GANDER MOUNTAIN CO
Form 10-K
May 02, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED FEBRUARY 2, 2008

Commission file number: 0-50659

GANDER MOUNTAIN COMPANY

(Exact name of Registrant as Specified in its Charter)

Minnesota (State or Other Jurisdiction of Incorporation or Organization)	**180 East Fifth Street, Suite 1300** **Saint Paul, Minnesota 55101** **(651) 325-4300** (Address, including zip code, and telephone number, including area code, of Registrant's Principal Executive Offices)	**41-1990949** (I.R.S. Employer Identification No.)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, par value $0.01 per share**

Name of each exchange on which registered: **Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Smaller reporting company o

Non-accelerated filer ý
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $60,571,277 as of August 3, 2007, based upon the closing price of $9.94 on the Nasdaq Global Market as reported on August 3, 2007. Shares of common stock held by each executive officer and director and by each person who beneficially owns more than 10% of the outstanding common stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer and affiliate status is not necessarily a conclusive determination for other purposes.

As of April 25, 2008, the number of shares of common stock outstanding was 24,051,941.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the registrant's proxy statement for its 2008 annual meeting of shareholders to be held on or about June 11, 2008.

GANDER MOUNTAIN COMPANY
FORM 10-K
For the Fiscal Year Ended February 2, 2008

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Gander Mountain®, Gander Mtn.®, Gander Mountain Guide Series®, We Live Outdoors®, our logos and the other trademarks, tradenames and service marks of Gander Mountain mentioned in this report are our property. This report also contains trademarks and service marks belonging to other entities.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations, performance and prospects. All statements that are not historical or current facts are forward-looking statements and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Certain of these risks and uncertainties are described in the "Risk Factors" section of this Annual Report on Form 10-K. These risks and uncertainties include, but are not limited to, the following:

- the weather conditions in the markets we serve;
- our ability to execute our current business strategy focusing on large-format stores;
- our concentration of stores in the Great Lakes region of the United States and seasonal fluctuations in our business;
- our ability to raise capital in the future;
- our lack of familiarity with markets in which we will open future stores;
- our ability to successfully expand into new product areas, such as boats;
- our ability to locate suitable sites for new stores;
- delays in new store openings;
- our entry into the Internet and catalog businesses which are new businesses for us;
- our ability to attract and retain management talent and store employees;
- disruptions or natural disasters at our distribution facilities or that affect our information systems;
- strain on our infrastructure, including increased demands on our information systems and distribution center resulting from our growth;
- our ability to successfully implement changes to our information systems;
- our ability to generate sales and control expenses in order to operate profitably;
- changes in consumer preferences, general economic conditions or consumer discretionary spending;
- energy and fuel prices;

our ability to respond to increased competition;

the loss of key vendors or manufacturers, including foreign manufacturers of our owned-brand merchandise;

disruption or delays in shipments from domestic or foreign suppliers;

changes in commercial practices of our key vendors or manufacturers, such as changes in vendor support and incentives or changes in credit or payment terms;

increased regulation of the sale of firearms and related products;

the impact of product liability claims, other litigation and government regulations; and the interests of the members of the Pratt family, the Erickson family and their affiliates in our company and their ability to individually influence and collectively control matters approved by our shareholders.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed from time to time with the Securities and Exchange Commission, referred to as the Commission, that advise interested parties of the risks and factors that may affect our business

ITEM 1. BUSINESS

GENERAL

Gander Mountain Company operates the nation's largest retail network of stores specializing in hunting, fishing, camping, marine and outdoor lifestyle products and services. We have expanded our store base from 26 stores in 1997 to our current base of 113 conveniently located Gander Mountain outdoor lifestyle stores, providing approximately 6.2 million square feet of retail space in 23 states. We anticipate opening five new stores in fiscal 2008, including one relocation and the consolidation of two smaller format stores into one large-format store.

