ERICSSON LM TELEPHONE CO
Form 20-F
April 08, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2013

or

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

or

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

Commission file number 000 12033

TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant s Name Into English)

Kingdom of Sweden

(Jurisdiction of Incorporation or Organization)

SE-164 83 Stockholm, Sweden

(Address of Principal Executive Offices)

Roland Hagman, Vice President Group Function Financial Control

Telephone: +46 10 719 53 80, E-mail: roland.hagman@ericsson.com

SE-164 83 Stockholm, Sweden

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

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

Title of Each Class	Name of Each Exchange on Which registered
American Depositary Shares (each representing one B share)	**The NASDAQ Stock Market LLC**
B Shares *	**The NASDAQ Stock Market LLC**

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

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

None

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

None

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

CONTENTS

Table of Contents

Ericsson Annual Report on Form 20-F 2013

FORM 20-F 2013 CROSS-REFERENCE TABLE

This document comprises the English version of our Swedish Annual Report for 2013 and our Annual Report on Form 20-F for the year ended December 31, 2013. Reference is made to the Form 20-F 2013 cross-reference table on pages i to vi hereof and the Supplemental Information beginning on page 135, which contains certain other information required by Form 20-F. Only (i) the information in this document that is referenced in the Form 20-F 2013 cross-reference table, (ii) the Supplemental Information, and (iii) the Exhibits required to be filed pursuant to the Form 20-F shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statement on Form F-3 filed on April 23, 2012 (File No. 333-180880) and any other documents filed by us pursuant to the Securities Act of 1933, as amended, which incorporates by reference the 2013 Form 20-F. Any information herein which is not referenced in the Form 20-F 2013 cross-reference table or filed as an exhibit thereto shall not be deemed to be so incorporated by reference.

This annual report includes financial measures that were not calculated or presented in accordance with IFRS, and we refer to these measures as non-IFRS financial measures. Reconciliations of these non-IFRS financial measures to the most directly comparable IFRS financial measures can be found on pages 150-151 of this annual report.

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

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

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

Form 20-F Item Heading		Location in Document	Page Number
PART I			
1	Identity of Directors, Senior management and advisers.	N/A	
2	Offer statistics and timetable	N/A	
3	Key information		
A	Selected financial data	Five-year summary	26
		Reconciliations to IFRS	150-151
		Financial terminology	153
		Supplemental information	
		Exchange rates	153
B	Capitalization and indebtedness	N/A	-
C	Reason for offer and use of proceeds	N/A	-
D	Risk factors	Risk factors	94-101
4	Info on the Company		
A	History and development of the Company	Our Business	
		2013 at a glance 2013 in review	4
		Board of Directors Report	
		Business in 2013	28
		Capital expenditures	31
		Notes to the Consolidated financial statements	
		Note C26 Business combinations	84
		Supplemental information	

Table of Contents

Ericsson Annual Report on Form 20-F 2013

Table of Contents

Ericsson Annual Report on Form 20-F 2013

Table of Contents

Ericsson Annual Report on Form 20-F 2013

E	Dilution	N/A
F	Expenses of the issue	N/A

Table of Contents

Ericsson Annual Report on Form 20-F 2013

Table of Contents

Exhibit 13	906 Certifications
Exhibit 15.1	Consent of independent registered public accounting firm

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

Note: The Company s holding in ST-Ericsson SA meets the requirements of Rule 3-09 under Regulation S-X for the provision of separate financial statements of ST-Ericsson SA, a non-listed Swiss company that has a December 31 fiscal year end.

The Company intends to file the financial statements of ST-Ericsson SA as of and for the year ended December 31, 2013 as an amendment to this Annual Report on Form 20-F as soon as practicable after they become available.

vi

THIS IS ERICSSON

We are a world-leading provider of communications networks, telecom services and support solutions. Here we look at some of the factors that make Ericsson unique.

Life in the Networked Society is becoming a reality for billions of people and millions of businesses around the world. As everything becomes connected, our world is changing. Our lives are changing. At Ericsson, we are proud of the central role we are playing in this evolution, using innovation to empower people, business and society. The solutions we provide allow people to communicate, work, study, do business and live more freely. They help create more efficient and more sustainable societies.

We have been leaders in telecommunications and related services ever since Lars Magnus Ericsson founded the company in 1876. Today, we are expanding into the Information and Communications Technology (ICT) arena, and becoming a major ICT solutions provider.

It is a natural progression: our research and innovations made mobile communications and broadband possible, and those technologies are powering modern technologies such as cloud computing, smart grids, machine-to-machine (M2M) communication and m-commerce. Every time you make a call or use an app on your smartphone, tablet or mobile computer, you are probably using one of our solutions and one of the networks provided or managed by us. When you watch video or TV, there is a good chance that one of our solutions is behind it maybe even one of the technologies that have won us four Emmy awards.

As well as the advanced technology, we also provide world-leading services, software and infrastructure, mainly to telecom operators.

Ericsson has always been a company driven by innovation in technology and business. That is why we were the pioneers in managed services. That is why we hold so many standards-essential patents. We see our leadership in technology and services as one of the foundations of our business.

Some 40 percent of global mobile traffic runs through networks we have supplied

Every major telecom operator in the world buys solutions or services from Ericsson

We manage networks that serve more than 1 billion subscribers globally

With more than 35,000 granted patents, we have one of the industry s strongest patent portfolios.

OUR REGIONS

As a global company, we have created an efficient go-to-market organization based on 10 regions. Backed by our collective global knowledge, our regional competence and close customer relationships provide a solid foundation for profitable growth. In each of our regions, we work closely with customers to develop innovative, scalable solutions that help them increase revenue and reduce costs.

We share best practices across regions, which boosts both quality and efficiency. When a successful customer solution is identified and proven in one region, we can roll it out around the world, sharing common processes, methods and tools.

This knowledge-sharing, the expertise and local knowledge gained through working closely with customers combine to create global scale, another of the pillars of our business success.

Operators look to long-term partners such as Ericsson for support in every aspect of their business. To ensure a consistent offering towards all customers and enable economies of scale, the same set of engagement practices operate in each region: Mobile Broadband; Communication Services; Fixed Broadband and Convergence; Managed Services; Operations and Business Support Systems; and Television and Media Management.

BUSINESS UNITS

To best reflect our business, Ericsson reports four business segments. They are reflected in the four business units, each of which is responsible for developing and maintaining its specific portfolio of products, solutions and services.

OUR SEGMENTS

Today, Ericsson has more than 114,000 people serving customers in over 180 countries. Our business is divided into four segments:

NETWORKS		GLOBAL SERVICES		SUPPORT SOLUTIONS		MODEMS
We provide the network infrastructure needed for mobile and fixed communication, including 2G, 3G and 4G radio networks, and IP core and transport networks. Our cost-efficient networks offer superior performance and ensure a quality user experience.		Through our 64,000 services professionals around the world, we deploy, operate and evolve networks and related support systems. Global Services includes professional services and network rollout.		The Support Solutions segment focuses on software for operations and business support systems (OSS and BSS), as well as TV and media management, and m-commerce.		A new segment in 2013, for design, development and sales of LTE multi-mode thin modems. The modem portfolio targets smartphone and tablet manufacturers. Multi-technology and multi-band connectivity is essential for the Networked Society.
Revenue SEK 117.7 BN	**Market share estimate**	**Revenue SEK 97.4 BN**	**Market share estimate**	**Revenue SEK 12.2 BN**	**Market share estimate**	
(2012: 117.3 bn)	25% in network equipment, key segments*	(2012: 97.0 bn)	**13%** in telecom services	(2012: 13.5 bn)	**25%** in IPTV	
Operating margin 10%	**Market position #1**	**Operating margin 6%**	**Market position #1**	**Operating margin 12%**	**Market position #1**	**Operating income 0.5 BN**
(2012: 6%)	in radio access	(2012: 6%)	in telecom services	(2012: 9%)	in OSS and BSS	

* Key segments include Radio, IP and Transport as well as Core.

Table of Contents

2013 AT A GLANCE

A look at some of the most important measures of our performance, and a summary of business highlights from around the world during 2013.

2013 IN REVIEW

JANUARY MARCH

In line with Ericsson s services strategy to broaden its IT capabilities, the Company announced the intention to acquire Devoteam Telecom & Media operations in France, bringing consulting and systems integration capabilities.

Ericsson signed managed services agreements comprising fixed and mobile networks for telecom operators in India and Russia. Ericsson is responsible for network operations and field maintenance, and for driving modernization of tools, processes and best practices, in order to maximize operational efficiencies.

UK operator O2 signed an agreement with Ericsson to provide a 4G/ LTE-compatible core network and to deploy RBS 6000 multi-standard radio base stations for 50% of O2 s radio access network in the UK.

Ericsson introduced a service to provide testing and verification for devices and applications in its global device labs. Devices can be tested before launch to help make them more network-friendly, as well as to make networks themselves more device-friendly.

At Mobile World Congress (MWC), Ericsson met numerous customers, showcased a series of world firsts and launched new products and services, including in the areas of mobile broadband, operation and business support systems (OSS and BSS), m-commerce and managed services. Ericsson also announced its network-enabled cloud concept, a business platform that enables operators to generate new revenues and evolve network capabilities.

APRIL JUNE

Ericsson announced its intention to acquire Microsoft Mediaroom, making Ericsson a leading player for innovative video distribution and IPTV across multiple networks and devices. The importance of video distribution capabilities is increasing as more and more LTE networks are deployed.

Energy company E.ON selected Ericsson to operate more than 600,000 smart metering points for its Swedish operations. Ericsson provides a hosted solution, including consulting and systems integration services.

Ericsson was named the global leader in telecom operations management by industry analyst firm Gartner.

Following the acquisition of Canadian Wi-Fi company BelAir Networks, Ericsson announced its 3GPP-compliant Wi-Fi network solution. It enables operators to incorporate telecom-grade Wi-Fi into their heterogeneous networks so that smartphone traffic can seamlessly shift between 3GPP and Wi-Fi networks.

Ericsson reached a milestone by providing managed services to networks that serve 1 billion subscribers.

Russian operator MTS selected Ericsson to build an LTE network covering approximately half of Russia. Ericsson supplies hardware and services for radio access and core networks. Under the three-year agreement, MTS s 2G and 3G networks will also be further developed in several Russian regions.

JULY SEPTEMBER

Acquisition of Canadian Telcocell broadened Ericsson s systems integration capabilities for business support systems (BSS) in North America and strengthened its full ICT transformation services. Multi-vendor BSS systems integration and consulting are of great importance at the intersection of IT and telecom.

South Korean operator LG U+ commercially launched Ericsson s LTE-Advanced (LTE-A) with carrier aggregation, combining spectrum bands for higher broadband speeds.

Ericsson and STMicroelectronics completed the split-up of the former ST-Ericsson joint venture on August 2.

Ericsson announced it would build three Global ICT Centers to support R&D in developing and verifying solutions, bringing innovations to the market faster.

Redefining the small-cell market, Ericsson announced the Ericsson Radio Dot System: a cellular radio unit that is small enough to fit in a hand, and provides enough indoor network coverage for a crowd. It enables operators and enterprises to offer a complete indoor solution for mobile broadband and voice services.

Russian operator Rostelecom, a provider of broadband and pay TV, has deployed the world s largest operator content-delivery network (CDN) through a solution developed and integrated by Ericsson. The CDN is ground-breaking in terms of both capability and geographic span.

OCTOBER DECEMBER

To meet the demand from traffic streams generated by innovative cloud services, Ericsson announced a new multiple-application board for the family of Smart Services Routers (SSR). This board is powered by the SNP 4000, a revolutionary processor introduced by Ericsson in March 2013.

As the world s first LTE broadcast on a live network, Australian operator Telstra activated Ericsson s LTE Broadcast solution on its commercial network to deliver high-quality video without buffering.

Ericsson s complete Voice-over-LTE (VoLTE) solution was selected by Japanese operator SoftBank Mobile. Ericsson s VoLTE solution offers telecom-grade HD voice and video calling alongside simultaneous enriched multimedia services on LTE smartphones.

Ericsson was selected by China Mobile to deploy LTE in 15 provinces in mainland China. Ericsson is the main supplier of the core network and will deploy a radio access network based on its RBS 6000 radio base station. The contract also includes network design and optimization services.

Japanese operator KDDI selected Ericsson as one of the prime vendors to deploy its LTE system and Evolved Packet Core (EPC) network. This was the first time that KDDI selected Ericsson to implement a radio access network, based on RBS 6000. In addition to network solutions, Ericsson will provide related services such as network rollout and systems integration.

LETTER FROM THE CEO

Ericsson is on a journey of transformation. Building on our technology and services leadership in telecoms, we are becoming a leader in Information and Communications Technology (ICT), a driving force in the Networked Society. Let us look at some milestones from last year, and explore the road ahead.

DEAR SHAREHOLDERS

As the world is changing into a Networked Society, it is starting to transform virtually all industries. The music industry was early out with digital distribution and new business models as a result of mobility, broadband and cloud creating new opportunities. The networks are becoming more relevant not only to people using their smartphones, but also to businesses and society at large. In light of this development, both operators and vendors are making strategic choices based on their respective assets. It is a truly exciting time in the industry.

Let s look more closely at developments at Ericsson in 2013. In our core business, we redefined the small-cell market with our Radio Dot System. We have established ourselves in the Chinese 4G market with TD-LTE, after a weaker position in 3G where we did not participate in the TD-SCDMA technology. The majority of the European network modernization projects, which put pressure on our margins in recent years, are now behind us; in line with our strategy we now have a strong installed base in Europe. In parallel, we have strengthened in services across North America and are now the leaders in both infrastructure and telecom services in the world s most advanced ICT market.

We have continued with our strategy of expanding into targeted areas such as TV and media, IP, cloud, as well as OSS and BSS. And we have refocused our position in modems, winding up the ST-Ericsson joint venture and establishing our own thin modems business. We further strengthened our global services capabilities all over the world. And we continue to invest in research and development SEK 162 billion in the past five years alone. We build on our core assets our technology and services leadership and our global scale as part of our constant evolution, something that is vital for maintaining our leading position in a transforming industry.

Our technology leadership is built on our investments in R&D and evidenced by more than 35,000 granted patents, one of the industry s strongest patent portfolios. During the year we closed an IPR (intellectual property rights) and licensing agreement with Samsung that is important not only to Ericsson but to the whole industry as it shows the benefits of sharing technology on fair, reasonable and non-discriminatory (FRAND) terms. The multi-year agreement, which ends the patent-related legal disputes between the companies, consists of an initial payment and ongoing royalty payments going forward.

Profitability

Our focus on profitability is now starting to pay off, with stable margins in Professional Services and a steady improvement in Networks during the year. Operating income was up from SEK 10.5 billion in 2012 to SEK 17.8 billion in 2013, with our operating margin increasing from 5% to 8%.

In North America we saw a strong start to the year as two major coverage projects peaked, with a subsequent weaker second half of 2013. We expect more capacity projects in Networks, continued momentum for Professional Services and growth in Support Solutions such as TV and media following the acquisition of Mediaroom from Microsoft.

As I mentioned earlier, the big European network modernization projects are coming to an end and we expect the telecom industry in Europe to improve, driven by macroeconomic improvements as well as a recent investment announcement by a large operator that could trigger others to invest.

It was a challenging year in Northeast Asia. This was primarily due to reduced activity and currency headwinds in Japan, where we are approaching completion of a major project, and a structural decline in GSM sales in China.

Table of Contents

But late in the year we won important contracts for rolling out 4G both in China and Japan.

And now we have integrated Modems into the business, providing the device connectivity that is so important in the Networked Society.

Growth

From 2012 to 2016, we expect a compound annual growth rate of more than 4% in the market segments that we address, measured in USD, with some variation between market segments and years.

The underlying fundamentals for growth in the industry are intact. Mobile broadband continued to grow, with subscriptions increasing 40% to 2.1 billion during 2013. By 2019, we expect to see 9 billion mobile subscriptions, with three times as many smartphones as today, and 8 billion mobile broadband subscriptions.

Sustainable development was high on the agenda during 2013 and we lead the industry in working holistically with sustainability issues to drive growth in a way that positively impacts the triple bottom line. We focus on the issues where we can make the biggest difference: accessibility and affordability of mobile communication; the energy and materials performance of our products and solutions and our own activities; climate change and urbanization, business ethics, and employee engagement. We have made progress during the year and we will continue to use our strength to ensure that technology is a force for positive, lasting change in the world.

