	0.57	167,206,311	1.13	0.87	1.08
Fjärde AP-Fonden	2,812,755	0.22	208,305,145	1.41	0.85	1.31
SEB fonder	3,541,090	0.27	189,561,780	1.28	0.81	1.20
Svenska Handelsbankens Personalstiftelse	20,000,000	1.53			0.72	0.12
Andra AP-fonden	1,367,271	0.10	173,646,901	1.17	0.67	1.08
AFA Försäkring			140,203,301	0.95	0.50	0.87
Foreign owners ²⁾	16,239,472	1.24	7,391,350,675	49.86	27.06	45.90
of which Capital Group			477,804,643	3.22	1.71	2.96
of which Fidelity funds			339,540,793	2.29	1.22	2.10
Others	96,749,278	7.40	4,381,640,854	29.56	19.17	27.78
Total	1,308,779,918	100%	14,823,478,760	100%	100%	100%

1) Sources: SIS Ägarservice AB and VPC AB, December 31, 2005 and Capital Precision, December 2005.

2) Including Nats Cumco as Nominee: 1,122,692,601 Class B shares.

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The following table indicates changes in holdings of the Class A and Class B shares, respectively, held by major shareholders and percent of voting rights, as of December 31, 2003, 2004 and 2005.

Person or group (percent)	2005			2004			2003		
	Class A shares	Class B shares	Voting rights	Class A shares	Class B shares	Voting rights	Class A shares	Class B shares	Voting rights
Investor AB	39.22	2.00	19.46	39.22	2.00	19.46	39.11	3.58	38.29
AB Industrivärden	28.42	0.03	13.35	28.42		13.33	28.34	1.15	27.72
Svenska Handelsbankens Pensionsstiftelse	6.41		3.01	6.41		3.01	7.38	0.23	7.21
Livförsäkrings AB Skandia	4.51	0.55	2.40	4.51	0.50	2.38	4.53	1.09	4.45
Pensionskassan SHB Försäkringsfö rening	4.84		2.27	4.84		2.27	4.83	0.20	4.72
Alecta	1.05	2.50	1.82	0.19	1.25	0.75			
Robur Fonder	0.57	2.54	1.62	0.51	2.65	1.62	0.00	3.09	0.07
SEB Trygg Försäkring	2.13	0.39	1.21	2.13	0.39	1.22	1.98	0.77	1.95
SHB/SPP Fonder	0.05	2.13	1.15	0.24	1.74	1.05	0.14	1.71	0.17
AMF Pension	0.36	1.81	1.13	0.36	2.15	1.33			
Nordea Fonder	0.20	1.67	0.98	0.26	1.64	1.01			
Tredje AP-fonden	0.91	1.02	0.97	0.94	0.97	0.97	0.77	1.03	0.78
Första AP-fonden	0.57	1.13	0.87	0.57	1.17	0.90	0.33	1.31	0.36
Fjärde AP-fonden	0.22	1.41	0.85	0.22	1.32	0.81			
SEB fonder	0.27	1.28	0.81	0.27	1.25	0.80	0.04	1.52	0.08
Svenska Handelsbankens Personalstiftelse	1.53		0.72	1.53		0.72	1.52	0.06	1.49
Andra AP-fonden	0.10	1.17	0.67						
AFA Försäkring		0.95	0.50						
Foreign owners	1.24	49.86	27.06	1.82	50.15	27.48	1.09	45.74	2.12
of which Capital Group		3.22	1.71		2.54	1.35		0.00	0.00
of which Fidelity funds		2.29	1.22		5.52	2.93		5.51	2.93
Others	7.40	29.56	19.17	5.85	32.75	20.04	8.36	38.45	9.05
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: SIS Ägarservice AB and VPC AB, December 31, 2005, Ilios and Capital Precision, December 2005.

Our major shareholders do not have different voting rights than other shareholders.

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

As of December 31, 2005, the total number of voting securities of the Company owned by officers and directors as a group was:

	Number of Class A shares	Number of Class B shares	Voting rights, percent
Officers and directors as a group (27 persons)	6,080	17,863,398	0.06
For individual holdings, see Corporate Governance .			

