RISK FACTORS

You should carefully consider all the information in this Annual Report and in particular the risks and uncertainties outlined below. Any of the factors described below, or any other risk factors discussed elsewhere in this report, could have a material negative effect on our business, operational and after-tax results, financial position, cash flow, liquidity, credit rating, brand and/or our share price. Furthermore, our operational results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also "Forward-Looking Statements".

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Market, Technology and Business Risks

Demand is difficult to predict

Adverse economic conditions could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. We have established flexibility to cost-effectively accommodate fluctuations in demand. However, if demand were to fall in the future, we may experience material adverse effects on our revenues, cash flow, capital employed and value of our assets and we may even incur operating losses. If demand is significantly weaker or more volatile than expected, this may have a material adverse impact on our credit rating, borrowing opportunities and costs as well as on the trading price of our shares. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives are sufficient, successful or executed in time to deliver necessary improvements in earnings.

The extent of the current adverse conditions in the financial markets and global economic downturn may exacerbate some of the risk factors we are exposed to. Most of our customers are financially stable and have networks with good utilization. However, some operators, in particular in markets with weak currencies, may incur borrowing difficulties and lower traffic than expected, which may affect their investment plans. The potential adverse effects of the economic downturn include:

> Reduced demand for products and services, resulting in increased price competition or deferrals of purchases, with lower revenues not being possible to compensate with reduced costs.
> Risks of excess and obsolete inventories and excess manufacturing capacity and risk of financial difficulties or failures among our suppliers.
> Increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterpart failures.
> Risk of impairment losses related to our intangible assets as a result of lower forecasted sales of certain products.
> Increased difficulties in forecasting sales and financial results as well as increased volatility in our reported results.
> Decline in the value of the assets in the Company's pension plans.

Short-term volatility has an impact

Our sales to network operators represent a mix of equipment, software and services, which normally generate different gross margins. Third party products normally have lower margins than own products. As a consequence, reported gross margin in a specific period will be affected by the overall mix of products and services as well as the relative content of third party products. Network expansions and upgrades have much shorter lead times for delivery than initial network buildouts. Such orders are normally placed with short notice by customers, i.e. less than a month, and consequently variations in demand are difficult to forecast. As a result, changes in our product and service mix may affect our ability to accurately forecast sales and margins or detect in advance whether actual results will deviate from market consensus.

Convergence brings opportunity and risk

We are affected by market conditions within the telecom industry, including the convergence of the telecom, data and media industries. The convergence is largely driven by technological development related to IP-based communications. This change increases our addressable market, changes the competitive landscape, and affects our objective setting, risk assessment and strategies. If we fail to understand the market development, acquire the necessary competence or develop and market products, services and solutions that are competitive in this changing market, our future results will suffer.

We depend on growth and the success of new services

Most of our business depends on continued growth in mobile communications in terms of both number of subscriptions and usage per subscriber, which in turn requires the continued deployment and evolution of our network systems by customers. If operators are not successful in their attempts to increase the number of subscribers and/or stimulate increased usage, our business and operational results could be materially adversely affected.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon the market acceptance of such services, e.g. music, internet and navigation in the handset, and on the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization or market acceptance occur, this could adversely affect our business and operational results.

We operate in a highly competitive industry

The markets we operate in are highly competitive in price, functionality and service quality as well as in the timing of development and introduction of new products and services.

We face intense competition from significant competitors and Chinese companies in particular have become relatively stronger in recent years. Our competitors may implement new technologies before we do, offer more attractively priced or enhanced products, services or solutions, or they may offer other incentives that we do not provide. Some of our competitors may have greater resources in certain business segments or geographic markets than we do. We may also encounter increased competition from new market entrants, alternative technologies or evolving industry standards. The rapid technological change also results in shorter life-cycles for products, increasing the risk in all product investments.

Continuous price erosion is a symptom of this rapid technological change and we must counteract this by introducing new products to the market and by continuously enhancing the functionality while reducing the cost of new and existing products. Our operating results depend largely on our ability to compete in this market environment.