Strategic direction

We have set out a clear long-term strategy framework, where we are determined to evolve to become the industry leader in the Networked Society. This framework has three components:

- Excel in our core business radio, core and transmission, and telecom services
- Establish leadership in targeted areas modems, cloud, IP networks, TV and media, as well as OSS and BSS
- Expand business in new areas.

The road ahead

The key focus areas outlined at our 2013 Investor Day remain the foundation for our strategy for 2014 and the years ahead.

- We will continue to pursue profitable growth, by making the most out of our existing footprint, increasing sales in new and targeted areas, increasing the share of IPR and software sales, and improving earnings in network rollout.
- We will continue to reduce costs and improve efficiency, thanks to a better order-to-cash process and structural improvements; by industrializing, centralizing and automating our processes, and getting the most out of our global skills base; and by continuing to implement lean and agile ways of working across our R&D.

And we will keep on demonstrating commercial excellence, by evolving our infrastructure software model to a complete ICT environment, through consistent price management and by getting a price premium for first-class network performance.

The long-term fundamentals in the industry remain attractive and we are in a strong position to capture the opportunities that lie ahead. To assist me in achieving this, I have a dedicated, global organization with talented employees who work tirelessly to ensure that Ericsson continues to generate sustainable value for our shareholders and customers.

Hans Vestberg

President and CEO

MARKET TRENDS

New ICT solutions are transforming the way people, business and society communicate and collaborate.

The Networked Society brings innovation and progress to private life, business and society. New forms of collaboration, participation and sharing, as well as new ways to meet customer needs and build value, are making the network more and more essential to all aspects of everyday life.

All around the world, people are demanding greater mobility, better broadband and more access to cloud-based services. These three factors are driving the evolution of the Networked Society.

MOBILE BROADBAND OPPORTUNITIES

Connections are the starting point of the Networked Society. There are currently approximately 6.7 billion mobile subscriptions around the world, and the proportion of the global population with mobile network access known as population coverage is constantly increasing as more radio base stations are deployed. And the different generations of mobile technology are reaching out to more and more people every year.

GSM/EDGE technology has by far the widest reach today, covering more than 85% of global population. The areas yet to be reached by GSM/EDGE in those countries that use the technology are sparsely populated.

Further expansion of WCDMA/HSPA will be driven by increased user demand for internet access, the growing affordability of smartphones and regulatory requirements to connect the unconnected.

Even in the early days of LTE rollout, at the end of 2012, it was estimated that the technology covered 10% of the world s population. Looking ahead six years, Ericsson predicts that this will increase to more than 65%.

In 2013, global smartphone shipments outnumbered those of classic feature phones. The 1.9 billion smartphones subscriptions today are mainly in mid-to-high-end markets; the next billion is set to be mass-market phones now being introduced at USD 50-100. The continued growth in smartphones is changing consumer behavior and creating new lifestyles around the world. Another factor is the accelerating usage of tablets of which only around 25% are currently connected to mobile networks.

A large proportion of the increasing data traffic for smartphones, tablets and computers comes from video, on websites, and through streaming, downloads, video applications and gaming. Video is more sensitive to network

quality than many other forms of data traffic, a fact that makes network performance even more important.

The opportunities that these factors represent will increase demand for networks, drive the expansion of mobile broadband and pave the way for growth in new information services and data business.

CHANGING CONSUMER EXPECTATIONS

Today s social, collaborative and sharing culture brings individual empowerment, new consumption patterns and stronger civic participation. It also brings an expectation of an always-on connection to the network and access to services wherever you are. For many people, a service delivered over the network rather than ownership is becoming the preferred way to consume and access content such as music and video, and is also becoming increasingly important in areas such as health, education and other public services.

INNOVATION IN ENTERPRISES

Industries such as media, commerce, utilities, transportation, health and education are using ICT to create new business and improve performance of today s operations. New, disruptive players, such as Spotify and Netflix, are challenging the prevailing models of their respective music and television/video industries. This accelerating innovation power is based on the combination of skilled, demanding users who expect better ways to get what they want, the availability of highly capable networks, and powerful ICT-based business platforms.

OPERATOR BUSINESS DEVELOPMENT

Operators are at the center of the development of the Networked Society. Significantly, they are capitalizing on the growth in mobile broadband growth by introducing new pricing and revenue models. Rather than the all-you-can-eat models of a few years ago, we now see better-targeted offerings based on usage patterns, capacity, service bundles, multi-device plans and real-time features such as top-up plans. Operators are also increasing investments in, and focus on, developing new businesses in media and entertainment, cloud and IT services, machine-to-machine communications and enterprise offerings, as well as industry solutions in areas such as connected cars, health services and mobile money.

DIFFERENTIATION THROUGH NETWORK PERFORMANCE

In a smartphone and tablet-centric world, broadband becomes the main enabler and applications a key service model. The consumer and business user experience is increasingly determined by the actual performance of applications, and the network needs not only to provide access but also safeguard and optimize the actual performance of the applications used. Research by Ericsson ConsumerLab provides clear evidence of the business value of a superior consumer experience.

Operators that establish, demonstrate and promote a better user experience can take a lead in terms of satisfaction, loyalty and business value. Ericsson has established an approach to assessing and securing the performance of networks in relation to a real application experience. We call it App Coverage and have developed a set of indicators to measure and ensure network performance in terms of the application experience. We discuss this concept further in the Mobile Broadband section on Page 19.

OPERATOR TRANSFORMATION

Higher data volumes, more devices, demanding applications and new service offerings to consumers, enterprises and industries all increase pressure on operators to meet customer expectations. This calls for a rapid transformation where improved network performance, more efficient processes and better structured OSS and BSS implementations enable the proactivity, agility and performance that the business portfolio requires.

The combination of Ericsson s technology and services leadership with business expertise and wide network of partners allows us to contribute to both network and business transformation for operators in markets around the world.

Table of Contents

OPERATOR EVOLUTION

Many operators are focusing on the user experience as a means of differentiation, with improved customer service and added-value services in order to increase customer loyalty and reduce retention costs. Increased focus on improved efficiency and core business is in many cases leading to new operational practices such as outsourcing and managed services partnerships.

Operators are also taking a sharper strategic focus. The three roles here are representative strategies adopted by several customers:

- Network developers concentrate on connectivity and communication services. Network performance and efficiency are key priorities.
- Service enablers establish systems and platforms that enable new enterprise practices such as IT cloud services and business processes as well as added-value services to enrich the consumer experience.
- Service creators take the lead in providing innovative new services, and are active participants in the establishment of new ecosystems in markets such as digital health, connected cars, smart homes and cities.

Ericsson works closely with operators to support their different strategic development ambitions, providing solutions that grow business and meet the operational priorities of all three roles. Among our key offerings are:

- High-performance networks that meet the most demanding service requirements from users and are open for the development of new business in areas such as new connectivity services, machine-to-machine, IP, heterogeneous networks, cloud and data monetization.
- Network and business transformation to increase efficiency and provide a differentiated customer experience.
- Business support solutions that allow the agile introduction of new pricing models and offerings with appealing combinations of new subscription packages with added-value services and partnerships.
- Systems integration expertise and communication solutions that provide expansion opportunities and new enterprise offerings.
- Platforms and development projects to expand into industry-specific solutions with machine-to-machine and applications for specific industries.

Ericsson s technical and business expertise and solutions make it possible for operators to explore new roles and capture the new opportunities they can offer.

9

OUR MARKETS

Understanding of our customers and their businesses helps us provide innovative offerings that ensure we and they stay ahead in every market.

CUSTOMERS IN MORE THAN 180 COUNTRIES

Ericsson s business is characterized by long-term relationships, mainly with large telecom operators. We serve more than 500 operator customers, and an increasing number of non-operator customers, in more than 180 countries. We have been in many of these markets for more than 100 years.

We provide solutions and services to all major telecom operators in the world. Sales to telecom operators represent the vast majority of our revenues. Our ten largest customers, of which half are multinational, account for 44% of our net sales.

Our customers operate in a variety of markets and are at various levels of technological maturity. Their business focuses also differ depending on the maturity of their markets.

The installed base of radio networks is the foundation for Ericsson s business with mobile operators. We are also expanding into other domains such as IP core networks, OSS and BSS, as well as the TV and media markets.

Over the past ten years, we have built a significant services business, representing 43% of net sales in 2013 (42% in 2012). Ericsson pioneered managed services, and continues to be the undisputed leader. Success in areas such as managed services, consulting and systems integration in turn creates opportunities for more business.

In recent years, we have expanded into TV and media. Users are consuming more video, which is an increasing source of data traffic in mobile networks 35% at the end of 2013. Video is forecast to account for more than half of all mobile network traffic in 2019. In this domain, we can reuse skills, methods and tools from our telecom managed services in the operation of broadcast services for TV and media companies.

Through the acquisition of Tandberg Television in 2007 and Microsoft s Mediaroom in 2013, we are now also a leader in the IPTV and video compression business, with multi-screen solutions for TV Anywhere.

REINVENTING THE WAY COMPANIES CREATE VALUE

To build the Networked Society, we have to offer our innovations more widely than to operators alone. This requires new ways to extend our reach. Today we also engage directly with customers in selected industry verticals particularly utilities, transport and public safety.

Our aim is to reuse products, solutions and services for these customers. They either have similar business models to telecom operators, or gain from mobile broadband and the larger opportunity to connect anything that benefits from being connected. Connectivity is helping these sectors reinvent the way they create value.

Sometimes we do business in direct collaboration with these companies, and sometimes together with our operator customers. Business requirements such as handling large volumes of subscription data, in machine-to-machine applications, for example are often a common factor. Our strategy is to explore and commercialize emerging opportunities within and between these sectors.

Since the split-up of our joint venture ST-Ericsson in 2013, and the establishment of the Modems segment, handset and device manufacturers have become a new customer segment, to whom we will supply multi-mode thin modems.

10

OUR STRATEGY

We aim to become a leading Information and Communications Technology (ICT) solutions provider by combining our core assets: Our people, our technology and services leadership, and global scale.

VISION AND MISSION

Ericsson s vision is to be the prime driver in an all-communicating world. By using innovation to empower people, business and society, we are enabling the Networked Society, in which everything that benefits from a connection will be connected.

OUR STRATEGY

Ericsson s strategy builds directly on our vision of a connected world in which broadband, mobility and the cloud combine to create the Networked Society.

The strategy is based on four pillars:

- Excel in networks
- Expand in services
- Extend in support solutions
- Establish a leading position in Networked Society enablers.

We are executing this strategy by leveraging our technology and services leadership combined with our global scale. These competitive advantages, together with the skills and experience of our employees, make Ericsson a true end-to-end business partner for network operators and customers in selected industry verticals as the Networked Society becomes a reality.

Our go-to-market approach is built on business units and regions. The business units develop solutions for specific business areas, while the regions cultivate strong relationships with our customers. This allows us to address customers needs, keep them satisfied and ensure we always deliver what we promise.

Our position and our influence also give us an opportunity and a responsibility to help address urgent global challenges such as poverty, human rights and climate change.

EXCEL IN NETWORKS

We will excel with a leading portfolio for high-performance networks. Our wanted position is to remain No.1 in networks for service providers and lead the transition to the network architecture that will enable the Networked Society.

11

We intend to simplify the management of every component of an operator s network, while exploring opportunities to build new services based on areas such as big data and analytics on top of networks.

As the leader in radio evolution, Ericsson will continue to drive the introduction of new standards and technologies, while defending our existing business with a strong migration story. We can build on our leading position in mobile backhaul and packet core networks to grow our footprint in IP and transport, and use our network experience to create compelling cloud solutions.

EXPAND IN SERVICES

We expect to expand our No.1 position in services for operators by becoming a professional services partner to new types of customers in selected industry verticals. The strength of our services business proves the value of combining local capabilities with global scale, and we will continue with this proven strategy while prioritizing innovation, competence and cost control.

Top of the agenda is ensuring the continued transformation of our professional services capabilities. This means continuing to build capabilities in IT services and ensuring we reuse and standardize as much as possible a process we refer to as services industrialization. We expect to also expand in product-related services, where we will extend our capabilities in designing and optimizing networks and move into services for heterogeneous networks, wireless networks that use a range of access technologies.

We expect to continue to lead in managed services. At the same time, we intend to build our consulting and systems integration competencies further, with an increased focus on extending our OSS, BSS and IP network transformation offerings, and continuing to explore opportunities in industry verticals.

EXTEND IN SUPPORT SOLUTIONS

Our priority is to extend our support solutions business with OSS and BSS as well as TV and media solutions to get the most out of networks. Ericsson strives to provide solutions that contribute to the best customer experience, business innovation and business efficiency.

We intend to build on our extensive installed OSS and BSS base to strengthen our position even further. In particular, we continue to focus on customer experience management and analytics, cloud and next-generation business intelligence. In addition, we intend to use our m-commerce strength in developing markets to provide banking capabilities to everyone. Our acquisition of Microsoft s Mediaroom shows our commitment to capturing the opportunities created by the ongoing transformation of TV and media. Our ambition is to be the industry s TV and media partner of choice, and we strive to enable the most efficient video-delivery networks, exploit the growing need for on-demand content management and lead in the multi-screen and multi-platform market.

ESTABLISH A LEADING POSITION IN NETWORKED SOCIETY ENABLERS

With the Networked Society becoming a reality, we are establishing ourselves in the emerging new business landscape. Building on our technology and services leadership with intellectual property rights, machine-to-machine platforms and modems, we are creating new business with players across the selected industry verticals of the utility, transportation and public safety industries.

Ericsson s capabilities, combined with our proven record of commercializing advanced ICT solutions, position us perfectly to build solutions that bring new innovative capabilities into these industry verticals while providing new efficiencies of scale.

LONG-TERM STRATEGY FRAMEWORK

Evolving to be the industry leader in the Networked Society, based on our core business, we expect to grow in targeted areas and invest in new areas.

We are focusing on increasing profit from the portfolio in our core business.

We aim to establish leadership in the targeted areas of OSS and BSS, TV and Media, IP Networks, Cloud and Modems.

We are seeking to expand business in new areas that are critical to the Networked Society and where our capabilities will make a significant difference.

As we allocate capital to support this strategy, investment in services capabilities goes hand in hand with investment in product development. Our growth strategy, leveraging our market footprint, is primarily through organic growth, but also in combination with acquisitions and partnerships.

Table of Contents

HOW WE CREATE VALUE

Ericsson develops and applies various business models for different types of businesses and different parts of the portfolio. Here we discuss two of our main business models targeting telecom operators.

Ericsson has worked for many years with large network-infrastructure projects. The operation of the resulting complex networks created a demand for managed services. The advent of mobile data led to a need for software-based support systems to monetize data services. Over the years, the business models have evolved to meet customer demand. All have similar basic investment-to-value models, but with some significant differences.

They all start with an initial investment phase, such as research and the development of new products, solutions and services.

The early phases of both infrastructure coverage and managed services projects have lower margins and profits, as explained in the diagrams on the next page. Profitability improves in both cases as the projects develop and mature.

Table of Contents

MOBILE BROADBAND INFRASTRUCTURE BUSINESS MODEL

Our most traditional business model is in network infrastructure, delivering and rolling out a physical network including all necessary hardware and software. The first phase involves building coverage across one or more geographical areas and often includes network rollout services. Subsequent phases include increasing network capacity, and adding functionality. Services include network design and optimization, and systems integration.

The initial build and rollout phase can take several years, is capital-intensive, open to competitive bidding, and usually involves lower margins. The later phases, extending the capacity and functionality of the established footprint, often involve a lower share of hardware but more professional services and software, which can be deployed remotely. These phases generally produce higher margins. The differing nature of the phases makes it important that we find a beneficial mix of coverage and capacity projects, in order to secure a good balance between growth and profitability.

MANAGED SERVICES BUSINESS MODEL

A different model applies to our managed services business. We take over aspects of a customer s business operation, or even the entire operation, for a period of up to seven years. Staff and expertise are often transferred from the customer to Ericsson. The initial transition and transformation phases can involve significant costs up front. But by simplifying, implementing and consolidating resources, tools, methods and processes, we step by step reduce the costs and improve our returns. Most such contracts are subsequently renewed. We have a good balance of contracts in the transition, transformation and optimization phases with the vast majority of the business in the optimization phase which has a beneficial effect on revenue and cash flow.

HOW WE WORK

Our competitive advantages and core values, our people and our ways of working, all combine to ensure we are always innovative and efficient, and do business responsibly and sustainably.