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TWO-YEAR SUMMARY

SEK million	2005	2004 ¹⁾
Net sales	151,821	131,972
Operating income	33,084	26,706
operating margin	21.8%	20.2%
Financial net	251	-540
Net income	24,460	17,836

Year-end position

Total assets	208,829	186,186
Working capital	86,980	69,268
Capital employed	133,621	115,144
Property, plant and equipment	6,966	5,845
Stockholders' equity	104,677	80,445
Minority interests	850	1,057
Interest-bearing provisions and liabilities	28,094	33,643

Other information

Earnings per share, basic, SEK	1.53	1.11
Earnings per share, diluted, SEK	1.53	1.11
Cash dividends per share, SEK	0.45 ²⁾	0.25
Stockholders' equity (SEK per share)	6.60	5.08
Number of shares (in millions)		
outstanding, basic, at end of period	15,864	15,832
average, basic	15,843	15,829
average, diluted	15,907	15,895
Additions to property, plant and equipment	3,365	2,452
Depreciation on property, plant and equipment	2,804	2,434
R&D and other technical expenses	24,454	23,421
as percentage of net sales	16.1%	17.7%

Ratios

Return on equity	26.2%	24.2%
Return on capital employed	28.7%	26.4%
Equity ratio	50.5%	43.8%
Debt-equity ratio	0.3	0.4
Current ratio	1.9	2.0
Capital turnover	1.2	1.2
Inventory turnover	5.0	5.7
Accounts receivable turnover	4.1	4.1
Return on sales	23.5%	22.9%
Payment readiness, SEK million	78,647	81,447
as percentage of net sales	51.8%	61.7%
Net cash, SEK million	53,411	42,911

Statistical data, year-end

Number of employees		
Worldwide	56,055	50,534
Of which in Sweden	21,178	21,296

This year, there is only a two-year comparison due to the change to IFRS. All figures in the table are based on IFRS.

- 1) 2004 has been restated in accordance with IFRS.
- 2) For 2005, adopted by the Annual General Meeting, April 10, 2006.

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Working capital: Current assets less current non-interest-bearing provisions and liabilities.

Capital employed: Capital employed is defined as total assets less non-interest-bearing provisions and liabilities.

Earnings per share: See Notes to the Consolidated Financial Statements Note C1, Significant Accounting Policies, for information on principles for calculation of earnings per share.

Cash dividends per share: Defined as dividends paid divided by average number of shares, basic.

Stockholders' equity (SEK per share): Defined as Stockholders' equity divided by the Number of shares outstanding, basic, at the end of the period.

Return on equity: Defined as Net income as a percentage of average Stockholders' equity (based on the amounts at January 1 and December 31).

Return on capital employed: Defined as 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).

Equity ratio: Defined as Equity, expressed as a percentage of total assets.

Debt-equity ratio: Defined as total interest-bearing provisions and liabilities divided by Equity.

Current ratio: Current assets divided by the sum of current provisions and liabilities.

Capital turnover: Net sales divided by average Capital employed.

Inventory turnover: Cost of sales divided by average Inventory.

Accounts receivable turnover: Net sales divided by average Accounts receivable.

Return on sales: Operating income plus Financial income expressed as a percentage of net sales.

Payment readiness: Defined as cash and cash equivalents and short-term investments less short-term borrowings plus long-term unused credit commitments. Payment readiness is also shown as a percentage of net sales.

Net cash: Defined as cash and cash equivalents plus short-term cash investments less interest-bearing provisions and liabilities.

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LETTER FROM THE CHAIRMAN

Dear Shareholder,

Ericsson performed well during 2005 generating the highest profitability and largest net cash position in its history. The strong sales growth and healthy profit levels signify the ongoing benefits of restructuring and the hard work of employees around the world.

Ericsson shares also performed well during 2005 appreciating 29 percent in value and outperforming the most relevant stock market indices. Continued robust financial performance convinced all credit rating agencies to restore their investment grade ratings for Ericsson.

The financial community has acknowledged our sustainable development efforts. Ericsson was not only named the Supersector leader in the Dow Jones STOXX Sustainability Index but also included in the FTSE4Good Europe 50 index and listed among the Global 100 Most Sustainable Corporations. This recognition reflects our ongoing efforts to build an enduring value-creation capability for all stakeholders: investors, customers, employees and society.

The Board of Directors works to ensure that Ericsson adheres to high standards of corporate governance and that business is conducted in an ethical manner. Although I believe that our management controls are generally in line with best practices, we continuously strive to make them even better. Along these lines, steering documents and work procedures have been evaluated and adapted to the recently introduced Swedish Code of Corporate Governance. Implementation of the applicable requirements of the U.S. Sarbanes-Oxley Act remains well on track to meet the required effective dates.

In addition to the financial and operational performance, there was good progress on a number of strategic initiatives. Ericsson's leading position in next-generation network technology was reinforced with the early introduction of mobile broadband as well as softswitch and IP Multimedia Subsystem (IMS) based networks for fixed and mobile operators. This includes the world's first commercial launches of each of these technologies. While these accomplishments demonstrate Ericsson's leadership in delivering next-generation networks, the Group is creating significant value in other areas as well.

During 2005, Ericsson was awarded two record-breaking managed services agreements, which increased the total number of subscribers in networks managed by the Company to 53 million establishing Ericsson as a market leader in this increasingly important area. Sony Ericsson Mobile Communications significantly improved their position with a number of award winning models and popular Walkman® branded music phones.