Vendor consolidation may lead to a new competitive landscape

Industry convergence and consolidation among equipment suppliers could potentially result in stronger competitors that are competing as end-to-end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources than we have or in reduction of our current scale advantages. This could have a material adverse effect on our business, operating results, and financial condition.

Operator consolidation may increase our dependence on a limited number of customers

We derive most of our business from large, multi-year agreements with a limited number of significant customers. Although no single customer currently represents more than 5 percent of sales, a loss of or a reduced role with a key customer could have a significant adverse impact on sales, profit and market share for an extended period.

In recent years, network operators have undergone significant consolidation, resulting in a large number of operators with activities in several countries. This trend is expected to continue, and also intra-country consolidation is likely to accelerate as a result of competitive pressure.

A market with fewer and larger operators will increase our reliance on key customers and may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services will be required. Another possible consequence of customer consolidation could be a delay in network investments pending negotiations of e.g. merger/acquisition agreements, securing necessary approvals, or integration of their businesses. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment.

Long-term frame agreements can expose us to risk

Long-term agreements are typically awarded on a competitive bidding basis. In some cases, such agreements also include commitments to future price reductions. In order to maintain the gross margin with such price reductions, we continuously strive to reduce the costs of our products. We reduce costs through design improvements, negotiation of better purchase prices, allocation of more production to low-cost countries and increased productivity in our own production. However, there can be no assurance that our actions to reduce costs will be sufficient or quick enough to maintain our gross margin in such contracts.

Transforming into a more service-based company

Operators are increasingly outsourcing parts of their operations as a way to reduce cost and focus on new services. This has opened up a market which we have addressed. The growth rate is difficult to forecast and each new contract carries a risk that transformation and integration of the operations is not as fast or smooth as planned. Early contract margins are generally lower and the mix of new/old contracts may affect reported results negatively in a given period. Contracts normally cover several years and revenues are of a recurring nature. However, sometimes contract scopes are reduced with negative impact on sales and earnings. Ericsson is the market leader in managed services but competition in this area is increasing, which may have adverse effects on growth and profitability.

Success of R&D investments is uncertain

To be a player in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend significant amounts and resources in innovation work for new technology, products and solutions. In order for us to be successful, those technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. If we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time or are not successful in the marketplace our sales and earnings may suffer.

Acquisitions and divestments

In addition to in-house innovation efforts, we make strategic acquisitions in order to obtain various benefits, e.g. to reduce time-to-market, to gain access to technology and/or competence, to increase our scale or to broaden our product portfolio or expand our customer base. From time to time we also divest parts of our operations to optimize our product portfolio or operations. There are no guarantees that such acquisitions or divestments are successful or that we will succeed in integrating the acquired entities to gain the expected benefits within the time frame we expect or at all.

Joint ventures and partnerships

If our partnering arrangements fail to perform as expected (whether through an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners), our ability to work with these partners or develop new products and solutions may be constrained and this may harm our competitive position in the market. Additionally, our share of any losses from, or commitments to contribute additional capital to, such partnerships may adversely affect our results of operations or financial position.

A limited number of suppliers of components, production capacity and R&D and IT services

Our ability to deliver according to market demands and contractual commitments depends significantly on obtaining timely and adequate supply of materials, components and production capacity and other vital services on competitive terms. Although we strive to avoid single-source supplier solutions, this is not always possible. Failure by any of our suppliers could interrupt our product supply or operations and significantly limit our sales or increase our costs. To find an alternative supplier or re-design products to replace components may take significant time. If we fail to anticipate customer demand properly, an over/under-supply of components and production capacity could occur. In many cases, some of our competitors utilize the same contract manufacturers and if they have purchased capacity ahead of us we could be blocked from acquiring the needed products. This factor could limit our ability to supply our customers or could increase our costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs. We are also exposed to financial counterpart risks to suppliers where we pay in advance. We conduct regular supplier audits and evaluations to mitigate the risks mentioned as well as brand risks related to the suppliers’ compliance with e.g. labor and environmental regulations.