TECHNOLOGY AND SERVICES LEADERSHIP

Innovative solutions and unparalleled service offerings

We support our customers in the new ICT landscape by combining the advantages of our leadership in technology and services capabilities.

Our technical expertise is driven by innovation, research and development, delivering high network performance and enabling our customers to be first to market where it matters. We hold one of the largest patent portfolios in the industry, with more than 35,000 granted patents worldwide. We supplied the world s first LTE network and have maintained our leading LTE position since the first rollout of LTE in 2009. We are also a leading support systems provider.

Ericsson is also the largest telecom services provider in the world, supporting operators in creating competitive, attractive and appealing offerings to consumers, while providing managed services to networks that serve more than 1 billion subscribers worldwide. We pioneered managed services for the telecom industry more than 10 years ago and remain the leader today.

GLOBAL SCALE

Local presence combined with global scale

With operations and customers in more than 180 countries, we have established relationships with all the world s major telecom operators. We use worldwide standards, combined with global economies of scale in research and development, production and service delivery, to ensure that our products and services are efficient and of high quality wherever they are deployed.

Our technology handles approximately 40% of the world s mobile traffic and around 50% of all global LTE smartphone traffic goes through networks delivered by Ericsson. Our capabilities and business understanding in telecom, datacom and media are prerequisites for large-scale ICT transformation projects. Every year, we deliver approximately 1500 consulting, systems integration and learning services projects in multi-vendor and multi-technology environments.

Ericsson s core values

Our values are the foundation of our culture. They guide us in our daily work, in how we relate to each other and the world around us, and in the way we do business.

Table of Contents

OUR PEOPLE

People have made Ericsson what it is today. Our people with their ingenuity and professionalism are at the heart of the success we achieve today and aspire to tomorrow. By working with Ericsson, they are helping build the Networked Society and create a more sustainable world.

Our people work with us because we can help them fulfill their career ambitions and reward their effort and commitment. Working for Ericsson encourages and stimulates creativity and initiative in an environment that embraces innovation and rapid change.

To attract the best people, help them reach their full potential and engage them on the way, our People Strategy has four objectives:

Attract talent

To attract exceptional talent, we take a strategic approach to becoming an employer of choice wherever we operate. We want to be recognized as the company that will fulfill the personal and career ambitions of a potential employee.

Develop talent

Talent needs to be nurtured and encouraged, and we place great emphasis on identifying talented professionals early in their careers. We have a structured approach to identifying and assessing talent, and have created an environment in which employees can achieve their full potential. Our comprehensive career and competence model, supported by online and classroom training from Ericsson Academy and on-the-job development helps employees to build their careers and develop capabilities that contribute to the company s continued success.

Develop leaders

Strong leaders are essential for Ericsson to keep our technology and services leadership amid evolving business conditions. That is why we constantly reexamine the leadership skills and competencies required to maintain our leading position. An annual process identifies, assesses and develops people to assume strategic roles in the company. Our leadership pipeline is under continual review to ensure that we develop the right leadership capabilities at all levels in the organization.

Embrace diversity

Different people bring different points of view and different solutions to challenges essential factors in our constant search for better, more effective solutions for our customers. We strive for our management teams and employee base to be as diverse as the world in which we live.

A diverse and inclusive workforce drives innovation and leads to high-performing teams and superior business results.

TOOLS, METHODS AND PROCESSES

As a global organization, Ericsson uses a system of standardized tools, processes and methods to ensure simplicity and efficiency, guarantee aligned service offerings and quality levels, and deliver economies of scale.

Our regional organizations, all of which include six engagement practices, allow us to identify best practices, methods and processes from any individual market, and then adapt and reuse them globally.

The Ericsson Group Management System (EGMS) is used in all operations covering all units around the world. Its consistency and global reach helps ensure that the way we work meets the objectives of Ericsson s major stakeholders, building trust. The EGMS framework defines structure, rules and requirements for compliance with applicable laws, listing requirements, governance standards and other requirements.

In addition, we employ a system of audits and assessments to determine compliance and to provide valuable information for understanding, analyzing and continually improving performance.

GOVERNANCE

Good corporate governance forms the basis for building a robust corporate culture throughout a global organization. Ericsson maintains a constant focus on corporate governance issues including the establishment of efficient and reliable controls and procedures, and on promoting sustainable and responsible business practices. It is crucial that such business practices are valued and followed by all people in the organization.

All Ericsson employees are responsible for adhering to Ericsson s Code of Business Ethics, which summarizes the Group s basic policies and directives, and emphasizes the importance of integrity in all business activities.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Sustainability and corporate responsibility are integral aspects of our business, reflected in our strategy and governance.

Ericsson aims to lead the industry in providing significant and measureable contributions to a sustainable Networked Society. Through our commitment and actions, we demonstrate that we are a trusted partner for our stakeholders.

Our Sustainability and Corporate Responsibility program has three key focus areas closely connected to our business and where we can have the greatest impact:

- Conducting business responsibility
- Maximizing environmental and energy performance
- Advocating Technology for Good.

CONDUCTING BUSINESS RESPONSIBLY

Ericsson is committed to upholding the UN Global Compact Principles, and reported in line with the Global Compact Advanced level for the first time in 2013.

We are also committed to the UN Guiding Principles on Business and Human Rights, and work actively to respect human rights throughout our operations.

In Myanmar we received a Corporate Social Responsibility Special Recognition Award from Télécoms Sans Frontiéres. Ericsson was also recognized by Swedish insurance company Folksam as a role model company for our work with human rights.

As part of our zero tolerance for corruption, we have continued to develop our anti-corruption program. This included a new version of an anti-corruption e-learning course which has now been completed by approximately 85,000 employees.

MAXIMIZING ENVIRONMENTAL AND ENERGY PERFORMANCE

We continue to improve energy efficiency across our entire portfolio. Our latest generation of network infrastructure equipment provides better performance than previous generations while consuming less electricity.

Examples include:

- The RBS 6000 radio base station, part of our core portfolio, which provides energy-efficient coverage and capacity.
- Increasing deployment of our energy-efficient Psi coverage solution in markets such as Egypt, Bangladesh, Brazil and Turkey. These deployments have shown energy savings of 40% compared with traditional solutions.

By reducing indoor cell sizes and bringing the network closer to users, the Radio Dot System can reduce indoor solution power requirements. It also prolongs the battery life of devices such as smartphones and tablets frequently used in enterprise environments.

Our own operations are also yielding significant energy savings, in areas such as business travel, the efficiency of Ericsson facilities and the way we ship our products. We are working toward a five-year target of reducing CO_2 emissions per employee by 30% and keeping absolute CO_2 emissions at 2011 levels, despite forecast growth in sales and employees.

When we take back our products, we reuse or recycle 98% of the materials. We also continued to expand our ecology management program in 2013.

Table of Contents

SUSTAINABILITY ADVOCACY

In early 2013, the Broadband Commission on Digital Development established a Task Force on Sustainable Development, chaired by our CEO Hans Vestberg, to explore some of the issues surrounding how broadband can best contribute to development goals. The Ericsson-led Broadband Commission Task Force report Transformative Solutions for 2015 and Beyond examines the role broadband and ICT can play as transformative solutions for achieving sustainable development for all.

Hans Vestberg was also a member of the Leadership Council for the Sustainable Development Solutions Network, which submitted a report to the UN Secretary-General, An Action Agenda for Sustainable Development, in 2013.

Our Energy and Carbon Report analyzed the growing use of ICT. It showed that while the expansion of ICT is stimulating economic growth and development, the resulting increase in carbon emissions is expected to be marginal, with the sector as a whole not seen as contributing more than 2% of global CO_2 emissions.

At Ericsson s NEST thought-leadership event in 2013, we announced a collaboration with UN-Habitat for research and involvement in promoting sustainable cities, getting maximum value out of ICT investments, and carrying out collaborative research and specific initiatives that provide valuable insights for city leaders and policy makers.

TECHNOLOGY FOR GOOD

Our Technology For Good program continues to work with several initiatives helping people and communities address global challenges at the local, regional and international levels.

Connect to Learn is a global initiative providing quality secondary education to children, especially girls, worldwide. From its inception in 2010 up to late 2013, Connect to Learn had been established in 15 countries in cooperation with 10 operators. The initiative benefits nearly 40,000 students in schools across three continents.

Our work with Refugees United progressed over the year with the launch of the service in the Democratic Republic of Congo. By year-end, there were more than 250,000 refugees registered on the platform, so we are a quarter of the way toward our 2015 goal of helping 1 million people separated by conflict or disaster come in contact with loved ones.

Ericsson supported the Whitaker Development and Peace Initiative s (WPDI) Harmonizer program in Mexico. Harmonizer encourages social change and transformation in urban areas affected by violence and conflict, while the WPDI provides training in areas such as conflict resolution, community building and ICT for vulnerable youth living through the aftermath of violence and conflict.

This project is part of the Youth Peacemaker Network (YPN), a program that has been already established by the WPDI in South Sudan and Uganda, where Ericsson is also a partner. The YPN is a global initiative that seeks to nurture a new generation of leaders committed to reconciliation and conflict prevention.

At the request of our partners at the World Food Programme and the Emergency Telecommunications Cluster, Ericsson Response, our employee volunteer program, deployed volunteers to the Philippines in response to the disaster caused by the super typhoon Haiyan/Yolanda. The wireless internet access provided to more than 2,500 humanitarian aid workers allowed them to organize their disaster relief operations.

Table of Contents

OUR SOLUTIONS

We have the competence, the skills and the solutions our customers need to tackle the challenges of today and tomorrow.

MOBILE BROADBAND

Providing, upgrading and transforming network infrastructure

Supporting operators in adoption of new data-centric business models

Helping operators meet demand by introducing the App Coverage approach

Building heterogeneous networks using small cells, improving indoor and urban coverage

Mobile data traffic continued to grow rapidly in 2013. The rising number of smartphone subscriptions is a key driver for mobile data traffic growth, together with the fact that users are consuming more data per subscription mainly driven by video. Total smartphone subscriptions reached 1.9 billion during 2013 and the number of subscriptions for mobile PCs, tablets and mobile routers reached 300 million. The majority of mobile broadband subscribers are connected using 3G/WCDMA networks, but increasing numbers are gaining access to 4G/LTE.

With our offerings, operators can cost-effectively meet consumer and enterprise demand for services anywhere, anytime. Besides increasing coverage, speed and capacity, operators are differentiating their services and adapting them to new business models.

A change in perspective

Operators need new ways to define performance so they can build and manage their networks in the most efficient way. Ericsson s App Coverage concept advances the definition of performance beyond traditional population coverage, measuring whether a network delivers the performance required to run a particular application with acceptable quality.

Using this app-centric approach, our services and tools help operators determine where and when coverage and capacity need to be added or improved for an optimal user experience.

To increase network coverage and capacity in densely populated urban areas, we are building heterogeneous networks, improving our macro radio base stations while complementing them with smaller base stations including Wi-Fi. This provides the required App Coverage and sufficient capacity in high-load areas, such as malls, transport hubs, hotels and offices.

We expect LTE to keep expanding from 175 million subscriptions in 2013, reaching around 2.6 billion in 2019 and covering more than 65% of the world s population. We also see 2G/GSM/ EDGE networks continuing to be an important part of the ecosystem, and a complement to 3G/WCDMA/HSPA and 4G/LTE coverage.

The building blocks

We build network infrastructure with the following main components:

The RBS 6000 multi-standard platform for radio base stations. It supports GSM/EDGE, CDMA, WCDMA/HSPA and LTE in a single unit, ensuring a smooth transition to new technologies. Upgrades and expansions usually involve software and services, often delivered remotely.

The Ericsson Blade System for network control functionality in fixed and mobile core networks.

The SSR 8000 family of smart services routers for network gateways. The multi-application, high-capacity platform improves network performance and supports service differentiation in fixed and mobile networks.

Optimized backhaul solutions. The introduction of heterogeneous networks means many new sites, challenging traditional solutions for backhaul and synchronization. Our backhaul solutions use technologies such as microwave, optical and satellite.

Our network design and optimization services ensure that networks can handle high levels of data traffic while maintaining service quality and user experience.

Ericsson s network rollout services.

COMMUNICATION SERVICES

New opportunities for communication between people, enterprises and machines

Evolution driven by Voice over LTE (VoLTE), High Definition Voice and Video, Enriched Communication Services, all enabled by IP Multimedia Subsystem (IMS)

Cloud-based solutions, such as the Device Connection Platform, pushing the borders of communication beyond people

Consumers and business users want to communicate with more people, in more contexts and for more reasons than ever before. Operators are using this growing demand to drive business, providing new functionality and richer offerings across networks, devices and country borders.

Operators are already providing communication services, such as voice, text and multimedia messaging based on industry standards, ensuring global interoperability across all devices and all subscriptions.

Our IMS solutions enable operators to offer communication in new ways, such as high-definition voice, video calling and conferencing, multi-party chat with presence information, and screen sharing. IMS is also providing Voice and video over LTE (VoLTE), enhancing the user experience and reducing costs. In addition we offer machine-to-machine solutions to operators as a cloud service.

We help operators leverage the value of their networks by exploiting these new opportunities, providing enhanced communication services that are secure, reliable and simple to use.

All our applications are moving to virtualized deployments, complying with the ongoing Network Functions Virtualization industry group s specifications.

FIXED BROADBAND AND CONVERGENCE

Fourth-generation IP network portfolio

Real-time cloud capabilities

Unlocks full potential of mobility, video and the cloud

Legacy telecom networks were designed to deliver a limited number of services. Our IP-based multi-service networks create opportunities for operators to unlock the full potential of mobility, video and the cloud.

Our fourth-generation IP network portfolio allows operators to use their complete network as a single business resource as opposed to the fragmented and complex reality of most legacy networks. It also allows for increasingly virtualized network features, adding flexibility and paving the way for cooperation with new partners.

As a first step we introduced the ability to deliver telephony, internet and TV over fixed and mobile broadband networks. By combining operators software-defined networks (SDN) and cloud solutions, we are now adding real-time

20

capabilities to the cloud essential qualities for evolving consumer and enterprise services and to create new vertical applications in areas such as safety and traffic monitoring.

MANAGED SERVICES

Experience-centric engagement approach allows operators to get more out of managed services

Managing and evolving network and IT environments for operators to improve efficiency and strengthen competitiveness

Established in media, the cloud and IT Managed Services, expanding into utilities and transport sectors

Managed services traditionally involve taking over activities operators once handled in-house, from designing, planning and building a network, to managing operations. The main driving factor has been cost savings, but as competitive pressures have increased, operators have also needed to adapt their positions in the value chain.

We have developed managed services as a way to enhance the customer experience and increase business differentiation. We create new value by combining technical, service and customer experience expertise. Our experience-centric approach enhances the performance that subscribers actually get. Starting with the operator s business objectives, we define the level of customer experience necessary to meet those objectives and work together to make it happen.

Our traditional telecom managed services model focuses on reducing cost and complexity. Other models such as wholesale network sharing allow operators to choose between investing in their own infrastructure and sharing it to varying degrees with partners.

We handle complex issues such as convergence, quality and capacity management, while freeing up operator resources to focus on strategy, marketing and customer care.

We provide managed services to networks that serve more than 1 billion subscribers in more than 100 countries. These networks are typically multi-vendor, multi-technology environments, with more than half the equipment coming from non-Ericsson sources. We operate four Global Network Operations Centers (GNOCs) offering a universal approach to managed services based on years of innovation and global best practice. We rely on our global set of tools, methods and processes, and invest to ensure they remain at the leading edge.

We are expanding our established model for network and IT managed services to adjacent areas such as cloud services, TV and media, and selected industry verticals.

OPERATIONS AND BUSINESS SUPPORT SYSTEMS (OSS AND BSS)

Enabling operators to become agile

Providing systems to manage increasingly complex networks and services

Solutions to improve user experience and to create new business opportunities

OSS and BSS are used to run the networks not just from a technical perspective, but also to manage how services are delivered and paid for, keep track of revenues and maintain customer relationships.

The shift in focus from voice to data services is both a challenge and an opportunity for operators. The growth of mobile broadband is leading operators to evolve their OSS and BSS in order to monetize the increasing amount of data flowing through their networks while managing the increasing complexity of networks and services. Our solutions cater for user needs and help identify new revenue streams, in addition to running and maintaining operations. Our extensive expertise and global experience makes us unique in our approach to OSS and BSS.