In addition to these organic developments, we also agreed to acquire key assets from Marconi to strengthen the Company's position in rapidly growing markets such as optical transmission and broadband access. All in all, we are building on Ericsson's competitive advantages to expand the Company's market position and invest in key growth areas for the future.

On behalf of the Board of Directors, I would like to thank the management team and all Ericsson employees for their accomplishments during the year. This year's solid performance is also a testament to your valued support as a shareholder. I thank you for allowing me to serve as your Chairman during 2005 and look forward to the continued success of our Company.

Sincerely yours,

Michael Treschow

Chairman of the Board

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BOARD OF DIRECTORS REPORT

This Board of Directors Report contains discussion and analysis of the financial statements and operational results. This report also includes forward-looking statements about future market conditions, strategies and anticipated results. Such statements are based on assumptions and estimates, which are subject to risks and uncertainties. Actual results could differ materially from those described or indicated by such forward-looking statements. For further discussion, please see Forward-looking Statements.

The terms Ericsson, Group, the Company, or similar all refer to Telefonaktiebolaget LM Ericsson and its consolidated subsidiary companies. Unless otherwise noted, numbers in parenthesis indicate prior year, i.e. 2004.

As of January 1, 2005, Ericsson changed accounting principles to International Financial Reporting Standards (IFRS) as required by all publicly listed companies within the EU (European Union). Our consolidated financial statements for 2004 have been restated according to IFRS. However, the Parent Company is required by Swedish regulations to continue reporting according to Swedish GAAP.

SUMMARY

With sales increasing 15 percent and net income 37 percent, the Company's 2005 performance can be characterized by profitable growth and good progress in strategically important areas. Ericsson supplied the first 3G/HSDPA mobile broadband network in commercial service. Ericsson is the first and only supplier with an IMS-based service layer in commercial operation. BT named Ericsson as the exclusive supplier of softswitching functions for their 21st Century Network in the UK. These achievements reinforce Ericsson's leading position in next generation networks.

Professional services operations were expanded considerably with a number of multi-year managed services agreements, including the two largest agreements in the Company's history. The majority of all 3G handsets sold outside of Japan are based on technology supplied by Ericsson Mobile Platforms. The Sony Ericsson Mobile Communications joint venture also reported solid progress and has now reached positive accumulated earnings.

The acquisition of Marconi's optical transmission, broadband access and other strategic operations is expected to significantly improve the Company's position in these high-growth markets. All in all, we have strengthened the Company's ability to benefit from a number of growth opportunities beyond those offered by the mobile systems equipment market.

MARKET ENVIRONMENT AND TREND INFORMATION

2005 was a record year in terms of net subscriber additions: some 450 million new mobile subscriptions and almost 800 million mobile phones were sold. Network equipment markets also developed positively during 2005 with particularly strong growth in mobile systems, fixed broadband access and optical transmission.

Excluding the effects of technological developments, pricing trends remained similar to previous years with competition continuing to be especially intense regarding strategic pricing necessary to win new contracts. A number of major contracts for new network rollouts are expected to be awarded in the near term and price competition is likely to intensify during the bidding process. The price/performance trend in both mobile phones and network infrastructure is significantly expanding the addressable market with resulting unit volume increases more than offsetting lower average selling prices.

New mobile subscriptions, mainly in emerging markets, increased usage in almost all regions and expanding deployment of 3G networks drove growth within the mobile systems market. There are now some two billion

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mobile subscribers worldwide and global subscription penetration was 34 (27) percent at year-end. We expect another billion net subscription additions before the end of this decade, which will drive a significant increase in the number of initial network build outs and create opportunities for network rollout services and professional services in addition to mobile network systems offerings.

Total traffic on mobile networks worldwide grew an estimated 30% in 2005, driven by subscriber additions and increased average minutes of use (MOU). Western Europe is among the highest penetrated mobile markets in the world in terms of subscriptions. However, Western European usage is significantly lower than the average for the rest of the world. Increased tariff competition among operators is expected to stimulate Western European usage closer to the global average over the coming few years, requiring continued expansion of mobile network capacity.

At year-end, there were 91 3G/WCDMA networks in commercial service of which Ericsson is a supplier to 49. The number of WCDMA subscriptions almost tripled during 2005 and now exceeds 47 million. Net subscriptions are expected to increase rapidly as more 3G networks are placed in service and as lower-cost handsets become available.

Operator consolidation continues to be a key trend in a number of markets. In North America, operator consolidation caused a temporary slowdown in GSM/EDGE investments during 2004 and early 2005 while the companies involved underwent their merger process. In Latin America, where significant operator consolidation occurred in 2003 and earlier, we experienced extraordinarily strong growth for the second consecutive year, especially from operators converting to GSM technology. In Europe, we see an acceleration of cross border expansion as operators there seek revenue growth and economies of scale. In other regions, operator consolidation is ongoing with the emergence of a number of rapidly growing pan-regional operators.