Product or service quality issues

Sales contracts normally include warranty undertakings for faulty products and often also provisions regarding penalties and/or termination rights in the event of a failure to deliver ordered products or services on time or with required quality. Although we undertake a number of quality assurance measures to reduce such risks, product quality or service performance issues may affect our results negatively.

Significant foreign exchange exposures

With the majority of our cost base in SEK and a very large share of sales in other currencies, and significant operations outside Sweden, our foreign exchange exposures are significant. Currency exchange rate fluctuations affect our consolidated income statement, balance sheet and cash flows when foreign currencies are exchanged or translated to SEK, which increases volatility in reported results.

As market prices are predominantly established in USD or EUR, and with a net revenue exposure in foreign currencies, a stronger SEK exchange rate would generally have a negative effect on our reported results. Our attempts to reduce the effects of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results.

Intellectual property rights (IPR)

Although we have a large number of patents, there can be no assurance that they will not be challenged, invalidated, or circumvented, or that any rights granted in relation to our patents will in fact provide competitive advantages to us.

In 2005, the European Union considered placing restrictions on the patentability of software. Although the European Union ultimately rejected this proposal, we cannot guarantee that they will not revisit this issue in the future. We rely on many software patents, and any limitations on the patentability of software may materially affect our business.

We utilize a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing laws of some countries in which we conduct business offer only limited protection of intellectual property rights, if at all.

Our solutions may also require us to license technologies from third parties. It may be necessary in the future to seek or renew licenses and there can be no assurance that they would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect proprietary rights in our products.

Many key aspects of telecommunications and data network technology are governed by industry-wide standards usable by all market participants. As the number of market entrants and the complexity of technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. Third parties have asserted, and may assert in the future, claims, directly against us or indirectly against our customers, alleging infringement of their intellectual property rights. Defending such claims may be expensive, time-consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we could be required to pay damages and other compensation directly or indemnifying our customers for such damages and other compensation, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that such licenses will be available to us on commercially reasonable terms or at all.

Litigations

In the normal course of our business we are involved in legal proceedings. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

As a publicly listed company, Ericsson may be exposed to lawsuits, in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulation or other laws, regulations or requirements. Whether or not there is merit to such claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs may have significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see "Legal and Tax Proceedings" in the Board of Directors' Report.

Business interruption

Our business operations rely on complex IT operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Having outsourced a significant portion of our IT operations, we depend partly on security and reliability measures of external companies. Regardless of protection measures, essentially all IT systems and communications networks are susceptible to disruption from equipment failure, vandalism, computer viruses, security breaches, natural disasters, power outages and other events. We also have a concentration of operations on certain sites, e.g. for production, R&D, network operation centers, logistic centers, shared services centers, where business interruptions could cause material damage and costs. Although we have assessed these risks, implemented controls, performed business continuity planning and selected reputable companies for outsourced services, we cannot be sure that interruptions with material adverse effects will not occur.

Attract and retain highly qualified employees

We believe that our future success largely depends on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our corporate culture, remuneration, promotion and benefit policies as well as other measures aimed at empowering our employees and reducing employee turnover. However, there are no guarantees that we will be successful in attracting and retaining employees with appropriate skills in the future.

Access to short-term and long-term capital

If we do not generate sufficient amounts of capital to support our operations, service our debt and continue our research and development and customer finance programs, or if we cannot raise sufficient amounts of capital at the times and on the terms required by us, our business is likely to be adversely affected. Access to short-term funding may decrease or become more expensive as a result of our operational and financial condition and market conditions or due to deterioration in our credit rating. We cannot assure that additional sources of funds that we from time to time may need will be available or available on reasonable terms.

Regulatory, Compliance and Corporate Governance Risks

Regulatory environment changes

Telecommunications is an industry subject to particular regulation and regulatory changes affect both our customers' and our own operations. For example, regulations imposing more stringent, time-consuming or costly planning and zoning requirements or building approvals for radio base stations and other network infrastructure could adversely affect the timing and costs of network construction or expansion, and ultimately the commercial launch and success of these networks. Similarly, tariff and roaming regulations or rules on network neutrality could also affect operators' ability or willingness to invest in network infrastructure, which in turn could affect the sales of our systems and services. Also radio frequency spectrum allocation between different types of usage may affect operator spending adversely or force us to develop new products to be able to compete.