We enable our customers to become more agile fast, flexible and in control of their business in a dynamic and fast-paced market. Our solutions help them capture, analyze and report user data, providing insights for more cost-efficient business decisions, identifying new revenue streams and enabling increased personalization and user control.

Our portfolio is designed around measurable performance improvement in an operator s business processes, with software that is scalable, configurable and which provides end-to-end capabilities. This, together with our expertise in consulting and systems integration, makes us a world-class software company.

The integration of the former Telcordia products, and those of ConceptWave, has contributed to our comprehensive OSS and BSS portfolio.

Table of Contents

TV AND MEDIA MANAGEMENT

A broad suite of standards-based solutions, products and services

Enabling content owners, broadcasters, TV service providers and network operators to create and deliver the future of TV on all consumer devices

Managing and monetizing the strong growth in video traffic

TV is transforming into an immersive, connected and social experience on every smart device a consumer owns and interacts with. The convergence of media and telecoms, especially through the global uptake of mobile broadband, is accelerating a change in the way consumers get premium entertainment. It also changes industry players roles in that value chain.

Our position in this transformation with 20 years of media and video experience, and global leadership in networks and telecoms is a crucial advantage to our customers as we help them innovate in TV Anywhere services and manage the strong growth in data traffic driven by video.

Our Mediaroom and Multiscreen TV solutions enabling TV service providers to deliver on the TV Anywhere future is powering more than 70 TV services for over 14 million subscribers. Our On-Demand Content Management Solution provides the content management and packaging needed to ensure unified access to infinite amounts of relevant content.

Ericsson s Media Delivery Network solution, LTE Broadcast and advanced video compression transform video efficiency, while maximizing the value of content and network assets.

Our broad portfolio is enhanced by global services capability to consult, integrate and manage business operations for TV.

CONNECTED DEVICES

Complete solutions for device connectivity

Compact modems-on-a-chip for smartphones, tablets and other small devices

Following the 2013 split-up of the ST-Ericsson joint venture between STMicroelectronics and Ericsson, Ericsson will offer LTE multi-mode thin modem solutions, including 2G, 3G and 4G interoperability. Device manufacturers will get a complete solution to ensure end-to-end device support and network functionality.

Our modems are designed for smartphones, tablets and other connected devices, important for our vision of 50 billion connected devices in the Networked Society.

Our modems support all major access technologies.

The Ericsson Device Connection Platform (DCP) is a cloud service enabling operators to offer connectivity management to enterprise customers. It enables operators to address new revenue streams from a variety of devices while simplifying the process and reducing the cost of connecting them.

OPPORTUNITIES IN INDUSTRY VERTICALS

Creating new value for non-operator businesses through ICT innovation

The rapid proliferation of connected devices, self-service applications, machine-to-machine communication and automation is changing the way companies do business. The mobile network is fundamental to this development and we serve several select industry verticals, specifically, utilities, the transport sector and public safety.

Our resources in technology, consulting, systems integration and managed services on a global scale give us a unique position. This lets us support customers with everything from connectivity to customer relationship management not just with technology but also from a business transformation perspective.

Table of Contents

OUR PERFORMANCE

Our overall goal is to create shareholder value. We use a range of financial and non-financial targets to drive business performance.

What we aim for	**GROWING SALES FASTER** **THAN** **THE MARKET**	**BEST-IN-CLASS OPERATING** **MARGIN**
Why we measure it	Outperforming our market confirms the validity of our strategic direction.	A clear focus on operating margins demonstrates our commitment to profitable growth.
Our performance		

Table of Contents

What we aim for	**STRONG CASH CONVERSION**	**EMPLOYEE ENGAGEMENT**	**CUSTOMER SATISFACTION**
Why we measure it	A strong cash position supports new business activity, enables appropriate acquisition opportunities and provides resilience to external economic volatility.	Engaged employees are motivated to contribute to the success of Ericsson and are willing to go the extra mile to meet the organization s goals.	Customer satisfaction is a prerequisite for customer loyalty. We strive to ensure that our customers perceive us as a thought leader and their preferred business partner.
Our performance			
		Our score is 8 percentage points higher than the external benchmark average, as measured across over 250 companies. We started to measure the engagement index in 2011.	

Table of Contents

REGIONAL DEVELOPMENT

Ericsson is a truly global player, with customers in more than 180 countries. We have been present in many countries, such as China, Brazil and India, for more than 100 years.

NORTH AMERICA

Net sales: SEK 59.3 SEK billion (+5%).

Networks sales declined. The first half of the year was strong as a result of the two large mobile broadband coverage projects that peaked, while the second half was weaker. While executing on the large rollout projects in the US, Ericsson has also strengthened its professional services position and capabilities. Global Services sales increased by 20%.

LATIN AMERICA

Net sales: SEK 22.0 billion (+0%).

LTE deployments ramped up after a slow start and together with 3G network quality investments drove sales growth for the full year 2013. However, macroeconomic development in mainly Brazil and Mexico continued to slow down during the year.

NORTHERN EUROPE AND CENTRAL ASIA

Net sales: SEK 11.6 billion (+2%).

The sales growth was mainly driven by Networks sales in Russia. Operators continued to show high interest in OSS and BSS.

WESTERN AND CENTRAL EUROPE

Net sales: SEK 18.5 billion (+6%).

The sales growth was driven by network modernization projects in several countries and also by a high activity level in managed services.

MEDITERRANEAN

Net sales: SEK 24.2 billion (+4%).

Sales grew, driven by 3G deployments in Northwest Africa and modernization projects.

MIDDLE EAST

Net sales: SEK 17.4 billion (+12%).

Sales grew, driven by increased investments in mobile broadband.

SUB-SAHARAN AFRICA

Net sales: SEK 10.0 billion (11%).

Sales came from 2G and 3G deployment and managed services, although the deployment pace slowed down in the latter part of the year. Long-term industry fundamentals remain positive as mobile broadband and smartphone penetration is still at low levels.

INDIA

Net sales: SEK 6.1 billion (5%).

Sales were negatively impacted by poor macroeconomic environment and delays in regulatory legislation. Global Services grew largely due to an increase in managed services.

NORTH EAST ASIA

Net sales: SEK 27.4 billion (24%).

Sales declined. Japan was negatively impacted by currency and reduced activity. GSM in China structurally declined whilst LTE deployments commenced towards the end of the year. In Japan, KDDI has selected Ericsson as one of the prime vendors to deploy its LTE system and evolved packet core network.

SOUTH EAST ASIA AND OCEANIA

Net sales: SEK 15.8 billion (+5%).

Sales grew, with 3G deployments in Thailand and LTE deployments in Singapore and Australia. In Indonesia major capacity projects were finalized. Smartphone penetration continued to increase from a low level.

OTHER

Net sales: SEK 15.0 billion (+22%).

Includes revenues generated across all regions through licensing, sales of cables, broadcast services, power modules and other businesses. Sales increased, positively impacted by the Samsung agreement but negatively impacted by the divestment of IPX in 2012 and the exit of the power cable businesses in 2013.

Table of Contents

FIVE-YEAR SUMMARY

For definitions of the financial terms used, see Glossary and Financial terminology.

Five-year summary

	2013	Change	2012	2011	2010	2009
Income statement items, SEK million						
Net sales	**227,376**	0%	227,779	226,921	203,348	206,477
Operating income	**17,845**	71%	10,458	17,900	16,455	5,918
Financial net	**747**		276	221	672	325
Net income	**12,174**	105%	5,938	12,569	11,235	4,127
Year-end position						
Total assets	**269,190**	2%	274,996	280,349	281,815	269,809
Working capital as defined[1)]	**106,940**	6%	100,619	109,552	105,488	99,079
Capital employed as defined[1)]	**180,903**	2%	176,653	186,307	182,640	181,680
Gross cash as defined[1)]	**77,089**	0%	76,708	80,542	87,150	76,724
Net cash as defined[1)]	**37,809**	2%	38,538	39,505	51,295	36,071
Property, plant and equipment	**11,433**	1%	11,493	10,788	9,434	9,606
Stockholders equity	**140,204**	2%	136,883	143,105	145,106	139,870
Non-controlling interest	**1,419**	11%	1,600	2,165	1,679	1,157
Interest-bearing liabilities and post-employment benefits	**39,280**	3%	38,170	41,037	35,855	40,653
Per share indicators						
Earnings per share, basic, SEK, as defined	**3.72**	107%	1.80	3.80	3.49	1.15
Earnings per share, diluted, SEK, as defined	**3.69**	107%	1.78	3.77	3.46	1.14
Cash flow from operating activities per share, SEK	**5.39**	21%	6.85	3.11	8.31	7.67
Cash dividends per share, SEK, as defined	**3.00**[2)]	9%	2.75	2.50	2.25	2.00
Cash dividends per ADS, USD	**0.47**[2)]	12%	0.42	0.38	0.37	0.28
Stockholders equity per share, SEK, as defined	**43.39**	2%	42.51	44.57	45.34	43.79
Number of shares outstanding (in millions)						
end of period, basic	**3,231**		3,220	3,211	3,200	3,194
average, basic	**3,226**		3,216	3,206	3,197	3,190
average, diluted	**3,257**		3,247	3,233	3,226	3,212
Other information, SEK million						
Additions to property, plant and equipment	**4,503**	17%	5,429	4,994	3,686	4,006
Depreciation and write-downs/impairments of property, plant and equipment	**4,209**	5%	4,012	3,546	3,296	3,502
Acquisitions/capitalization of intangible assets	**4,759**		13,247	2,748	7,246	11,413
Amortization and write-downs/impairments of intangible assets	**5,928**	1%	5,877	5,490	6,657	8,621
Research and development expenses	**32,236**	2%	32,833	32,638	31,558	33,055
as percentage of net sales	**14.2%**		14.4%	14.4%	15.5%	16.0%
Ratios						
Operating margin	**7.8%**		4.6%	7.9%	8.1%	2.9%
EBITA margin as defined[1)]	**9.8%**		6.6%	9.9%	11.0%	6.7%
Cash conversion as defined[1)]	**79%**		116%	40%	112%	117%
Return on equity as defined[1)]	**8.7%**		4.1%	8.5%	7.8%	2.6%
Return on capital employed as defined[1)]	**10.7%**		6.7%	11.3%	9.6%	4.3%
Equity ratio as defined	**52.6%**		50.4%	51.8%	52.1%	52.3%

Capital turnover as defined	**1.3**		1.3	1.2	1.1	1.1
Inventory turnover days as defined	**62**		73	78	74	68
Trade receivables turnover as defined	**3.4**		3.6	3.6	3.2	2.9
Payment readiness, SEK million, as defined	**82,631**	3%	84,951	86,570	96,951	88,960
as percentage of net sales	**36.3%**		37.3%	38.1%	47.7%	43.1%
Statistical data, year-end						
Number of employees	**114,340**	4%	110,255	104,525	90,261	82,493
of which in Sweden	**17,858**	1%	17,712	17,500	17,848	18,217
Export sales from Sweden, SEK million	**108,944**	2%	106,997	116,507	100,070	94,829

1) These financial measures as defined by us may constitute non-IFRS measures. For a reconciliation to the most directly comparable IFRS measures, see pages 150 151
2) For 2013, as proposed by the Board of Directors.

Table of Contents

LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS

Looking back on my third year as chairman of Ericsson, I have to say it is exciting to be part of this industry. The rapid pace of change I mentioned last year shows no signs of slowing, and the transformative power of technology is becoming increasingly felt all around the world. It is a true privilege to be the chairman of a company that is leading and driving that development.

Much of our time on the Ericsson Board is spent examining longer-term strategic issues and the Board needs to form a long-term view. But particularly in an environment and a market like Ericsson s, we also have to consider short-term changes and opportunities that arise, and respond appropriately.

2013 was a very eventful year in which Ericsson and the Board addressed a number of important matters including acquisitions, divestments and refinancing. Two events that came up for much discussion during 2013 were the dissolution of the ST-Ericsson joint venture, with thin modems being integrated into Ericsson s operations, and the important patent agreement with Samsung.

Attracting and retaining talent

The Board also pays much attention to talent management. We have a committed and experienced leadership team, led by our CEO and President, Hans Vestberg. We also see it as important to have a good leadership talent pool, so that future leaders can be developed and prepared, to secure the Company s leading position.

Another main area for the Board is corporate governance, sustainability and responsible business practice. Ericsson is a large company with a unique global reach and it is essential that our high standards are met in all our dealings across diverse markets. Ericsson has set the bar high: every part of the Company is required to meet demanding financial, social, and environmental standards. Good governance ensures that risks are addressed and managed. Ericsson works continuously to uphold these standards as evidenced by the high trust that our stakeholders put in us.

Proposal to raise the dividend

We are also entrusted with the capital structure of the Company which is always an important topic of discussion. Part of this, particularly during the fourth quarter of each year, involves a proposal for dividend to the annual general meeting. This discussion is based on our dividend policy, which takes into account the previous year s earnings and balance sheet structure, as well as coming years business plans and expected economic development. Ericsson s strategy is one of industry leadership which requires large investments into R&D as well as a continued focus on building on the core business and expanding into new areas.

With all this taken into account the Board s proposal is to increase the dividend from SEK 2.75 in 2012 to SEK 3 per share for 2013.

Ericsson is a dynamic, progressive company operating in an exciting, growing market, with good long-term prospects. I am proud of the people of Ericsson and it is an honor to be the Chairman of the Board.

Leif Johansson

Chairman of the Board of Directors

Table of Contents

BOARD OF DIRECTORS REPORT

BUSINESS IN 2013

Ericsson s sales ended at SEK 227.4 billion. The focus on profitability started to pay off and operating margin for the Group gradually improved in 2013, despite significant currency headwind, driven primarily by improvements in Networks and Network Rollout.

The business mix, with a higher share of coverage projects than capacity projects, started to shift towards more capacity during the year.

As anticipated, sales came under some pressure towards the end of the year. As previously communicated, the major reasons behind this development are the two large mobile broadband coverage projects, which peaked in North America in the first half of 2013, and the impact from reduced activity in Japan.

While executing on the large rollout projects in the US, Ericsson has also strengthened its professional services position and capabilities. In the second half of the year, Global Services accounted for more than half of the region s sales and today the Company is the market leader in both telecom services and mobile infrastructure in one of the world s most advanced and dynamic ICT markets.

The LTE tenders in China continued and so far the two major operators that have made their vendor selections have included Ericsson as a vendor. In the latter part of the year, sales in China improved as a result of deliveries to ongoing mobile broadband coverage projects.

Also in the latter part of 2013, Ericsson continued to grow in some of its European key markets. During the last years, the position in Europe has been strengthened through the network modernization projects. These have been delivered according to plan and the major part of the negative margin impact from these projects is now over. Over time, it is expected that the telecom industry in Europe will improve.

During 2013, Ericsson executed on a number of strategic initiatives to both manage the ongoing technology transition in the industry and to transform the company for future business opportunities. Ericsson has solidified its core business as well as taken important steps to build a leadership position in new and targeted key areas. This includes consolidation of the modems business and the acquisition of the IPTV business Mediaroom from Microsoft. The Company will gradually increase resource and capital allocation in these areas as well as in IP, Cloud, OSS and BSS.

The Company has also successfully completed an IPR cross-licensing agreement with Samsung. This agreement ends complaints made by both companies against each other before the International Trade Commission (ITC) as well as the lawsuits before the U.S. District Court for the Eastern District of Texas.

The long-term fundamentals in the industry remain attractive and with ongoing strategic initiatives Ericsson is well positioned to continue to support its customers in a transforming ICT market.

The Company has worked diligently to improve working capital and ended the year with a strong operating cash flow of SEK 17.4 (22.0) billion and a full-year cash conversion of 79%, above the target of 70%, giving Ericsson a solid balance sheet to continue to execute on its strategy.

FINANCIAL HIGHLIGHTS

Impact of Samsung IPR agreement

On January 27, 2014, Ericsson and Samsung signed an agreement on global patent licenses between the two companies.

The industry is built on scale and a strong tradition of sharing technologies through licensing on fair, reasonable and non-discriminatory (FRAND) terms. The agreement shows the value of Ericsson s R&D investments and enables both companies to continue to innovate and bring new technologies to the market. The cross-license agreement covers patents relating to GSM, UMTS, and LTE standards for both networks and handsets.

The agreement includes an initial payment and ongoing royalty payments from Samsung to Ericsson for the term of the new multi-year license agreement.