Since its origin in 1960, our brand name has developed a strong appeal and relevance to consumers who participate in outdoor sports and recreation activities. Our customers value our "We Live Outdoors" culture and theme. Our core strategy is to provide our target customers with a unique and broad assortment of outdoor equipment, accessories, related technical apparel and footwear; expert services; convenient locations; and value pricing. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal and regional or local preferences. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

In March 2003, we began transforming our market position from a traditional specialty store to a large-format, category-focused store. We did this by opening new stores in a large format and increasing the selling space within our original, small-format stores. Prior to March 2003, our typical store was approximately 31,000 square feet. Our large-format stores range from approximately 50,000 to 120,000 square feet, with our current focus primarily upon stores of 60,000 to 65,000 square feet plus an outside selling area. Our large-format stores are generally located with convenient access to a major highway and have an open-style shopping environment characterized by wide isles, open bar-joist ceilings and high-density racking. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores and our new stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements. As of February 2, 2008, 68 of our 113 stores were in our large format.

The larger format enables us to offer more products and services to our customers. In 2004 we began offering the Arctic Cat brand of all-terrain vehicles (ATVs) in our large format stores. In spring 2007 we began to feature the popular Tracker Marine Group boat brands in our stores, including Tracker and Fisher fishing boats, Sun Tracker and Fisher pontoon boats, Nitro and ProCraft high-performance fishing boats, Tahoe runabout/deck boats, Mako offshore/inshore fishing boats, and Kenner Bay boats. To support these efforts we began to offer power shop services in our larger stores, including maintenance and repairs for ATVs, boats and other small engines. We have learned that we can be most successful offering ATVs, boats and related power shop services in selected markets based on market demand, competitive conditions and customer preferences. As of fiscal 2007 year end, we had reduced the number of our large-format stores offering ATVs and Tracker brand boats to 22 and 27, respectively.

Our large-format stores offer other unique features and specialized services, including a full-service gunsmith shop, a full-service archery pro shop and archery target lanes. Some of the large-format stores also include a bait shop that opens early for the convenience of our customers. We utilize outside selling areas adjacent to most of our large-format stores to display additional offerings of larger items such as ATVs, boats, kayaks, trailers and canoes.

Nearly all of our stores have a Gander Mountain Lodge, which is an in-store meeting room available for public use, where we provide hunter safety classes, outdoor-skills seminars and other community-focused activities.

On December 6, 2007 we acquired Overton's, Inc., a leading internet and catalog marketing company targeting recreational boaters and water sports enthusiasts.. Overton's product line is extensive, ranging from water skis, wakeboards and apparel to electronics, boat covers, boat seats and other marine accessories. Overton's products are sold under two principal brands, Overton's and Consumers Marine, through a multi-channel approach that includes catalogs, websites (*www.Overtons.com* and *www.Consumersmarine.com*) and three retail showrooms. Overton's is a wholly-owned subsidiary of Gander Mountain headquartered in Greenville, North Carolina.

We were originally organized as a Delaware limited liability company on November 27, 1996, and we converted to a Delaware corporation on December 31, 2000. We reincorporated in Minnesota in January 2004 by merging into our wholly owned subsidiary formed solely for that purpose. We completed our initial public offering in April 2004 and our common stock is traded on the Nasdaq Global Market under the symbol "GMTN." Our principal executive offices are located at 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101, and our general telephone number is (651) 325-4300.

We maintain a corporate website at www.GanderMountain.com. The information contained on and connected to our website is not incorporated into this report. On our website, you can access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the Commission, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the Commission. You can also request free copies of these reports on our website or by calling investor relations at 651-325-4600. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically at *www.sec.gov*.

FISCAL 2007 HIGHLIGHTS

- We acquired Overton's, Inc., a leading internet and catalog marketing company targeting recreational boaters.

- We opened thirteen new stores, including three relocated stores, expanding our industry-leading retail network to a total of 113 stores offering approximately 6.2 million square feet of retail space. We also closed two unprofitable stores in the fourth quarter of fiscal 2007.

- We entered one new state in the year Mississippi bringing our total number of states to 23. In addition to adding this new market, we added nine new stores in the southern and southeastern markets, which increases the total number of stores in southern markets to 28.