Within fixed networks, many operators are contemplating a conversion to an all-IP (Internet Protocol) broadband environment. This will enable more efficient handling of fixed and mobile voice, data and image based communications as well as provide a platform for converged services. Several operators have already started such an upgrade process with many others expected to follow soon. While we believe that fixed network operators' spending for network equipment in total was up slightly in 2005, certain segments essential to next generation networks' optical transmission, broadband access and IMS/softswitch showed stronger growth.

In addition to network rollout and systems integration services, the opportunity to supply network management and hosting of services for network operators is growing strongly. The market for such managed services is estimated at USD 8 billion in 2005 with good growth prospects going forward as operators realize the competitive advantages that are made possible when outsourcing operations and other non-strategic activities. Smaller operators especially benefit by gaining access to service capabilities and content far beyond what they could normally afford while at the same time lowering their risks and improving their time to market.

GOALS, STRATEGY AND FINANCIAL RESULTS

Our ultimate goal is for the Company to generate growth and competitive profit that is sustainable over the longer term. Ericsson's strategy is to be the preferred business partner to customers, especially the world's leading network operators. Ericsson strives to be the market and technology leader for the supply and operation of network infrastructure. Being a market leader allows the Company to leverage economies of scale to develop superior products and services and thereby offer customers competitive advantages. In addition, when systems integration is combined with mobile platform products and the Sony Ericsson joint venture for mobile handsets, the scope of Ericsson's operations extends to complete end-to-end solutions.

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Progress relative to financial targets

The Company performed in line with its financial targets of:

Increase sales at least in line with the market growth;

Deliver best-in-class operating margins, i.e. better than the main competitors;

Generate positive cash flow before financing;

Maintain Investment Grade credit ratings.

Sales

Group sales grew 15 percent mainly driven by increased sales within our systems segment, which consists of network equipment and related services. The effect of fluctuations in foreign exchange rates was not significant on reported sales. Unit volume increases drove mobile network sales growth while network buildout projects and professional services drove Global Services growth. Based on Ericsson's reported sales combined with the publicly reported and estimated sales for Ericsson's main competitors, we believe the mobile systems market grew approximately 11 percent in USD terms during 2005. During this period, Ericsson's mobile systems sales increased by 15 percent measured in constant currencies, indicating that Ericsson grew faster than the market.

Sales of services grew 29 percent during 2005, reflecting strong market growth and our market position. Sales of professional services were particularly encouraging as the Company was awarded a number of contracts for network management, including the largest contracts in Ericsson's history.

Within fixed networks, Ericsson was awarded a number of contracts for next generation converged networks that include broadband access, IMS/softswitch and packet switching products. We are optimistic regarding growth opportunities for broadband access, optical transmission and converged networks and are increasing our focus in these areas with the acquisition of key assets of Marconi.

Positive sales developments within Mobile Platforms and Cables (Network Technologies) were not sufficient to compensate for lower sales by the other units within Other Operations. Total sales declined by 4 percent and operating income was SEK 1 billion lower mainly due to losses in Enterprise Systems, Microwave Systems and Power Modules. Operating margin within Other Operations was also negatively affected by approximately SEK 0.2 billion due to one-off payments for breach of contract damages following an arbitration award.

During the year, we announced 78 new or expanded agreements to supply network equipment and/or related services to operators around the world. This compares with 59 in 2004 and 58 in 2003. Although we do not book frame agreements as firm orders, such customer commitments reassure the robustness of our order backlog, which is at the highest level in three years.

SALES BY SEGMENT AND GEOGRAPHIC REGION 2005

(SEK m.)	Systems	Percent change	Other Operations	Percent Change	Total	Percent change	Percent of total
Western Europe	35,705	6%	6,235	-3%	41,940	5%	28%
Central and Eastern Europe, Middle East and Africa	38,781	21%	1,167	-23%	39,948	19%	26%

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Asia Pacific	29,914	10%	1,512	8%	31,426	10%	21%
North America	18,773	27%	659	-9%	19,432	26%	13%
Latin America	18,813	33%	262	-26%	19,075	32%	12%
Total	141,986	17%	9,835	-6%	151,821	15%	100%

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Margins and operating expenses

Our ambition is for Ericsson to generate competitive margins. With best-in-class operating margins, the Company continued to perform at record levels. The lower gross margins were mainly a reflection of a product mix that has a significantly higher proportion of services sales. Operating margin was improved by tight cost control of operating expenses, especially selling, general and administrative expenses.

While sales increased 15 percent, operating expenses increased only 5 percent. Operating expenses measured as a percentage of net sales decreased from 30 percent in 2004 to 27 percent in 2005 reflecting ongoing efficiency improvements as well as the continued benefits of the cost reduction measures completed in 2004.