The transaction contributed to net sales of SEK 4.2 billion, operating income of SEK 4.2 billion and net income of SEK 3.3 billion in 2013. Ericsson expects that the initial payment will impact operating cash flow in the beginning of 2014. This specific agreement impacts segments Networks and Support Solutions.

Income statement

Reported sales for 2013 were flat and amounted to SEK 227.4 (227.8) billion. During the year sales were negatively impacted by strong currency headwind and lower sales in North East Asia, driven by lower GSM investments in China combined with lower project activity in

Table of Contents

Japan and South Korea. In North America CDMA sales declined by 50% to SEK 4.2 (8.4) billion.

Revenues for IPR and licensing were SEK 10.6 (6.6) billion, of which the Samsung agreement contributed with SEK 4.2 billion.

With a large share of coverage projects in the beginning of the year and with slightly improved business mix from the second quarter, the commodity mix remained stable compared to last year. Software represented 24% (23%), hardware 34% (35%) and services 42% (42%) of total sales.

Restructuring charges amounted to SEK 4.5 (3.4) billion, mainly related to continued execution of the service delivery strategy and headcount reductions in Sweden. The proactive work to drive efficiency and cost reductions continues.

Gross margin increased to 33.6% (31.6%), due to the agreement with Samsung, reduced negative effect from network modernization projects in Europe and improved business mix. The Global Services share of Group sales was flat at 43%.

Total operating expenses were basically flat and amounted to SEK 58.5 (58.9) billion. Expenses related to the modems business added SEK 0.5 billion to operating expenses. A one-time charge related to the acquisition of Airvana Network Solutions Inc. impacted the operating expenses negatively by SEK 0.4 billion. Excluding restructuring charges, operating expenses were down 2% compared to 2012. Selling, general and administrative expenses (SG&A) amounted to SEK 26.3 (26.0) billion and represented 11.6% of sales compared to 11.4% in 2012. For comments on research and development expenses (R&D), see the section Research and development, patents and licensing.

Other operating income and expenses decreased to SEK 0.1 (9.0) billion. During the year, one-time charges related to the divestment of Applied Communication Sciences (ACS), the former research and engineering arm of Telcordia Technologies, and the exiting of the telecom and power cable operations of SEK 0.9 billion impacted other operating income negatively. For new hedges taken in 2013, hedge accounting is not applied. The total re-evaluation effect for 2013 hedges on other operating income was SEK 0.5 billion. In 2012, other operating income included a gain related to the divestment of Sony Ericsson of SEK 7.7 billion and to Multimedia brokering (IPX) of SEK 0.2 billion.

Ericsson s share in earnings of JV and associated companies was SEK 0.1 (11.7) billion. In 2012 a non-cash charge of SEK 8.0 billion related to ST-Ericsson was made.

Operating income, including JV, increased to SEK 17.8 (10.5) billion, positively impacted by improved gross margin, and no negative effect from ST-Ericsson. Operating income was negatively impacted by one-time charges of SEK 1.3 billion related to the divestment of ACS, the exiting of the telecom and power cable operations and the acquisition of Airvana. Operating margin, including JV, was 7.8% (4.6%). Operating income including JV and excluding the Samsung agreement was SEK 13.6 billion with an operating margin of 6.1%. 2012 included a gain of SEK 7.7 billion related to the divestment of Sony Ericsson.

Financial net amounted to SEK 0.7 (0.3) billion. The difference is partly attributable to lower interest income as an effect of lower interest rates during 2013 compared to 2012. The tax rate for 2013 was 29% compared to 42% in 2012, positively impacted by product and market mix. Tax costs were SEK 4.9 (4.2) billion.

Net income increased to SEK 12.2 (5.9) billion, positively impacted by the Samsung agreement by SEK 3.3 billion.

EPS diluted was SEK 3.69 (1.78).

Balance sheet and other performance indicators

Compared to December 31, 2012, trade receivables increased from SEK 63.7 billion to 71.0 billion, mainly due to the Samsung agreement. Days sales outstanding (DSO) increased from 86 to 97 days.

Inventory decreased from SEK 28.8 billion to 22.8 billion, positively impacted by improved business mix and efficiency measures.

Inventory turnover days (ITO) improved from 73 to 62 days. Accounts payable days decreased from 57 to 53 days.

During the year, Ericsson concluded the following refinancing activities to extend the average debt maturity profile:

- A EUR 313 million bond was repaid
- Ericsson refinanced a USD 2 billion Revolving Credit Facility (RCF). The new facility is a five-year facility with two one-year extension options
- A USD 684 million European Investment Bank (EIB) loan was disbursed. The loan agreement was signed in 2012 and the loan supports R&D activities. The loan will mature in 2020.

A SEK 4 billion EIB loan, with original maturity in 2015, will be repaid early 2014.

Provisions amounted to SEK 5.4 (8.6) billion by the end of the year. The reduction was mainly due to utilization of the 2012 ST-Ericsson provision.

Table of Contents

Cash flow from operating activities was positive at SEK 17.4 (22.0) billion, negatively impacted by higher working capital. There was no impact on cash flow from the Samsung agreement.

Cash outlays for regular investing activities decreased to SEK 5.0 (6.5) billion. Acquisitions and divestments during the year were net SEK 2.7 (2.1) billion. Cash flow from short-term investments for cash management purposes and other investing activities was net SEK 3.4 (3.7) billion, mainly attributable to changes between short-term investments and cash and cash equivalents.

Cash flow from financing activities was SEK 9.5 (9.4) billion, mainly impacted by dividend paid of SEK 9.2 (8.6) billion. Other financing activities net amounted to SEK 0.3 (0.8) billion.

Cash, cash equivalents and short-term investments amounted to SEK 77.1 (76.7) billion. The net cash position decreased from SEK 38.5 to 37.8 billion. Cash conversion for 2013 ended at 79%.

In 2013, the net number of employees increased by 4,085, of which 3,293 were in services and 741 in R&D. By the end of 2013, the total number of employees was 114,340 (110,255) of which 5,377 people joined Ericsson through acquisitions and through managed services contracts. At the same time, approximately 13,000 employees left Ericsson, reflecting the natural attrition rate and ongoing company transformation.

Research and development, patents and licensing

To secure continued technology leadership, focus is on innovation and R&D. R&D expenses (see table below) amounted to SEK 32.2 (32.8) billion. During 2014, R&D expenses, excluding expenses related to Modems, Mediaroom and restructuring, are expected to increase somewhat, mainly due to investments in IP.

Research and development, patents and licensing

	2013	2012	2011
Expenses (SEK billion)	**32.2**	32.8	32.6
As percent of Net sales	**14.2%**	14.4%	14.4%
Employees within R&D as of December 31[1)]	**25,300**	24,100	22,400
Patents[1)]	**35,000**	33,000	30,000
IPR revenue, net (SEK billion)	**10.6**	6.6	6.2

1) The number of employees and patents are approximate.

Table of Contents

Seasonality

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

Most recent five-year average seasonality of sales

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential change	21%	6%	3%	24%
Share of annual sales	23%	24%	24%	29%

Off-balance sheet arrangements

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

Capital expenditures

For 2013, capital expenditures amounted to SEK 4.5 billion, 2% of sales. Annual capital expenditures are normally around 2% of sales. This corresponds to the needs for keeping and maintaining the current capacity level, including the introduction of new technology and methods. Expenditures are largely related to test sites and equipment for R&D and network operations centers as well as manufacturing and repair operations. The Board of Directors reviews the Company s investment plans and proposals.

Ericsson is planning to invest in three new global ICT Centers, of which two in Sweden and one in Canada, over the coming five years. The centers will support R&D and Services in developing and verifying solutions, bringing innovation to the market faster. Apart from this investment Ericsson believes that the Company s property, plant and equipment and the facilities the Company occupies are suitable for its present needs in most locations. As of December 31, 2013, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

The Company believes it has sufficient cash and cash generation capacity to fund expected capital expenditures without external borrowings in 2014.

Capital expenditures 2009 2013

SEK billion	2013	2012	2011	2010	2009
Capital expenditures	**4.5**	5.4	5.0	3.7	4.0
of which in Sweden	**1.9**	1.3	1.7	1.4	1.3
Share of annual sales	**2.0%**	2.4%	2.2%	1.8%	1.9%

BUSINESS RESULTS SEGMENTS

Networks

Sales were basically flat. The Samsung agreement and increased sales in Latin America, Europe and the Middle East impacted sales positively, but this was partly offset by lower sales in North America, where CDMA related sales declined by 50%. North East Asia sales declined as an effect of lower project activities in Japan and South Korea and lower GSM investments in China.

At the end of the year there was solid demand for our IMS and data layered architecture UDC (User Data Consolidation). However, this was not enough to offset the continued structural decline in circuit-switched core.

Operating margin gradually improved during the year and ended at 10% (6%) This was a result of the Samsung agreement, reduced negative effect from network modernization projects in Europe, improved business mix and strong focus on improving profitability. Restructuring charges amounted to SEK 2.2 (1.3) billion. This was primarily related to reductions of operations in Sweden and dismantling of the CDMA operations. Operating margin excluding the Samsung agreement was 7%.

Global Services

Reported sales for Global Services were flat in comparison to a strong 2012. Network Rollout reported sales grew 4% driven by high coverage project activities, primarily in North America. Professional Services had a strong development in region North America and India.

Global Services operating margin was 6% (6%). Network Rollout margin gradually improved during the year due to the declining dilutive effect from European network modernization projects as well as the ongoing efficiency programs. Professional Services operating margin was 14% (14%).

Restructuring charges amounted to SEK 2.0 (1.9) billion.

Support Solutions

Sales development was primarily driven by portfolio changes and decline in sales of TV compression technology while OSS and BSS showed stable development. The Samsung agreement had an overall positive impact on sales.

Operating margin increased to 12% (9%) due to the Samsung agreement. Lower sales and a charge related to the divestment of ACS had a negative impact on the margin.

From ST-Ericsson to segment Modems

ST-Ericsson was created in 2008 as a joint venture between Ericsson and STMicroelectronics. Early in 2013, the parents agreed to split up and close the joint venture.

Ericsson decided to take over the design, development and sales of the thin LTE multimode modem solutions as these are seen as an important part of the Ericsson vision of 50 billion connected devices in the Networked Society. The ambition is to be among the top three suppliers in the thin-modem market.

In 2013, all ST-Ericsson businesses have been transferred to parents or divested. In 2012, Ericsson made a provision of SEK 3.3 billion, related to the ongoing implementation of strategic options at hand.

Ericsson now has a highly focused thin-modem operation with industry-leading technology and intellectual property. A new segment was established as of October 1, 2013, and the modems business is now consolidated into Ericsson. For 2013, segment Modems generated an operating loss of SEK 0.5 billion, primarily related to R&D expenses.

BUSINESS RESULTS REGIONS

North America: Networks sales declined in 2013, with a strong first half while the second half was weaker as a result of the two large mobile broadband coverage projects that peaked in the first half of the year. While executing on the large rollout projects in the US, Ericsson has also strengthened its professional services position and capabilities. Global Services accounted for more than 50% of the region s sales in the second half of the year.

Latin America: LTE deployments ramped up after a slow start, and together with 3G network quality investments, drove sales growth for 2013. However, macroeconomic development mostly in Brazil and Mexico continued to slow down during the year.

Northern Europe and Central Asia: Sales growth was mainly driven by Networks sales in Russia. Operators continued to show high interest in OSS and BSS.

Western and Central Europe: Sales growth was driven by network modernization projects in several countries and also by a high activity level in managed services.

Mediterranean: Sales in 2013 grew, driven by 3G deployments in Northwest Africa and modernization projects.

Middle East: Sales grew in 2013, driven by increased investments in mobile broadband.

Sub-Saharan Africa: Sales came from 2G and 3G deployment and managed services, although the deployment pace slowed down in the latter part of the year. Long-term industry fundamentals remain positive as mobile broadband and smartphone penetration is still at low levels.

India: Sales were negatively impacted by poor macroeconomic environment and delays in regulatory legislation. Global Services grew largely due to an increase in Managed Services.

North East Asia: Sales declined in 2013. Japan was negatively impacted by currency and reduced activity. GSM in China structurally declined whilst LTE deployments commenced towards the end of the year. In Japan, KDDI has selected Ericsson as one of the prime vendors to deploy its LTE system and evolved packet core network.

South East Asia and Oceania: Sales grew in 2013 with 3G deployments in Thailand and LTE deployments in Singapore and Australia. In Indonesia major capacity projects were finalized. Smartphone penetration continues to increase from a low level.

Other: Sales increased, positively impacted by the Samsung agreement but negatively impacted by the divestment of IPX in 2012 and the exit of the telecom and power cable business. Sales of broadcast services, cables, power modules and other businesses are also included in Other.

Sales per region and segment 2013 and percent change from 2012

	Networks		**Global Services**		**Support Solutions**			
SEK billion	**2013**	**Percent change**	**2013**	**Percent change**	**2013**	**Percent change**	**Total 2013**	**Percent change**
North America	28.5	7%	28.2	20%	2.6	5%	**59.3**	5%
Latin America	11.3	16%	9.5	10%	1.1	30%	**22.0**	0%
Northern Europe and Central Asia	7.2	14%	4.2	8%	0.3	46%	**11.6**	2%
Western and Central Europe	7.6	24%	10.3	3%	0.6	14%	**18.5**	6%
Mediterranean	10.8	14%	12.6	3%	0.7	6%	**24.2**	4%
Middle East	8.5	26%	7.6	4%	1.3	9%	**17.4**	12%
Sub-Saharan Africa	5.0	22%	4.1	6%	0.9	9%	**10.0**	11%
India	3.1	13%	2.7	11%	0.3	32%	**6.1**	5%
North East Asia	16.7	26%	10.4	22%	0.4	30%	**27.4**	24%
South East Asia and Oceania	8.9	12%	6.4	3%	0.5	1%	**15.8**	5%
Other[1)]	10.1	28%	1.4	17%	3.5	10%	**15.0**	22%
Total	**117.7**	**0%**	**97.4**	**0%**	**12.2**	**9%**	**227.4**	**0%**
Share of total	52%		43%		5%		**100%**	

1) Region Other includes licensing revenues, sales of cables, broadcast services, power modules and other businesses. The acquired Technicolor Broadcast Service Division is reported in region Other. Multimedia brokering (IPX) was part of region Other and divested end Q312. The power cable business was divested in Q313.

CORPORATE GOVERNANCE

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

Continued compliance with the Swedish Corporate Governance Code

Ericsson is committed to complying with best-practice corporate governance standards on a global level wherever possible. In 2013, Ericsson did not report any deviations from the Code.

Business integrity

Ericsson s Code of Business Ethics summarizes the Group s basic policies and directives governing its relationships internally, with its stakeholders and with others. It also sets out how the Group works to secure that business activities are conducted with a strong sense of integrity. There have been no amendments to Ericsson s Code of Business Ethics or waivers from a provision of the Code to any member of Group management.

Board of Directors

The Annual General Meeting held on April 9, 2013, re-elected Leif Johansson Chairman of the Board. Roxanne S. Austin, Sir Peter L. Bonfield, Börje Ekholm, Alexander Izosimov, Ulf J. Johansson, Sverker Martin-Löf, Hans Vestberg and Jacob Wallenberg were re-elected and Nora Denzel, Kristin Skogen Lund and Pär Östberg were elected new members of the Board. Pehr Claesson, Kristina Davidsson and Karin Åberg were appointed employee representatives by the unions, with Rickard Fredriksson, Karin Lennartsson and Roger Svensson as deputies.

Management

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

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

Remuneration

Remuneration to the members of the Board of Directors and to Group management, as well as the Guidelines for remuneration to Group Management resolved by the Annual General Meeting 2013, are reported in Notes to the consolidated financial statements Note C28, Information regarding members of the Board of Directors, the Group management and employees .

As of December 31, 2013, 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.

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

The Board of Directors proposes that the Annual General Meeting resolves on the following guidelines for remuneration to Group management for the period up to the 2015 Annual General Meeting. Compared to the guidelines resolved by the 2013 Annual General Meeting, a reference to the normally applicable pensionable age has been deleted.

Guidelines for remuneration to Group management

For Group management consisting of the Executive Leadership Team, including the President and CEO, total remuneration consists of fixed salary, short- and long-term variable compensation, pension and other benefits. The following guidelines apply to the remuneration of the Executive Leadership Team:

- Variable compensation is in cash and stock-based programs awarded against specific business targets derived from the long-term business plan approved by the Board of Directors. Targets may include financial targets at either Group or unit level, operational targets, employee engagement targets and customer satisfaction targets.