OUR BRANDS' HISTORY

Gander Mountain was founded in Wilmot, Wis., in 1960, as a catalog operation and developed into one of the largest outdoor catalogs in the United States, with significant name recognition and brand equity within the outdoor lifestyle sector. Subsequently, the company expanded into retail operations. In 1996, the company discontinued its catalog operations. In 1996 and 1997, Holiday Companies, which at the time owned and operated ten retail sporting goods stores, acquired the 17 existing Gander Mountain retail stores and began to utilize the historic Gander Mountain brand to build a new outdoor lifestyle business. In March 2003, we began transforming our market position from a traditional specialty store to a large-format, category-focused store.

Overton's traces its roots to 1970 when Parker Overton began buying water skis directly from manufacturers and reselling them from his father's Greenville, NC grocery store. Overton's Inc. was soon formed and the company began a catalog marketing effort promoting water skis, mailing their first color catalog in 1978. Overton's sales reached $1 million by 1980. In order to reach a broader base of customers and better meet current customer needs, the company introduced a marine accessories line that same year. By 1989, Overton's was recognized as a leader in "water sports," with sales reaching $25 million, and the company earning a reputation for superior service, good value and quality products. During the 1990's, the Company continued to grow catalog circulation and sales and added significant distribution capacity. In 1996, the company launched an internet website (*www.Overtons.com*) and continued to grow sales through this new marketing channel. In 2003, Parker Overton sold Overton's Inc. to a private equity investment group. In 2004, Overton's acquired Consumers Marine Electronics to expand its product offering. Overton's annual net sales were approximately $93 million in 2006.

OUR GROWTH STRATEGY

Our long-term strategic objectives are to:

- build upon the Gander Mountain brand name and significantly expand our network of retail stores in order to capture additional market share and expand our geographic diversity;
- offer our customers the best combination of a broad assortment of products and services, convenience and value in the outdoor lifestyle sector;
- enhance our growth by adding new products and services that meet the needs of our customers;
- improve our profitability by leveraging our increasing scale to improve margins and enhance productivity, and by controlling expenses; and
- develop and expand our internet and catalog selling capabilities in order to offer current and potential customers more shopping opportunities.

Expand Our Network of Retail Stores

Consolidate an Underserved Market. We believe that our unique retail concept has broad appeal and that there are significant opportunities for profitable new store expansion By adding new stores, we both capture additional market share and diversify our operations within the large, highly fragmented and underserved outdoor lifestyle market. We strategically locate our outdoor lifestyle stores in suburban and rural areas with a high concentration of our target outdoor enthusiast customers and near hunting, fishing, camping, boating and other outdoor recreation destination areas.

We intend to open stores in new markets and to further penetrate our existing markets to capture additional market share. We opened thirteen stores in fiscal 2007, all of them in our large format, including the replacement of three smaller stores with new, large-format stores.

We plan to open five additional stores in fiscal 2008 in both existing and new markets, including one relocation and the consolidation of two smaller format stores into one large-format store. Most of these new stores will be located in moderate to mid-sized markets that meet our site selection criteria. While we will continue to build stores in urban markets, we believe that moderate to mid-sized markets offer great opportunities. In these markets, we are often the only retailer offering a broad selection of products and services to outdoor enthusiasts, and it is less likely that one of our larger competitors will enter one of these markets once we are established there. We will continue to expand our retail network in southern and southeastern markets in order to increase our geographic diversity.

Employ a Flexible Real Estate Strategy. Our flexible real estate strategy allows us to open stores in different sizes depending on market characteristics, demographics and availability of sites. Our ability to adapt our store format gives us flexibility to utilize both recycled, or second-use, facilities and build-to-suit opportunities as the market dictates.

Control Building Costs to Maximize Expansion of Our Retail Network. We continually monitor and seek to optimize our investment in our stores on a per-store basis. One way we do this is by using recycled real estate where available which is often available for lesser rental rates than new properties. We also use outdoor selling space adjacent to our stores to display large items like ATVs, boats and trailers. This reduces our rent per store while still enabling us to display our full assortment of products. We believe that our ability to control our investment per-store will allow us to maximize the expansion of our network of conveniently located retail stores.

Offer Our Customers the Best Combination of a Broad Assortment of Outdoor Lifestyle Products and Services, Convenience and Value

Offer a Broad Assortment of Outdoor Lifestyle Products. We offer a broad assortment of outdoor equipment, accessories, related technical apparel and footwear. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal preferences, as well as regional or local preferences.