Going forward, we want the Company to continue to deliver competitive profit. We must also ensure a healthy balance between short-term profit and longer-term growth. Reinvesting more profits now will strategically position Ericsson to better benefit from a number of opportunities in the future.

Other income statement items

Share in earnings of joint ventures and associated companies before tax were stable with continued solid contribution from Sony Ericsson Mobile Communications. Ericsson's 50 percent share in earnings of the joint venture increased from SEK 2.1 billion in 2004 to SEK 2.3 billion. During the year, the joint venture also achieved the significant milestone of retained earnings exceeding cumulative losses.

The strong cash position and repayment of debt improved the financial net from SEK -0.5 billion in 2004 to SEK 0.3 billion.

Income after financial items was SEK 33.3 (26.2) billion. This was an improvement of SEK 7.2 billion on a sales increase of SEK 19.8 billion.

Net income attributable to the stockholders of the parent company improved to SEK 24.3 (17.5) billion and diluted earnings per share improved to SEK 1.53 (1.11). Diluted earnings per share according to US GAAP were SEK 1.54 (0.91).

Balance Sheet and Cash flow

Capital usage and cash position improved during 2005. Total assets were SEK 208.8 (186.2) billion at year-end, an increase of 12 percent compared to 2004. The largest items contributing to the increase were higher accounts receivable and inventories reflecting the increased business activity.

SEK 0.9 billion of non-current borrowings was repaid. Post-employment benefits were funded by SEK 8.3 billion with the establishment of a pension trust.

Net cash developed favorably, with the excess of cash over debt increasing from SEK 42.9 billion to SEK 53.4 billion. Equity increased to SEK 105.5 (81.5) billion and the equity ratio improved to 50.5 (43.8) percent.

Return on Capital Employed (ROCE) was 29 percent compared with 26 percent in 2004.

Cash flow before financial investing activities

Cash flow before financial investing activities was SEK 11.3 (17.7) billion, driven mainly by improved income. SEK 8.3 billion was used to fund the Swedish pension trust and netted against a corresponding liability

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on the balance sheet. Excluding this item, cash flow before financial investing activities was SEK 19.6 billion. Cash outlays regarding restructuring amounted to SEK 2.0 (5.7) billion, where SEK 1.5 billion relates to restructuring programs initiated during 2001-2003.

Due to the strong sales growth this year involving significant network rollouts with long project intervals in markets with slower payment patterns, working capital efficiency, although still healthy, declined compared with 2004. Efforts to further improve capital efficiency will continue, especially within inventories.

WORKING CAPITAL EFFICIENCY MEASURES

	Target	2005	2004
Days Sales Outstanding (DSO)	<90	81	75
Inventory Turnover (ITO)	>5.5	5.0	5.7
Payable Days ¹⁾	>45	52	51

1) Payable days: Accounts payable divided by Cost of sales and multiplied by 365 days.

Capital expenditures

We continuously monitor the Company's capital expenditures and evaluate whether adjustments are necessary in light of market conditions and other economic factors. Capital expenditures were mainly for investments in test equipment used to develop, manufacture and deploy network equipment. The increase in capital expenditures from 2004 to 2005 was mainly due to investments needed to support the rapidly growing services business. Capital expenditures in relation to sales is not expected to be significantly different in 2006. However, in addition to these capital expenditures there are commitments to repay SEK 9.8 billion of debt and SEK 16.8 billion for the purchase of certain assets from Marconi. With a net cash position at year-end of SEK 53.4 billion, we expect the Company to be able to cover all 2006 capital expenditure with no additional borrowings, by using funds generated from operations.

The following table summarizes annual capital expenditures during the five years ended December 31, 2005:

CAPITAL EXPENDITURES 2001-2005

SEK billion	2005	2004	2003	2002	2001
Capital expenditures	3.4	2.5	1.8	2.7	8.7
of which Sweden	1.0	1.1	1.1	1.2	3.8

Off Balance Sheet items

Customer financing credits of SEK 0.1 (0.6) billion issued by third parties and guaranteed by Ericsson were outstanding as per December 31, 2005. Also see Notes to the Consolidated Financial Statements Note C21, Financial Risk Management and Financial Instruments.

Credit ratings

Moody's as well as Standard & Poor's (S&P) credit rating agencies raised Ericsson's credit ratings during 2005. At year-end, their ratings of Ericsson's creditworthiness were Baa3 for Moody's and BBB- for S&P, both considered to be Investment Grade.