- All benefits, including pension benefits, follow the competitive practice in the home country taking total compensation into account.

By way of exception, additional arrangements can be made when deemed necessary. An additional arrangement can be renewed but each such arrangement shall be limited in time and shall not exceed a period of 36 months and twice the remuneration that the individual would have received had no additional arrangement been made.

The mutual notice period may be no more than six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months fixed salary is paid. Notice of termination given by the employee due to significant structural changes, or other events that in a determining manner affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

Executive Performance Stock Plan

The Company has a Long-Term Variable remuneration program (LTV). It builds on a common platform, but consists of three separate plans: one targeting all employees, one targeting key contributors and one targeting senior managers. The program is designed to encourage long-term value creation in alignment with shareholders interests. The aim of the plan for senior managers is to attract, retain and motivate executives in a competitive market through performance-based share-related incentives and to encourage the build-up of significant equity stakes. The performance criteria for senior managers under the Executive Performance Stock Plan are revised yearly and approved by the Annual General Meeting. Performance criteria for the 2014 Executive Performance Stock Plan will be communicated in the notice to the Annual General Meeting.

The targets for the 2011, 2012 and 2013 Executive Performance Stock Plans are shown in the illustration below. The performance criteria are:

- Up to one-third of the award will vest if the target for compound annual growth rate of consolidated net sales is achieved

- Up to one-third of the award will vest if the target for compound annual growth rate of consolidated operating income, including earnings in joint ventures and restructuring, is achieved. For the 2011 plan, base year 2010 excludes restructuring charges of SEK 6.8 billion. For the 2013 plan, base year 2012 excludes a non-cash charge of SEK 8.0 billion for ST-Ericsson.

- Up to one-third of the award will vest if cash conversion is at or above 70% during each of the years and vesting one-ninth of the award for each year the target is achieved.

The cash conversion target was reached in 2013 and 2012 but not reached in 2011.

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

MATERIAL CONTRACTS

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

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

RISK MANAGEMENT

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

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

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

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

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

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

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

SOURCING AND SUPPLY

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

The production of electronic modules and sub-assemblies is mostly outsourced to manufacturing services companies, of which the vast majority are in low-cost countries. Production of radio base stations is largely done in-house and on-demand. This consists of assembling and testing modules and integrating them into complete units. Final assembly and testing are concentrated to a few sites. Ericsson has 14 manufacturing sites in Brazil, China, Estonia, India, Italy, Mexico and Sweden.

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

Where possible, Ericsson relies on alternative supply sources and seeks to avoid single source supply situations. A need to switch to an alternative supplier may require allocation of additional resources. This process could take some time to complete.

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

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

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

Ericsson s approach to Sustainability and Corporate Responsibility (CR) is integrated into its core business operations throughout its value chain. The Board of Directors considers these aspects in governance decision-making. Group policies and directives ensure consistency across global operations. Ericsson publishes an annual Sustainability and Corporate Responsibility Report, which provides additional information.

Responsible business practices

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

In 2013, Ericsson reported its Communication on Progress at the Global Compact Advanced level. The Ericsson Group Management System (EGMS) includes a Code of Business Ethics, a Code of Conduct and a Sustainability Policy which reflect responsible business practices. These practices are reinforced by employee awareness training, workshops and monitoring, including a global assessment plan run by an external assurance provider.

Ericsson has adopted an anti-corruption program which is reviewed and evaluated by the Audit Committee of the Board of Directors annually. The program continues to evolve and a new version of the Company s e-learning regarding anti-corruption was launched during the year. Approximately 85,000 employees have completed the training.

Human rights

The Code of Business Ethics reflects the Company s ongoing commitment to respect human rights, and the UN Guiding Principles on Business and Human Rights. Ericsson has worked actively to strengthen its internal governance processes and has a Sales Compliance Board which considers potential human rights impacts in its decisions. The human rights risk tools used by the Sales Compliance Board include external global risk indices. Ericsson joined the Shift Business Learning Program to further strengthen its framework on Human Rights across the Company which included conducting a Human Rights Impact Assessment in Myanmar, in accordance with the UN Guiding Principles.

Responsible sourcing

All suppliers must comply with the requirements of Ericsson s Code of Conduct. Approximately 190 employees, covering all regions, are trained as Code of Conduct auditors. The Company uses a risk-based approach to ensure that the high risk portfolio areas, and highest risk markets, are targeted first. For prioritized areas, Ericsson performs regular audits and works with suppliers to ensure measurable and continuous improvements. Findings are followed up to ensure that improvements are made.

Ericsson addresses the issue of conflict minerals, including compliance with the US Dodd-Frank Act and the disclosure rule adopted by the U.S. Securities and Exchange Commission (SEC) through measures in its sourcing and product management processes.

Ericsson has actively engaged with its suppliers on this issue and suppliers within scope have been queried on the smelters in their supply chain. Ericsson s supply chain is complex and both Ericsson and its suppliers are often many tiers away from the smelters.

Ericsson also participates in industry initiatives such as the Conflict-Free Sourcing Initiative (CFSI), driven by the Global e-Sustainability Initiative (GeSI), and the Electronic Industry Citizenship Coalition (EICC).

Reducing environmental impact

Energy use of products in operation remains the Company s most significant environmental impact. Ericsson works proactively with its customers to encourage network and site energy optimization, through innovative products, software, solutions and advisory services. Processes and controls are in place to ensure compliance with relevant product-related environmental, customer and regulatory requirements.

The Company works actively to reduce its environmental impact, with a focus on Design for Environment, which includes product energy efficiency and materials management. Continuously improving sustainability performance is fundamental to Ericsson s strategy and a priority remains improving the life-cycle carbon footprint. Last year, Ericsson reported that it reached its five-year target to reduce carbon footprint intensity by 40% one year ahead of schedule. Ericsson continues to report on this performance for the final year. The target comprises two focus areas: Ericsson s own activities and the life-cycle impacts of products in operation. Results for the five-year target: A 56% reduction in direct emission intensity from own activities, including business travel, product transportation and facilities energy use. A 47% reduction in indirect emission intensity from life-cycle impacts of products in operation.

Ericsson set a new long-term objective for its own operations in 2012, which is to maintain absolute CO_2e emissions from Ericsson s own activities for business travel, product transportation and facilities energy use in 2017 at the same level as in 2011. To achieve this long-term objective, the Company aims to reduce CO_2e emissions per employee by 30% over five years. The Company achieved a 10% reduction of CO_2e emissions per employee in 2013.

Ericsson Ecology Management is a program to take responsibility for products at the end of their life and to treat them in an environmentally preferable way. The program also ensures that

Ericsson fulfills its producer responsibility and is offered to all customers globally free of charge, not only in markets where it is required by law.

Radio waves and health

Ericsson employs rigid product testing and installation procedures with the goal of ensuring that radio wave exposure levels from products and network solutions are below established safety limits. The Company also provides public information on radio waves and health, and supports independent research to further increase knowledge in this area. Since 1996, Ericsson has co-sponsored over 100 studies related to electromagnetic fields and health, primarily through the Mobile Manufacturers Forum. To assure scientific independence, firewalls were in place between the industrial sponsors and the researchers conducting these studies. Independent expert groups and public health authorities, including the World Health Organization, have reviewed the total amount of research and have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

Reporting according to GRI 3.0

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

LEGAL PROCEEDINGS

In November 2012, Ericsson filed two patent infringement lawsuits in the US District Court for the Eastern District of Texas against Samsung. Ericsson sought damages and an injunction. Ericsson also asked the Court to adjudge that Samsung breached its commitment to license any standard-essential patents it owns on fair, reasonable, and non-discriminatory terms and to declare Samsung s allegedly standard essential patents to be unenforceable. In March 2013, Samsung filed its answers and counterclaims in the Ericsson suits in Texas, USA.

In November 2012, Ericsson also filed a complaint with the US International Trade Commission (ITC), seeking an exclusion order blocking Samsung from import of certain products into the USA.

In December 2012, Samsung filed a complaint with the ITC seeking an exclusion order blocking Ericsson from import of certain products into the USA.

On January 27, 2014, Ericsson announced that an agreement had been signed with Samsung on global patent licenses between the two companies. The cross-license agreement covers patents relating to GSM, UMTS, and LTE standards for both networks and handsets.

The agreement ends the complaints made by both companies against each other before ITC as well as the lawsuits before the U.S. District Court for the Eastern District of Texas.

On January 10, 2013, Adaptix Inc. filed two lawsuits against Ericsson, AT&T, AT&T Mobility and MetroPCS Communications in the US District Court for Eastern District of Texas alleging that certain Ericsson products infringe five US patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 18, 2013, Adaptix filed a complaint with the Tokyo District Court alleging certain Ericsson products infringe two Japanese patents assigned to Adaptix. Adaptix seeks damages and an injunction.

On January 25, 2013, Adaptix filed a complaint with the US International Trade Commission (ITC) requesting that the commission open a patent infringement investigation into certain Ericsson products. In December 2013, this complaint was dismissed by the ITC based on Adaptix s withdrawal of the complaint.

In 2013, Ericsson filed a patent infringement lawsuit in the Delhi High Court against Indian handset company Micromax, seeking damages and an injunction. Ericsson alleged that Micromax products, compliant with the 2G/3G standard, infringe eight of Ericsson s Indian patents. As part of its defence, Micromax has filed a complaint to the Competition Commission of India (CCI) and the CCI has decided to refer the case to the

Director General s Office for an in-depth investigation.

In 2012, Wi-LAN Inc., a US patent licensing company, filed a complaint against Ericsson in the US District Court of Southern Florida alleging that Ericsson s LTE products infringe three of Wi-LAN s US patents. Ericsson was sued in 2010 by Wi-LAN in another patent infringement lawsuit in the US District Court for the Eastern District of Texas. Wi-LAN alleged that Ericsson products, compliant with the 3GPP standard, infringe three US patents assigned to Wi-LAN.

In June 2013, a District Court Judge in the Florida case granted Ericsson s request for a Summary

Judgment and dismissed Wi-LAN s claims against Ericsson. Wi-LAN has appealed this decision. In July 2013, a jury in Tyler, Texas, found in Ericsson s favor in the Texas case. Wi-LAN may appeal the final decision by the Court.

In 2012, Airvana Networks Solutions Inc. sued Ericsson in the Supreme Court of the State of New York, alleging that Ericsson had violated key contract terms and misappropriated Airvana trade secrets and proprietary information. Ericsson announced on September 6, 2013 that it has acquired Airvana Network Solutions EVDO business. The lawsuit filed by Airvana against Ericsson has now been dismissed.

In 2011, TruePosition sued Ericsson, Qualcomm, Alcatel-Lucent, the European Telecommunications Standards Institute (ETSI) and the Third Generation Partnership Project (3GPP) in the US District Court for the Eastern District of Pennsylvania for purported federal antitrust violations. The complaint alleged that Ericsson, Qualcomm and Alcatel-Lucent illegally conspired to block the adoption of TruePosition s proprietary technology into the new mobile positioning standards for LTE, while at the same time ensuring that their own technology was included into the new standards. The case is proceeding to discovery.

In 2007, H3G S.p.A, (H3G) filed arbitral proceedings in Italy against Ericsson. H3G claimed compensation from Ericsson for alleged breach of contract. In June 2013, the parties settled the dispute. The settlement did not have a material impact on Ericsson s business, operating results or liquidity.

In addition to the proceedings discussed above, Ericsson companies are, and in the future may be, involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business.

PARENT COMPANY

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

The Parent Company has 5 (6) branch offices. In total, the Group has 81 (71) branch and representative offices.

Financial information

Income after financial items was SEK 7.2 (4.9) billion. The Parent Company had no sales in 2013 or 2012 to subsidiaries, while 30% (34%) of total purchases of goods and services were from such companies.

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

- In 2012, a provision of SEK 3.3 billion was recognized, which provides for Ericsson s share of obligations for the wind-down of ST-Ericsson. In 2013, SEK 2.1 billion has been utilized or reversed, which resulted in a net liability of SEK 1.2 billion

- Decreased current and non-current receivables from subsidiaries of SEK 7.1 billion

- Decreased other current receivables of SEK 2.0 billion

- Increased cash, cash equivalents and short-term investments of SEK 1.1 billion

- Decreased current and non-current liabilities to subsidiaries of SEK 5.2 billion

- Decreased other current liabilities of SEK 0.9 billion.

At year-end, cash, cash equivalents and short-term investments amounted to SEK 58.5 (57.4) billion.

Share information

As of December 31, 2013, the total number of shares in issue was 3,305,051,735, of which 261,755,983 were Class A shares, each carrying one vote, and 3,043,295,752 were Class B shares, each carrying one tenth of one vote. Both classes of shares have the same rights of participation in the net assets and earnings.

The two largest shareholders at year-end were Investor AB and AB Industrivärden holding 21.50% and 15.21% respectively of the voting rights in the Parent Company.

In accordance with the conditions of the Long-Term Variable Remuneration Program (LTV) for Ericsson employees, 10,829,917 treasury shares were sold or distributed to employees in 2013. The quotient value of these shares was SEK 5.00, totaling SEK 54.1 million, representing less than 1% of capital stock, and compensation received for shares sold and distributed shares amounted to SEK 116.6 million.

The holding of treasury stock at December 31, 2013 was 73,968,178 Class B shares. The quotient value of these shares is SEK 5.00, totaling SEK 369.8 million, representing 2.2% of capital stock, and the purchase price amounts to SEK 571.6 million.

Proposed disposition of earnings

The Board of Directors proposes that a dividend of SEK 3.0 (2.75) per share be paid to shareholders duly registered on the record date April 16, 2014, and that the Parent Company shall retain the remaining part of non-restricted equity.

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

Amount to be paid to the shareholders	SEK 9,915,155,205
Amount to be retained by the Parent Company	SEK 13,882,835,598
Total non-restricted equity of the Parent Company	SEK 23,797,990,803

Table of Contents

As a basis for its dividend proposal, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company s and the Group s need for financial resources as well as the Parent Company s and the Group s liquidity, financial position in other respects and long-term ability to meet their commitments. The Group reports an equity ratio of 53% (50%) and a net cash amount of SEK 37.8 (38.5) billion.

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

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

BOARD ASSURANCE

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group s financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company s financial position and results of operations.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting . Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

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

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

Stockholm, April 8, 2014

By:	/s/ PricewaterhouseCoopers
Name:	PricewaterhouseCoopers AB

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

January December, SEK million	Notes	2013	2012	2011
Net sales	C3, C4	**227,376**	227,779	226,921
Cost of sales		**151,005**	155,699	147,200
Gross income		**76,371**	72,080	79,721
Gross margin (%)		**33.6%**	31.6%	35.1%
Research and development expenses		**32,236**	32,833	32,638
Selling and administrative expenses		**26,273**	26,023	26,683
Operating expenses		**58,509**	58,856	59,321
Other operating income and expenses	C6	**113**	8,965[1)]	1,278
Operating income before shares in earnings of joint ventures and associated companies		**17,975**	22,189	21,678
Operating margin before shares in earnings of joint ventures and associated companies (%)		**7.9%**	9.7%	9.6%
Share in earnings of joint ventures and associated companies	C3, C12	**130**	11,731	3,778
Operating income		**17,845**	10,458	17,900
Financial income	C7	**1,346**	1,708	2,882
Financial expenses	C7	**2,093**	1,984	2,661
Income after financial items		**17,098**	10,182	18,121
Taxes	C8	**4,924**	4,244	5,552
Net income		**12,174**	5,938	12,569
Net income attributable to:				
Stockholders of the Parent Company		**12,005**	5,775	12,194
Non-controlling interest		**169**	163	375
Other information				
Average number of shares, basic (million)	C9	**3,226**	3,216	3,206
Earnings per share attributable to stockholders of the Parent Company, basic (SEK)[2)]	C9	**3.72**	1.80	3.80
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK)[2)]	C9	**3.69**	1.78	3.77

1) Includes gain on sale of Sony Ericsson of SEK 7.7 billion.
2) Based on Net income attributable to stockholders of the Parent Company.