Another important element of our merchandise strategy is the anticipation of merchandise trends and consumer preferences as we aim to be the first to market with new and innovative products. We continually assess opportunities to add complementary product lines desired by our customers. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

Offer Convenience. We believe our ability to tailor the size of our stores to the needs of each market and utilize both new and recycled real estate enables us to target both larger and mid-sized markets and to cluster our stores in key markets, such as the Minneapolis/St. Paul metro area and Houston. We provide our customers more convenient shopping opportunities closer to where they live, work or enjoy their recreational activities than certain of our larger competitors who specialize in building a more limited number of large destination retail stores.

Offer Value. Our pricing policy is to offer our customers the best value on our broad assortment of products and services. We believe our competitive pricing reinforces our strong value proposition and instills price confidence in customers in each of our markets. We achieve price leadership through our commitment to an every-day-low-price strategy and supporting policies such as our "Low Price Guarantee." Our store format reinforces this commitment to value.

Offer Convenient Expert Services. As the nation's largest retail network of stores specializing in hunting, fishing, camping, boating, marine and outdoor lifestyle products and services, we have a unique opportunity to become the "provider of choice" for a broad range of outdoor-related customer services. Our convenient locations make it easy for our customers to rely on us to provide expert services to enhance their outdoor experiences.

We plan to build on our current base of services to strengthen our position as the solution to all of our customers' needs for outdoor recreation. We are the largest employer of professional gunsmiths in the country, with gunsmiths in almost all of our stores and a larger central gunsmith facility in our Kenosha, Wis., store to provide advanced services. We also have archery technicians in every store to provide customization and repair services for archery enthusiasts, and we have archery shooting lanes in our large-format stores. Certain of our large-format stores offer a power shop that provides repair services for ATVs, boats and any other small engines. We also offer fishing reel line winding, hunting and fishing license sales and other value-added technical support services. We continually assess opportunities to add complementary services desired by our customers.

We use the Gander Lodge in each of our stores to provide classes and demonstrations that contribute to our customers' enjoyment of their outdoor activities. Many of these sessions are conducted by our knowledgeable associates, who provide expert advice to our customers every day. We conduct a number of gun-safety classes, and in many of our markets we are the leading provider of hunter education.

Add New Products and Services to Continually Meet Customers' Needs. We use input from our customers to add to our already extensive assortment of products and services to better meet the needs of our customers. In recent years we have added Arctic Cat ATVs and Tracker Marine Group boats to our product offerings and developed power shop services to complement these products. Our recent acquisition of Overton's will enable us to significantly expand our offerings of marine and water sports products and accessories.

Develop and Expand our Direct-To-Consumer Marketing Channel and Leverage Synergies with our Retail Network

The acquisition of Overton's provides us with an immediate platform to develop, expand and capitalize on the market opportunity present in the outdoor lifestyle business by reaching existing and new consumers through catalog and Internet. The Overton's expansion will target many product categories of our business, including fishing and marine, apparel, and camping and other outdoor lifestyle categories. The Gander Mountain catalog and web site capabilities will be focused on hunting and hunting related products. We have already developed and begun an initiative to integrate an expanded Overton's catalog into our retail network of 113 stores. We expect to have that marketing effort produce tangible results as early as May 2008. Other strategies will be developed over time to cross-merchandise our products and Overton's products to each company's existing customer base. Pursuant to a non-compete agreement entered into by Overton's as part of a previous transaction in 2002, Overton's is restricted from selling hunting related products until March 2009. From the combined Overton's and Gander direct initiatives, we expect to develop and utilize customer databases that will provide more insight into consumers' merchandise preferences and provide us the ability to increase sales penetration. We believe the combination of expanded catalog reach and new direct marketing capabilities can be a significant driver of the growth of our brand and serve as an important marketing tool for our retail business.