License fees, environmental, health and safety, privacy and other regulatory changes, in general or particular to our industry, may increase costs and restrict operations for network operators and service providers or us. Also indirect impacts of such changes could affect our business adversely even though the specific regulations may not apply directly to our products or us.

Country-specific political, economic and regulatory risks

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to a specific country or region. We conduct business in more than 170 countries, with a significant proportion of our sales to emerging markets in Asia Pacific, Latin America, Eastern Europe, the Middle East and Africa. We expect that sales to such emerging markets will represent an increasing portion of total sales, as developing nations and regions around the world increase their investments in telecommunications. We already have extensive operations in many of these countries, which involve certain risks, including volatility in gross domestic product, civil disturbances, economic and political instability, nationalization of private assets and the imposition of exchange controls.

Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls or other governmental policies in the countries where we do business could limit our operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. In addition we must comply with the export control regulations of the countries and any trade embargoes in force at the time of sale and/or delivery. Although we seek to comply with all such regulations, even unintentional violations could have material adverse effects on our business, operational results and brand.

Compliance with high standards of corporate governance

Ericsson applies mandatory corporate governance statutes and rules, such as the Swedish Code of Corporate Governance and is also committed to several corporate responsibility and environmental initiatives. To ensure that our operations are executed in accordance with these requirements, our management system includes a robust corporate culture and a Code of Business Ethics as well as policies and directives to govern our processes and operations. We regularly perform communication and training in these areas, and we monitor and audit internal compliance with the policies and directives as well as our suppliers' adherence to our Supplier Code of Conduct. There is however no guarantee that violations will not occur, which could have material adverse effects on our brand, reputation and business.

Compliance with a environmental, health and safety regulations

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. We believe that we are in compliance with all material laws and regulations. However, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, including potential liabilities. This is due to several factors, particularly the length of time often involved in resolving such matters.

Potential health risks related to electromagnetic fields

The mobile telecommunications industry is subject to claims that mobile handsets and other devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects of mobile communication devices and equipment could adversely affect us through a reduction in sales or through liability claims. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot guarantee that we or the jointly owned Sony Ericsson Mobile Communications or ST-Ericsson will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business.

Risks associated with owning Ericsson shares

Our share price has been and may continue to be volatile

Our share price has been volatile partly due to the high volatility in the securities markets generally and for telecommunications and technology companies in particular. The share price is also likely to be affected by the development in our market, our reported financial results and the expectations of financial analysts, as well as statements and market speculation regarding our future prospects. or the timing or content of any profit warning by us or our competitors.

Factors other than our financial results that may affect our share price include, but are not limited to:

- A weakening of our brand name or other circumstances with adverse effects on our reputation.
- Announcements by our customers, competitors or us regarding capital spending plans of network operators.
- Financial difficulties for our customers.
- Awards of large supply or service contracts.
- Speculation in the press or investment community about the business level or growth in the market for mobile communications.
- Technical problems, in particular those relating to the introduction and viability of new network systems like LTE/4G.
- Actual or expected results of ongoing or potential litigation.
- Announcements concerning bankruptcy or investigations into the accounting procedures of other telecommunications companies, even if we are not involved.
- Our ability to forecast and communicate our future results in a manner consistent with investor expectations.

Currency fluctuations may adversely affect share value or value of dividends

Because our shares are quoted in SEK on NASDAQ OMX Stockholm (our primary stock exchange), but in USD on NASDAQ (ADSs), fluctuations in exchange rates between SEK and USD may affect the value of your investment. In addition, because we pay cash dividends in SEK, fluctuations in exchange rates may affect the value of distributions if arrangements with your bank, broker or depositary call for distributions to you in currencies other than SEK. An increasing part of the trade in our shares is carried out on alternative exchanges or markets, which may lead to less accurate share price information on NASDAQ OMX Stockholm or NASDAQ,