Table of Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January December, SEK million	2013	2012	2011
Net income	**12,174**	5,938	12,569
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefits pension plans including asset ceiling	**3,214**	451	6,963
Tax on items that will not be reclassified to profit or loss	**1,235**	59	1,810
Items that may be reclassified to profit or loss			
Cash flow hedges			
Gains/losses arising during the period	**251**	1,668	996
Reclassification adjustments for gains/losses included in profit or loss	**1,072**	568	2,028
Adjustments for amounts transferred to initial carrying amount of hedged items		92	
Revaluation of other investments in shares and participations			
Fair value remeasurement	**71**	6	
Changes in cumulative translation adjustments	**1,687**	3,947	964
Share of other comprehensive income of joint ventures and associated companies	**14**	486	262
Tax on items that may be reclassified to profit or loss	**179**	363	348
Total other comprehensive income, net of tax	**293**	4,108	7,063
Total comprehensive income	**11,881**	1,830	5,506
Total comprehensive income attributable to:			
Stockholders of the Parent Company	**11,712**	1,716	5,081
Non-controlling interests	**169**	114	425

CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2013	2012
Assets			
Non-current assets			
Intangible assets	C10		
Capitalized development expenses		**3,348**	3,840
Goodwill		**31,544**	30,404
Intellectual property rights, brands and other intangible assets		**12,815**	15,202
Property, plant and equipment	C11, C26, C27	**11,433**	11,493
Financial assets			
Equity in joint ventures and associated companies	C12	**2,568**	2,842
Other investments in shares and participations	C12	**505**	386
Customer finance, non-current	C12	**1,294**	1,290
Other financial assets, non-current	C12	**5,684**	3,964
Deferred tax assets	C8	**9,103**	12,321
		78,294	81,742
Current assets			
Inventories	C13	**22,759**	28,802
Trade receivables	C14	**71,013**	63,660
Customer finance, current	C14	**2,094**	4,019
Other current receivables	C15	**17,941**	20,065
Short-term investments	C20	**34,994**	32,026
Cash and cash equivalents	C25	**42,095**	44,682
		190,896	193,254
Total assets		**269,190**	274,996
Equity and liabilities			
Equity			
Stockholders equity	C16	**140,204**	136,883
Non-controlling interest in equity of subsidiaries		**1,419**	1,600
		141,623	138,483
Non-current liabilities			
Post-employment benefits[1)]	C17	**9,825**	9,503
Provisions, non-current	C18	**222**	211
Deferred tax liabilities	C8	**2,650**	3,120
Borrowings, non-current	C19, C20	**22,067**	23,898
Other non-current liabilities		**1,459**	2,377
		36,223	39,109
Current liabilities			
Provisions, current	C18	**5,140**	8,427
Borrowings, current	C19, C20	**7,388**	4,769
Trade payables	C22	**20,502**	23,100
Other current liabilities[1)]	C21	**58,314**	61,108

	91,344	97,404
Total equity and liabilities[2)]	**269,190**	274,996

1) As of January 1, 2013 the provision for the Swedish special payroll taxes, amounting to SEK 1.8 billion, which was previously included in Other current liabilities, has been re-classified as pension liability in line with the implementation of IAS 19R.
2) Of which interest-bearing liabilities and post-employment benefits SEK 39,280 (38,170) million.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

January December, SEK million	Notes	2013	2012	2011
Operating activities				
Net income		**12,174**	5,938	12,569
Adjustments to reconcile net income to cash	C25	**9,828**	13,077	12,613
		22,002	19,015	25,182
Changes in operating net assets				
Inventories		**4,868**	2,752	3,243
Customer finance, current and non-current		**1,809**	1,259	74
Trade receivables		**8,504**	1,103	1,700
Trade payables		**2,158**	1,311	1,648
Provisions and post-employment benefits		**3,298**	1,920	5,695
Other operating assets and liabilities, net		**2,670**	5,857	2,988
		4,613	3,016	15,200
Cash flow from operating activities		**17,389**	22,031	9,982
Investing activities				
Investments in property, plant and equipment	C11	**4,503**	5,429	4,994
Sales of property, plant and equipment		**378**	568	386
Acquisitions of subsidiaries and other operations	C25, C26	**3,147**	11,529 1)	3,181
Divestments of subsidiaries and other operations	C25, C26	**465**	9,452	53
Product development	C10	**915**	1,641	1,515
Other investing activities		**1,330**	1,540	900
Short-term investments		**2,057**	2,151	14,692
Cash flow from investing activities		**11,109**	4,888	4,541
Cash flow before financing activities		**6,280**	17,143	14,523
Financing activities				
Proceeds from issuance of borrowings		**5,956**	8,969	2,076
Repayment of borrowings		**5,094**	9,670	1,259
Proceeds from stock issue			159	
Sale/repurchase of own shares		**90**	93	92
Dividends paid		**9,153**	8,632	7,455
Other financing activities		**1,307**	118	52
Cash flow from financing activities		**9,508**	9,385	6,494
Effect of exchange rate changes on cash		**641**	1,752	217
Net change in cash		**2,587**	6,006	7,812
Cash and cash equivalents, beginning of period		**44,682**	38,676	30,864
Cash and cash equivalents, end of period	C25	**42,095**	44,682	38,676

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

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity and Other comprehensive income 2013

SEK million	Capital stock	Additional paid in capital	Retained earnings	Stock-holders equity	Non-controlling interest	Total equity
January 1, 2013	16,526	24,731	95,626	**136,883**	1,600	**138,483**
Net income						
Group			12,135	**12,135**	169	**12,304**
Joint ventures and associated companies			130	**130**		**130**
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurements related to post-employment benefits						
Group			3,214	**3,214**		**3,214**
Tax on items that will not be reclassified to profit or loss			1,235	**1,235**		**1,235**
Items that may be reclassified to profit or loss						
Cash flow hedges						
Gains/losses arising during the year						
Group			251	**251**		**251**
Reclassification adjustments for gains/losses included in profit or loss			1,072[1]	**1,072**		**1,072**
Revaluation of other investments in shares and participations						
Group			71	**71**		**71**
Changes in cumulative translation adjustments						
Group			1,687[2]	**1,687**	0	**1,687**
Joint ventures and associated companies			14	**14**		**14**
Tax on items that may be reclassified to profit or loss[3]			179	**179**		**179**
Total other comprehensive income, net of tax			293	**293**		**293**
Total comprehensive income			**11,712**	**11,712**	**169**	**11,881**
Transactions with owners						
Stock issue						
Sale/repurchase of own shares			90	**90**		**90**
Stock purchase plans						
Group			388	**388**		**388**
Joint ventures and associated companies						
Dividends paid			8,863	**8,863**[4]	290	**9,153**
Transactions with non-controlling interest			6	**6**	60	**66**
December 31, 2013	**16,526**	**24,731**	**98,947**	**140,204**	**1,419**	**141,623**

1) SEK 754 million is recognized in Net sales, SEK 495 million is recognized in Cost of sales, SEK 177 million is recognized in R&D expenses.

2) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 204 million (SEK 1,400 million in 2012 and SEK 46 million in 2011), gain/loss from hedging activities of foreign entities, SEK 0 million (SEK 0 million in 2012 and SEK 9 million in 2011), and realized gain/losses net from sold/liquidated companies, SEK 20 million (SEK 461 million in 2012 and SEK 192 million in 2011).
3) For further disclosures, see Note C8, Taxes.
4) Dividends paid per share amounted to SEK 2.75 (SEK 2.50 in 2012 and SEK 2.25 in 2011).

Table of Contents

Equity and Other comprehensive income 2012

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

Table of Contents

Equity and Other comprehensive income 2011

SEK million	Capital stock	Additional paid in capital	Retained earnings	Stock-holders equity	Non-controlling interest	Total equity
January 1, 2011	16,367	24,731	104,008	**145,106**	1,679	**146,785**
Net income						
Group			15,727	**15,727**	375	**16,102**
Joint ventures and associated companies			3,533	**3,533**		**3,533**
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurements related to post-employment benefits						
Group			6,963	**6,963**		**6,963**
Joint ventures and associated companies			212	**212**		**212**
Tax on items that will not be reclassified to profit or loss			1,810	**1,810**		**1,810**
Items that may be reclassified to profit or loss						
Cash flow hedges						
Gains/losses arising during the year						
Group			996	**996**		**996**
Joint ventures and associated companies			11	**11**		**11**
Reclassification adjustments for gains/losses included in profit or loss			2,028	**2,028**		**2,028**
Changes in cumulative translation adjustments						
Group			1,014	**1,014**	50	**964**
Joint ventures and associated companies			61	**61**		**61**
Tax on items that may be reclassified to profit or loss			348	**348**		**348**
Total other comprehensive income, net of tax			7,113	**7,113**	50	**7,063**
Total comprehensive income			**5,081**	**5,081**	**425**	**5,506**
Transactions with owners						
Sale of own shares			92	**92**		**92**
Stock purchase plans						
Group			413	**413**		**413**
Joint ventures and associated companies						
Dividends paid			7,207	**7,207**	248	**7,455**
Transactions with non-controlling interest			380	**380**	309	**71**
December 31, 2011	**16,367**	**24,731**	**102,007**	**143,105**	**2,165**	**145,270**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C1 SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

The consolidated financial statements for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and RFR 1 Additional rules for Group Accounting, related interpretations issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering), and the Swedish Annual Accounts Act. For the financial reporting of 2013, the Company has applied IFRS as issued by the IASB (IFRS effective as of December 31, 2013) and with early application in relation to the amendment to IAS 36, Impairment of assets on recoverable amount disclosures. There is no difference between IFRS effective as of December 31, 2013, and IFRS as endorsed by the EU, nor is RFR 1 related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering) or the Swedish Annual Accounts Act in conflict with IFRS, for all periods presented.

The financial statements were approved by the Board of Directors on March 5, 2014. The balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

New standards, amendments of standards and interpretations, effective as from January 1, 2013 are as follows:

Amendment to IAS 1, Financial statement presentation regarding Other comprehensive income . The main change resulting from this amendment is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether or not they are potentially recycled to profit or loss (reclassification adjustments).

Amendment to IAS 19, Employee benefits eliminates the corridor approach and calculates finance costs on a net funding basis. The Company implemented the immediate and full recognition of actuarial gains/losses in Other comprehensive income (OCI) in 2006, meaning that the corridor method has not been applied by the Company as from that date and therefore the transition to the revised IAS 19 has not had an effect on the present obligation and equity except for the reclassification described below. The main issue to address is the implementation of the net interest cost/income, which integrates the interest cost and expected interest income on assets to be based on a common discount rate. The impact for fiscal year 2012 in relation to this amendment would have been an increase in pension costs for 2012 of SEK 0.4 billion if it had been restated.

The Company has addressed the taxes to be incorporated into the defined benefit obligation. The Swedish special payroll taxes have been reclassified from Other current liabilities to Post-employment benefits with an amount of SEK 1.8 billion as of January 1, 2013. The amendment also includes additional disclosure requirements on yearly financial and demographic assumptions, sensitivity analysis, duration and multi-employer plans.

Amendment to IFRS 7, Financial instruments: Disclosures on asset and liability offsetting. This amendment requires disclosure of gross amounts related to financial instruments for which offset has been made.

IFRS 10, Consolidated financial statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes control as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. An entity controls an investee if the entity has power over the investee, has the ability to use the power and is exposed to variable returns. It also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11, Joint arrangements focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The Company did not apply the proportionate consolidation method prior to 2013.

IFRS 12, Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off-balance-sheet vehicles as well as non-controlling interests in the subsidiaries of the Company. The conclusion from the Company s adoption analysis of IFRS 12 is that as of December 31, 2013 the Company experienced no material impact as a result of this new standard that would require separate disclosures of non-controlling interests or associated companies or joint ventures as of this date. An exception to this relates to the Company s ownership in the associated company Rockstar Inc.

IFRS 13, Fair value measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. This standard has also added disclosure requirements to IAS 34, Interim Financial Reporting, regarding the disclosure for financial instruments.

IAS 27 (revised 2011), Separate financial statements includes the provisions on separate financial statements that remain after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011), Associates and joint ventures includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendment to IAS 36, Impairment of assets on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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

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

Change of hedge accounting

Due to cost efficiency reasons the Company has changed the hedge accounting.

The Company hedges highly probable forecast transactions related to sales and purchases with the purpose to limit the impact related to currency fluctuations on these forecasted transactions. This will not be changed.

The Company has, however, decided to discontinue hedge accounting for this type of hedges. Until 2012 the Company applied cash flow hedge accounting for highly probable forecast transactions. Revaluation of these hedges (incepted prior to January 1, 2013) has, prior to release, been reported under Other comprehensive income and is at release recycled to Sales, Cost of sales and R&D expenses respectively.

As from 2013, revaluation of new hedges (inception as from January 1, 2013) is reported under Other operating income and expenses in the Income statement.

Basis of presentation

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

Basis of consolidation and composition of the group

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

As from January 1, 2013, subsidiaries are all companies for which Telefonaktiebolaget LM Ericsson, directly or indirectly, is the parent. To be classed as a parent, Telefonaktiebolaget LM Ericsson, directly or indirectly, must control another company which requires that the Parent Company has power over that other company, is exposed to variable returns from its involvement and has the ability to use its power over that other company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that such control ceases.

Before 2013, subsidiaries were all companies in which Telefonaktiebolaget LM Ericsson, directly or indirectly, had an ownership interest, including effective potential voting rights; companies over which the Company had the power to govern the financial and operating policies generally associated with ownership of more than one half of the voting rights; or companies over which Telefonaktiebolaget LM Ericsson, directly or indirectly, by agreement had control. The financial statements of subsidiaries were included in the consolidated financial statements from the date that control commenced until the date that control ceases. The change as from 2013 was made due to a change of IFRS, as disclosed under Introduction: see IFRS 10, Consolidated financial statements.

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

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

Business combinations

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

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

Non-controlling interest

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

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

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

Joint ventures and associated companies

Both joint ventures and associated companies are accounted for in accordance with the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor s share of the profit or loss of the investee after the date of acquisition. If the Company s interest in an associated company or joint venture is nil, the Company shall not, as prescribed by IFRS, recognize its part of any future losses. Provisions related to obligations for such an interest shall, however, be recognized in relation to such an interest.

As from January 1, 2013, JVs are classed as ownership interests under which the Company has joint control of another company, as prescribed under IFRS 11, Joint Arrangements, a new standard effective as from 2013: see Introduction. Prior to 2013, JVs were classed as ownership interests where a joint influence was obtained through agreement. IFRS 11 has not changed the Company s accounting treatment of JVs.

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

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

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

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

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

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

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

Foreign currency remeasurement and translation

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

Transactions and balances

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

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

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

Group companies

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

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

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

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

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

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

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

Statement of cash flows

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

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

Revenue recognition

Background

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

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

Accounting treatment

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

The product or service has been delivered

The revenue amount is fixed or determinable

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

Collection is reasonably assured

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

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

Delivery-type contracts These contracts relate to delivery, installation, integration of products and provision of related services, normally under multiple elements contracts. Under multiple elements contracts, accounting is based on that the revenue recognition criteria are applied to the separately identifiable components of the contract. Revenue, including the impact of any discount or rebate, is allocated to each element based on relative fair values. Networks, Global Services and Support Solutions have contracts that relate to this type of arrangement.

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

Contracts generating license fees from third parties for the use of the Company s intellectual property rights License fees are normally measured as a percentage of sales or currency amount per unit and recognized over the license period as the amount of the consideration becomes reasonably certain. Networks and Support Solutions have contracts that relate to this type of arrangement.

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

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

Earnings per share

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

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

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

Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Gains or losses arising from changes in the fair values of the Financial assets at fair value through profit or loss category (excluding derivatives) are presented in the income statement within Financial income in the period in which they arise. Derivatives are presented in the income statement either as Cost of sales, Other operating income, Financial income or Financial expense, depending on the intent with the transaction.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

Impairment

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

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

Financial liabilities

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

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

Borrowings

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

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

Trade payables

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

Hedge accounting

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

a) Fair value hedges: a hedge of the fair value of recognized liabilities;

b) Cash flow hedges: a hedge of a particular risk associated with a highly probable forecast transaction; or

c) Net investment hedges: a hedge of a net investment in a foreign operation.

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

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

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

As disclosed under Introduction in this note, the Company has decided to discontinue hedge accounting for certain derivatives, as for new transactions dated January 1st, 2013 or later.

Fair value hedges

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

Cash flow hedges

When applying hedge accounting, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to an ineffective portion is recognized immediately in the income statement within Financial income or expense.