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ERICSSON CREDIT RATINGS YEAR END 2004 2005

	2005	2004
Moody's	Baa3	Ba2
Standard & Poor's	BBB-	BB+

Research and development

A robust R&D program is key to Ericsson's competitiveness and future success. With most R&D invested in mobile communications network infrastructure, Ericsson's program is one of the largest in the industry. We have increased investments in the strategically important areas of broadband access, core network and service layer for fixed and mobile networks. With the acquisition of Marconi, we will broaden R&D investments to include optical transmission and further strengthen broadband access, softswitch/IMS and IP routing capabilities.

R&D PROGRAM

	2005	2004
Expenses (SEK billion)	24.5	23.4
As percent of sales	16.1%	17.7%
Employees within R&D at December 31	16,500	16,000
Patents	20,000	16,000

During 2006, R&D expenses, excluding effects from the Marconi acquisition, are expected to remain at about the same level in absolute terms as in 2005.

Acquisitions/divestitures, partnerships and joint ventures

During 2005, Sony Ericsson Mobile Communications AB (SEMC) reported strong unit volume and sales increases. Income before tax improved during the year with the higher volumes and sales. The improved performance is mainly a result of focusing on imaging, music and enterprise phones while increasing the number of more affordable and attractively designed models. SEMC's ambition is continued profitable growth by leveraging the opportunities created by the combination of the parent companies' technologies in the joint venture. The joint venture results are accounted for under the equity method with no sales included in Ericsson's financial statements. For more information see Notes to the Consolidated Financial Statements Note C1, Significant Accounting Policies.

SONY ERICSSON RESULTS 2004 2005

	2005	2004	Percent change
Shipments (unit millions)	51.2	42.3	21%
Sales (EUR m.)	7,268	6,525	11%
Income before tax (EUR m.)	514	486	6%
Net income (EUR m.)	356	316	13%
Ericsson share of earnings (SEK billion)	2.3	2.1	5%

SEMC invested approximately USD 14 million to purchase a controlling stake in Beijing Suohong Electronics Co, Ltd (BSE). The investment increased SEMC's ownership from 10 percent to 74.5 percent and strengthened its in-house manufacturing capacity. BSE will be consolidated into SEMC from the first quarter of 2006 with minor effects on reported results. Local minority shareholder ownership remains unchanged.

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

During 2004, Ericsson made a public offer to purchase shares of Ericsson S.p.A. in Italy, increasing Ericsson's ownership to 93 percent. In the first quarter of 2005, a Residual Public Offer was launched for the remaining shares and subsequently Ericsson S.p.A. was delisted from the Milan Stock Exchange. In total SEK 2.2 billion was paid out for the shares of which SEK 0.6 billion in 2005.

On October 25, 2005, Ericsson announced the intention to acquire key assets of Marconi's telecommunications operations for SEK 16.8 billion in cash. The acquisition strengthens Ericsson's position in the accelerating transmission segment and expands Ericsson's platform for leadership in next generation converging networks. As fixed and mobile services converge, Ericsson's customers will benefit from the acquisition.

Ericsson acquired assets expected to generate 2005 sales of approximately SEK 14.0 billion (GBP 1.0 billion). The acquired operations had net tangible assets of approximately SEK 1.4 billion (GBP 0.1 billion) as of September 30, 2005. The remaining acquisition cost is mainly allocated to intellectual property rights (patents, brands, trade marks, etc). The acquisition is expected to give a positive contribution to earnings starting in 2007.

During 2005, there were several small acquisitions to increase capacity mainly to handle growing systems integration business. The Company also made two technology acquisitions, Netspira and Axxes-sit, to expand the systems product portfolio.

There were no material acquisitions or divestitures completed during 2003 or 2004.

Material contracts and contractual obligations

Primary contractual obligations are outlined in the table below. Operating leases are mainly related to offices and production facilities. Purchase obligations are mainly related to outsourced manufacturing, R&D and IS/IT operations and for components for our own manufacturing. With the exception of the Marconi acquisition, Ericsson has not been a party to any material contracts over the last two years other than those entered in the ordinary course of business.

CONTRACTUAL OBLIGATIONS 2005

(SEK million)	Total	Payment due by period			
		<1 year	1-3 years	3-5 years	>5 years
Long-term debt ¹⁾	21,964	9,739	3,279	8,360	586
Capital lease obligations ²⁾	2,697	199	389	324	1,785
Operating leases ²⁾	10,807	2,134	3,321	2,409	2,943
Other non-current liabilities	2,740	32	781	3	1,924
Purchase obligations ³⁾	7,398	7,398			
Commitments for customer financing ¹⁾	3,643	3,643			
Total	49,249	23,145	7,770	11,096	7,238

1) See also Notes to the Consolidated Financial Statements Note C21, Financial Risk Management and Financial Instruments.

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

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

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Critical accounting estimates

The preparation of financial statements and application of accounting policies often involve management's judgment and/or the use of estimates and assumptions deemed to be reasonable and prudent. However, other results may be derived using different assumptions or estimates. There are a number of accounting policies subject to such estimates or assumptions. Please see Notes to the Consolidated Financial Statements Note C2, Critical Accounting Estimates and Judgments for more information about the policies that we believe have the most significant impact on Ericsson's reported results and financial position. For information on the application of IFRS, please see Notes to the Consolidated Financial Statements Note C3, Transition to IFRSs.

CORPORATE GOVERNANCE

Although internal policies and directives for governance and other important rules for managing the Company's business activities have long been established, we have adapted our work procedures in line with relevant developments in Sweden and the United States regarding reporting, disclosure and other requirements for listed companies as well as changes in legislation, such as the new Swedish Companies Act and the US Sarbanes-Oxley Act.

In accordance with the recently introduced Swedish Code of Corporate Governance, a separate Corporate Governance Report as well as an Internal Control Report have been prepared. There have been no amendments or waivers to Ericsson's Code of Business Ethics and Conduct for any director or member of management.

RISK MANAGEMENT

Risk taking is an inherent part of doing business. To manage risks, a coordinated process is used whereby risks are identified, probability of occurrence assessed and potential consequences estimated. Actions are then taken to reduce or mitigate the risk exposures and limit potential unfavorable consequences.

We broadly categorize risks into operational risks and financial risks. Our approach to risk management leverages the scale and diversity of our business activities and balances central coordination with well-defined risk management responsibilities within each operational unit.

Operational risk management

Risk management has been integrated within the Ericsson Group Management System and business processes. The operational risk management framework applies universally across all business activities and is based on the following principles:

Each risk is owned and managed by an operational unit that is held accountable with oversight made through unit steering boards and Group Management.

Risks are dealt with on three levels: in the strategy process, in annual target setting and within ongoing operations by transaction (customer bid/contract, acquisition, investment, product development project, etc).

Approval limits are clearly established with escalation according to a well-defined delegation of authority.

A central security and risk management unit coordinates management of certain risks, such as business interruption, information security/IT risks and physical security as well as insurable risks. A crisis management council deals with ad hoc events of a serious nature.

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Financial risk management

We have an established policy governing the Group's financial risk management, which is carried out by the Treasury function within the Parent Company and supervised by the Board of Directors' Finance Committee.

For further information on objectives, policies and strategies for financial risk management please see Notes to the Consolidated Financial Statements Note C20, Interest-Bearing Provisions and Liabilities and Note C21, Financial Risk Management and Financial Instruments.

Foreign exchange risks

With significant transaction volumes in currencies other than SEK, the Company has a net exposure to a number of currencies. The duration of this exposure is also considerable, as many contracts have long lead times between order and delivery. A variety of hedging activities, covering on average the forthcoming 6-9 months, are used to manage foreign exchange risks.

The largest foreign exchange exposure is to the US dollar and related currencies, which represented 46 percent of sales in 2005. Assuming other foreign exchange exposures remained the same, a 10 percent plus/minus change in the USD/SEK exchange rate would affect operating income by plus/minus SEK 3.3 (3.6) billion before any hedging effects.

Interest rate risks

Ericsson is exposed to interest rate risk through market value fluctuations of certain balance sheet items and through changes in interest expenses and income. Assuming the net cash position remained at SEK 53.4 billion, a sustained change in interest rates of plus/minus 0.25 percentage points would have an annual impact on the financial net of approximately plus/minus SEK 135 million.

Credit risk in trade receivables

At year-end 2005, trade receivables amounted to SEK 41.2 (32.6) billion, less allowances of SEK 1.4 (1.8) billion. Extended payment terms for trade credits and overdue accounts receivable amounts are regularly reviewed with provisions made to cover any expected losses. Historically, credit losses have been minimal mainly because the customer base largely consists of well established and financially sound network operators.

Customer finance risk

At year-end 2005, gross exposure to customer financing amounted to SEK 7.0 (8.9) billion of which one percent was off-balance sheet. Latin America accounts for 58 (60) percent with the remaining exposure mainly related to Central and Eastern Europe, Middle East and Africa. Risk provisions amount to 29 (32) percent of the gross exposure.

In most customer financing agreements, credit risks are covered by security arrangements, normally in the form of pledges of equipment, pledges of certain of the borrower's assets and/or pledges of shares in the operating company. Provisions are made and reported as part of selling expenses.

Unutilized but outstanding customer financing commitments amounted to SEK 3.6 (2.2) billion at year-end. New credits are only given on a very selective basis for strategic reasons.

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Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. All derivative transactions are covered by ISDA Master agreements to reduce the credit risk. During 2005, no credit losses were incurred from such instruments.

Liquidity and refinancing risk

We expect the Company's strong cash position to satisfy any short-term liquidity requirements. During 2005, there have been no material defaults in the payment of principle or interest, or any other material default relating to the indebtedness of Ericsson or any of its subsidiaries.