Amounts deferred in OCI are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place), either in Net sales or Cost of sales. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in OCI are transferred from OCI and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of sales in case of inventory or in Depreciation in case of fixed assets. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss which at that time remains in OCI is recognized in the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within financial income or expense.

Net investment hedges

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

Financial guarantees

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

- The amount determined as the best estimate of the net expenditure required to settle the obligation according to the guarantee contract.
- The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method.
- The best estimate of the net expenditure comprising future fees and cash flows from subrogation rights.

Inventories

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

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

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

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

Intangible assets

Intangible assets other than goodwill

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

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

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

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

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

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

Goodwill

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

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

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

Property, plant and equipment

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

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

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

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

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

Leasing

Leasing when the Company is the lessee

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

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

Leasing when the Company is the lessor

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

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

Income taxes

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

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

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

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

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

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

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

Post-employment benefits

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

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

As from January 1, 2013, the present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The discount rate for each country is determined by reference to market yields on high-quality corporate bonds that have maturity dates approximating the terms of the Company s obligations. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The calculations are based upon actuarial assumptions, assessed on a quarterly basis, and are as a minimum prepared annually. Actuarial assumptions are the Company s best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it is possible that the actual results will differ from the estimated results or that the actuarial assumptions will change from one period to another. These differences are reported as actuarial gains and losses. They are, for example, caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes and changes in the discount rate. Actuarial gains and losses are recognized in OCI in the period in which they occur. The Company s net liability for each defined benefit plan consists of the present value of pension commitments less the fair value of plan assets and is recognized net on the balance sheet. When the result is a net benefit to the Company, the recognized asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

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

Prior to 2013, the present value of the defined benefit obligations for current and former employees was calculated using the Projected Unit Credit Method. The discount rate for each country was determined by reference to market yields on high-quality corporate bonds that have maturity dates approximating the terms of the Company s obligations. In countries where there is no deep market in such bonds, the market yields on government bonds were used. The calculations were based upon actuarial assumptions, assessed on a quarterly basis, and were as a minimum prepared annually. Actuarial assumptions were the Company s best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it was possible that the actual results differed from the estimated results or that the actuarial assumptions changed from one period to another. These differences were reported as actuarial gains and losses. They were, for example, caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes, changes in the discount rate and differences between actual and expected return on plan assets. Actuarial gains and losses were recognized in OCI in the period in which they occurred. The Company s net liability for each defined benefit plan consists of the present value of pension commitments less the fair value of plan assets and was recognized net on the balance sheet. When the result was a net benefit to the Company, the recognized asset was limited to the total of any cumulative past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

Share-based compensation to employees and the Board of Directors

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

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

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

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

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

Compensation to employees

Stock purchase plans

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

Compensation to the Board of Directors

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

Segment reporting

An operating segment is a component of a company whose operating results are regularly reviewed by the Company s chief operating decision maker, (CODM), to make decisions about resources to be allocated to the segment and assess its performance. Within the Company, the Group Management Team is defined as the CODM function.

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

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

New standards and interpretations not yet adopted

A number of issued new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2013 and have not been applied in preparing these consolidated financial statements.

Below is a list of standards/interpretations, applicable for the Company, that have been issued and are effective for the periods starting from January 1, 2014 if not otherwise stated. These amendments effective as from January 1, 2014 are not expected to have a significant impact on the Company s financial result or position.

Amendment to IAS 32, Financial instruments: Presentation, on asset and liability offsetting. This amendment i related to the application of guidance in IAS 32, Financial instruments: Presentation, and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment is effective as from 1 January, 2014.

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

IFRS 9, Financial instruments. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. This amendment is expected to be effective as from 1 January, 2015 or later. The EU has not yet endorsed IFRS 9, Financial instruments.

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The information in this note is grouped as per:

Key sources of estimation uncertainty

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

Revenue recognition

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies applied

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

Trade and customer finance receivables

Key sources of estimation uncertainty

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2013, were SEK 1.2 (1.1) billion or 1.6% (1.5%) of gross trade and customer finance receivables.

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

Inventory valuation

Key sources of estimation uncertainty

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2013, amounted to SEK 2.5 (3.5) billion or 10% (11%) of gross inventory.

Deferred taxes

Key sources of estimation uncertainty

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

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

At December 31, 2013, the value of deferred tax assets amounted to SEK 9.1 (12.3) billion. The deferred tax assets related to loss carry-forwards are reported as non-current assets.

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

Key sources of estimation uncertainty

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

Acquired intellectual property rights and other intangible assets, including goodwill

Key sources of estimation uncertainty

At initial recognition, future cash flows are estimated, to ensure that the initial carrying values do not exceed the expected discounted cash flows for the items of this type of assets. After initial recognition, impairment testing is performed whenever there is an indication of impairment, except in the case of goodwill for which impairment testing is performed at least once per year. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges.

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

At December 31, 2013, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 44.4 (45.6) billion, including goodwill of SEK 31.5 (30.4) billion.

Judgments made in relation to accounting policies applied

At initial recognition and subsequent remeasurement, management judgments are made, both for key assumptions and regarding impairment indicators. In the purchase price allocation made for each acquisition, the purchase price shall be assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill. This allocation requires management judgment as well as the definition of cash-generating units for impairment testing purposes. Other judgments might result in significantly different results and financial position in the future.

Provisions

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as estimates and assumptions regarding future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2013, amounted to SEK 0.9 (1.6) billion.

Provisions other than warranty provisions

Key sources of estimation uncertainty

Provisions, other than warranty provisions, mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, restructuring, risks associated with patent and other litigations, supplier or subcontractor claims and/ or disputes, as well as provisions for unresolved income tax and value added tax issues. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2013, provisions other than warranty commitments amounted to SEK 4.5 (7.0) billion. For further detailed information, see Note C18, Provisions.

Judgments made in relation to accounting policies applied

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

Contingent liabilities

Key sources of estimation uncertainty

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

Judgments made in relation to accounting policies

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

Pension and other post-employment benefits

Key sources of estimation uncertainty

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company s pension plans. At December 31, 2013, defined benefit obligations for pensions and other post-employment benefits amounted to SEK 52.9 (52.0) billion and fair value of plan assets to SEK 46.6 (44.6) billion. For more information on estimates and assumptions, see Note C17, Post-employment benefits.

Foreign exchange risks

Key sources of estimation uncertainty

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

C3 SEGMENT INFORMATION

Operating segments

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

- Networks
- Global Services
- Support Solutions
- Modems

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

- Radio access solutions that interconnect with devices such as mobile phones, tablets and PCs. The RBS 6000 supports all major standardized mobile technologies
- IP and transport solutions based on the SSR 8000 family of products as well as transmission/backhaul including microwave (MINI-LINK) and optical transmission solutions for mobile and fixed networks
- Switching and IMS solutions, based on the Ericsson Blade Server platform, for core networks
- Operations Support Systems (OSS), supporting operators management of existing networks and introduction of new technologies and services.

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

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

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

- Consulting and Systems Integration: Technology and operational consulting; integration of multi-vendor equipment; design and integration of new solutions and transforming programs. Industry-specific solutions for vertical industries are also included.

- Broadcast Services: Services include responsibility for technical platforms and operational services related to TV content management, playout and service provisioning of a TV broadcaster s business. Services cover live and pre-recorded, commercial and public service television.

Support Solutions provides enablers and applications for operators. The offering includes:

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

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

- TV solutions: a suite of open, standards-based solutions and products for the creation, management and delivery of evolved TV experiences on any device over any network. Includes a multi- screen TV platform with consumer experience creation, video content management, on-demand video delivery, advanced video compression and video-optimized delivery network infrastructure.

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

Modems performs design, development and sales of the LTE multimode thin modem solutions, including 2G, 3G and 4G interoperability.

Modems was consolidated into Ericsson as of October 1, 2013.

Former segments

ST-Ericsson was formed in 2009 as a joint venture between Ericsson and STMicroelectronics. Early 2013 the parents agreed to split up and close the joint venture. The company ST-Ericsson is winding down and all business has been transferred to parents or divested during 2013. The acquired business is now consolidated into Ericsson in the new segment Modems. As of January 1, 2013, ST-Ericsson is no longer reported as a separate segment.

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

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

Unallocated

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

Regions

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

- North America
- Latin America
- Northern Europe & Central Asia
- Western and Central Europe
- Mediterranean
- Middle East
- Sub-Saharan Africa
- India
- North East Asia
- South East Asia & Oceania

Other.
Region Other includes licensing revenues, broadcast services, power modules and other businesses.

Major customers

The Company does not have any customer for which revenues from transactions have exceeded 10% of the Company s total revenues for the years 2013, 2012 or 2011.

We derive most of our sales from large, multi-year agreements with a limited number of significant customers. Out of a customer base of more than 400, mainly consisting of network operators, the 10 largest customers account for 44% (46%) of net sales. The largest customer accounted for approximately 8% (7%) of sales in 2013.

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

Marketing channels

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

- Customer engagement with a consultative approach
- Selective focus on events and experience centers for customer experience and interaction
- Continuous dialogue with customers and target audiences through social and other digital media (including virtual events)
- Activation of the open social and digital media landscape to strengthen message reach and impact
- Execution of solutions-driven programs, aligned globally and regionally.

Operating segments

2013	**Networks**	**Global Services**	**Support Solutions**	**Modems**	**Total Segments**	**Unallocated**	**Group**
Segment sales	117,699	97,443	12,234		227,376		227,376
Net sales	**117,699**	**97,443**	**12,234**		**227,376**		**227,376**
Operating income	**11,318**	**6,185**	**1,455**	**543**	**18,415**	**570**	**17,845**
Operating margin (%)	10%	6%	12%		8%		8%
Financial income							1,346
Financial expenses							2,093
Income after financial items							**17,098**
Taxes							4,924
Net income							**12,174**
Other segment items							
Share in earnings of joint ventures and associated companies	155	60	58		153	23	130
Amortization	4,237	925	722	44	5,928		5,928
Depreciation	3,243	788	135	61	4,227		4,227
Impairment losses	5	2	0		7		7
Reversals of impairment losses	19	5	1		25		25

Restructuring expenses	2,182	1,997	186	4,365	88	4,453
Gains/losses from divestments	621	166	105	892	51	841

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

Operating segments

2012	**Networks**	**Global Services**	**Support Solutions**	**Sony Ericsson**	**ST-Ericsson**	**Total Segments**	**Unallocated**	**Eliminations[1]**	**Group**
Segment sales	117,185	97,009	13,445		8,457	236,096		8,457	227,639
Inter-segment sales	100	34	6		634	774		634	140
Net sales	**117,285**	**97,043**	**13,451**		**9,091**	**236,870**		**9,091**	**227,779**
Operating income	**7,057**	**6,226**	**1,150**	**8,026[2]**	**15,447[3]**	**7,012**	**267**	**3,713**	**10,458**
Operating margin (%)	6%	6%	9%		170%	3%			5%
Financial income									1,708
Financial expenses									1,984
Income after financial items									**10,182**
Taxes									4,244
Net income									**5,938**
Other segment items									
Share in earnings of joint ventures and associated companies	59	45	20		11,734[3]	11,768	37		11,731
Amortization	3,832	853	809		322	5,816		322	5,494
Depreciation	3,035	727	290		741	4,793		741	4,052
Impairment losses	385	9	1		[4]	395			395
Reversals of impairment losses	39	9	4			52			52
Write-down of investment					4,684	4,684			4,684
Restructuring expenses	1,253	1,930	246		624	4,053	18	624	3,447
Gains/losses from divestments	59	1	216	8,026[2]		8,184	152		8,336

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

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

Table of Contents

Operating segments

2011	Networks	Global Services	Support Solutions	Sony Ericsson	ST-Ericsson	Total Segments	Unallocated	Eliminations[1]	Group
Segment sales	131,596	83,854	10,629	46,866	9,232	282,177		56,098	226,079
Inter-segment sales	799	30	13	126	1,461	2,429		1,587	842
Net sales	**132,395**	**83,884**	**10,642**	**46,992**	**10,693**	**284,606**		**57,685**	**226,921**
Operating income	**17,295**	**5,544**	**504**	**1,854**	**5,461**	**15,020**	**501**	**3,381**	**17,900**
Operating margin (%)	13%	7%	5%	4%	51%	5%			8%
Financial income									2,882
Financial expenses									2,661
Income after financial items									**18,121**
Taxes									5,552
Net income									**12,569**
Other segment items									
Share in earnings of joint ventures and associated companies	87	28	4	1,199	2,730	3,810	32		3,778
Amortization	4,192	481	792	1	867	6,333		868	5,465
Depreciation	2,783	532	184	647	823	4,969		1,470	3,499
Impairment losses	50	23	12		283	368		283	85
Reversals of impairment losses	12		1			13			13
Restructuring expenses	1,600	1,363	143	838	280	4,224	78	1,118	3,184
Gains/losses from divestments	6					6	164		158

1) All segment sales are presented, but as Sony Ericsson and ST-Ericsson sales are accounted for in accordance with the equity method, their sales are eliminated in the Eliminations column.

Regions

	Net sales			Non-current assets[5]		
	2013	2012	2011	2013	2012	2011
North America[3]	**59,339**	56,749	48,785	**13,290**	15,058	6,296
Latin America	**21,982**	22,006	21,982	**1,742**	2,084	2,268
Northern Europe & Central Asia[1][2]	**11,618**	11,345	15,225	**38,522**	38,335	41,008
Western & Central Europe[2]	**18,485**	17,478	19,030	**3,539**	2,922	5,097
Mediterranean[2]	**24,156**	23,299	23,807	**1,089**	1,099	1,395
Middle East	**17,438**	15,556	15,461	**46**	32	42
Sub-Saharan Africa	**10,049**	11,349	10,163	**32**	119	79
India	**6,138**	6,460	9,762	**439**	460	355

North East Asia[4)]	**27,398**	36,196	38,209	**2,667**	3,371	3,939
South East Asia & Oceania	**15,787**	15,068	13,870	**342**	301	318
Other[1)2)3)4)]	**14,986**	12,273	10,627			
Total	**227,376**	227,779	226,921	**61,708**	63,781	60,797
1) Of which in Sweden	***4,427***	*5,033*	*3,882*	***38,049***	*37,718*	*40,415*
2) Of which in EU	***43,544***	*44,230*	*43,960*	***42,239***	*41,546*	*44,786*
3) Of which in the United States	***59,085***	*56,698*	*46,519*	***11,173***	*13,003*	*6,020*
4) Of which in China	***11,799***	*12,637*	*17,546*	***1,344***	*1,399*	*1,496*

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

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

61

C4 NET SALES

Net sales

	2013	2012	2011
Sales of products and network rollout services	**150,429**	154,068	161,882
Of which:			
Delivery-type contracts	***150,429***	*154,068*	*161,882*
Professional Services sales	**66,395**	67,092	58,834
License revenues[1)]	**10,552**	6,619	6,205
Net sales	**227,376**	227,779	226,921
Export sales from Sweden	**108,944**	106,997	116,507

1) Impact of Samsung IPR agreement: On January 27, 2014, Ericsson and Samsung signed an agreement on global patent licenses between the two companies. The terms of the agreement were substantially agreed between the two parties in December 2013 so Ericsson concluded that it was appropriate to record an amount of SEK 4.2 billion in Net Sales for the year ended December 31, 2013 which related to the license fee for 2013 and prior years.

C5 EXPENSES BY NATURE

Expenses by nature

	2013	2012	2011
Goods and services	**129,453**	137,769	142,221
Employee remuneration	**65,064**	64,100	58,905
Amortization and depreciation	**10,155**	9,546	8,964
Impairments and obsolescence allowances, net of reversals	**537**	1,999	1,363
Financial expenses	**2,093**	1,984	2,661
Taxes	**4,924**	4,244	5,552
Expenses incurred	**212,226**	219,642	219,666
Inventory changes[1)]	**5,220**	2,782	3,417
Additions to capitalized development	**915**	1,641	1,515
Expenses charged to the income statement	**216,531**	220,783	214,734

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

Total restructuring charges in 2013 were SEK 4.5 (3.4) billion.

Restructuring charges are included in the expenses presented above.

Restructuring charges by function

	2013	**2012**	**2011**
Cost of sales	**2,657**	2,225	1,231
R&D expenses	**872**	852	561
Selling and administrative expenses	**924**	370	1,392
Total restructuring charges	**4,453**	3,447	3,184

C6 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

	2013	2012	2011
Gains on sales of intangible assets and PP&E	**172**	12	65
Losses on sales of intangible assets and PP&E	**307**	261	64