CORPORATE RESPONSIBILITY

Effective management of social, environmental and geopolitical issues can help to assure an enduring capability for value creation and competitive advantage. Ericsson supports the UN Global Compact and its ten guiding principles. We see these principles not only as a prerequisite for sound, long-term business but also as guiding principles and as such, we are committed to responsible business practices for sustainable economic growth that benefit all of our stakeholders. Our commitment to employees, customers, shareholders and the broader global community is underscored by external recognition of our efforts. Ericsson was again included in the FTSE4Good and the Dow Jones Sustainability indices. And for 2005, we were named the Technology Supersector leader for the DJSI STOXX sustainability index.

Ericsson publishes a separate Sustainability Report annually, usually during the second quarter, which provides comprehensive information about corporate responsibility and our related activities.

Community Involvement

We are committed to being a responsible member of the global society and of the communities in which the Company operates. Employees are encouraged and empowered to make a positive contribution to the world around them. Their contributions are of many kinds, determined by our employees according to local needs. They may, for example, be in the fields of health care, social and humanitarian aid, scholarships and other educational support, art and culture, the environment, children's welfare as well as many other charitable activities.

Ericsson Response is a global initiative to rapidly provide specialists and communications equipment anywhere in the world in response to human suffering caused by disasters. Ericsson Response assists the disaster relief operations of the United Nations Development Program (UNDP), the Office for the Coordination of Humanitarian Affairs (OCHA) and the International Federation of Red Cross and Red Crescent Societies (IFRC). During 2005, Ericsson Response provided relief support for many natural disasters around the world, including the tsunami in South East Asia, earthquakes in the Middle East as well as hurricanes in the Americas. Ericsson is also aiding reconstruction work in these disaster areas.

Environment and health

We believe that the Company is in compliance with all material environmental, health and safety laws and regulations required by its operations and business activities. Ericsson provides public information on radio waves and health and supports independent research to further increase knowledge in this area. Ericsson currently co-sponsors more than 40 different ongoing research projects related to electromagnetic fields (EMF), radio waves and health. Public health authorities and independent expert groups have reviewed the total amount of research and they 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.

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From August 13, 2005, Ericsson complies with the EU directive on Waste Electrical and Electronic Equipment (WEEE). Work continues to ensure compliance by July 1, 2006 of the EU directive on Reduction of Hazardous Substances (RoHS).

Employees

Every year an employee satisfaction survey is conducted to assess our Human Capital Index (HCI) and Empowerment Index (EI). In 2005 over 92 (90) percent of employees participated in this survey. The results show a marked improvement from last year with both indices exceeding our target levels. The Human Capital Index as well as the Empowerment Index improved by 7 points. HCI measures the employees' contribution in adding value for our customers and meeting business goals. EI addresses how employees act on their own initiative to achieve the Company's goals.

Employee headcount at year-end was 56,055 (50,534). Most of the additions were to support the growing services business. During the year, 2,377 employees departed while 7,898 joined the company. Please also see Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

Executive Compensation

The remuneration committee continues to be mindful of the debates around the world on executive salaries and benefits. We remain confident that current policies and practices concerning authorization, compliance and control of senior executive compensation within Ericsson are appropriate and reasonable.

As of December 31, 2005, there were no loans outstanding from, and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management.

LEGAL AND TAX PROCEEDINGS

Together with most of the mobile communications industry, Ericsson has been named a defendant in five class actions in the United States where plaintiffs allege that adverse health effects could be associated with the use of mobile phones. Three of those cases are pending in federal court and the other two are pending in state court in New York and the District of Columbia.

Ericsson is engaged in litigation with an Australian company, QPSX, in the Federal Court of Australia. QPSX's claim relates to an alleged breach by Ericsson of a patent license agreement. Ericsson has contested the claim.

Atmel Corporation was awarded approximately USD 43.1 million in damages after the International Centre for Dispute Resolution, International Arbitration Tribunal found Ericsson liable for breaches of contract and misappropriation of trade secrets relating to Atmel's proprietary AVR microcontroller technology. This lawsuit came about as a result of reorganizing our Phones segment, i.e. formation of the Sony Ericsson Mobile Communications joint venture and establishment of Ericsson Mobile Platforms. We believed the new structure was covered by the original agreement with Atmel. Ericsson Mobile Platforms no longer uses this technology and the ruling will not affect either unit's business going forward.

Ericsson filed a complaint to the European Commission requesting that it investigate and stop Qualcomm's anti-competitive conduct in the licensing of essential patents for 3G mobile technology. At the same time, Broadcom, NEC, Nokia, Panasonic Mobile Communications and Texas Instruments each filed similar complaints claiming Qualcomm is violating EU competition law and failing to meet the commitments Qualcomm made to international standardization bodies around the world that it would license its technology on fair, reasonable and non-discriminatory terms.