Improve Our Productivity and Profitability

Implement Operating Initiatives. We are pursuing a number of initiatives designed to improve product margin. These include sourcing more of our product directly and expanding the penetration of our owned-brand merchandise where appropriate. Other initiatives are designed to improve how we display our merchandise so our stores are easier to shop. We are also focused on initiatives to continue to improve our supply chain to improve inventory turnover and reduce inventory per store, to reduce store labor costs by eliminating non-selling tasks and to control corporate expenses.

For fiscal 2008, our key initiatives are:

- Gander Gunsmith Certified Program and Gander Gun Owners Club In late 2007 we launched programs intended to provide additional value and benefits to our firearms customers and capitalize on our industry leading staff of certified gunsmiths. Under this program, we extend the manufacturer's standard warranty on firearms for an additional year providing complete coverage for parts and labor, our gunsmiths inspect every used gun we sell, and we provide a free gun cleaning and safety inspection, membership in the Gander Gun Owners Club, trade-in benefits and other incentives. The confidence that our customers can derive from this program cannot be matched by our competitors and is reflected in our slogan "Gander Gunsmith Certified Every Gun, Every Day." Through the Gander Gun Owners Club we provide additional special benefits and incentives for members and build a database of some of our best customers.

Fieldwear We are implementing several merchandising initiatives to drive increased sales of fieldwear. We are also reconfiguring the layout of our fieldwear section to increase our space allocation and improve navigation. Importantly, we are staffing sales in our fieldwear section with associates from our hunting department, rather than the apparel department. These hunting associates bring added knowledge and personal field experience to enhance the sales process.

Apparel Over the past year we have embarked on a significant redesign and upgrade of our men's and women's apparel offerings. The improved quality and styles will be displayed in our stores this fiscal year. We have expanded our offerings in certain categories, including denim, work wear and logo wear. We have also designed our product sets around a five-season concept that we believe will enable us to cycle more quickly through apparel inventory and offer new product sets in our stores more often throughout the year.

Footwear We are expanding our successful footwear program through our retail network. The program for this fiscal year includes expanded assortments of action footwear and cross-trainers, as well as an expanded assortments of women's and youth models.

Focus 25 Stores We are putting an intense focus on improving performance in existing stores. We have also identified 25 stores where we believe we have the greatest opportunity to grow sales and improve profitability. Some of these stores are strong market leaders in their respective areas and some are not performing to our expectations. In each case, we intend to bring additional management and financial support to these Focus 25 stores to capitalize on the opportunities we see to grow sales.

We measure performance using key operating statistics such as comparable store sales; sales per square foot; gross margin percentage; and store operating expenses, with a focus on labor, as a percentage of sales. Store operating contribution, which is calculated by deducting a store's operating expenses from its gross margin, is used to evaluate overall performance on an individual store basis. In addition, selling, general and administrative expenses are monitored in absolute amounts, as well as on a percentage-of-sales basis.

Leverage Our Increasing Scale. We are focused on increasing our store operating margins and profitability through improved purchasing leverage as we grow and develop stronger relationships with our vendors. We believe the expansion of our direct marketing efforts through the Internet and catalogs via our acquisition of Overton's and our intended launch of a Gander Mountain Internet store and catalogs will further enhance our scale and provide additional opportunities to improve profitability.

OUR PRODUCTS AND SERVICES

The key elements of our merchandise strategy that reinforce our "We Live Outdoors" culture and theme are:

offer an extensive selection of products at highly competitive prices on an everyday basis in our large-format stores;

focus on nationally branded products;

complement our branded product offerings with our proprietary brands, including *Gander Mountain, Guide Series* and *Three Forks Ranch*, and in the marine and water sports areas, *Overton's*, *Gladiator*, and *Dockmate*;

tailor our merchandise assortments to local and regional market preferences to take advantage of the seasonal nature of our customers' outdoor activities;

introduce new, on-trend merchandise early in its product life-cycle; and

support our customers with a superior level of assistance, product expertise and value-added, in-store technical support services.

Product Offerings

Since the acquisition of Overton's, we now have two reportable segments: Retail and Direct. The Retail segment sells its outdoor lifestyle products and services through its 113 retail stores located in 23 states. The Direct segment is the Internet and catalog operations of Overton's, offering primarily boating and watersports accessory products through numerous direct mail catalogs and its e-commerce websites. We evaluated our operating and reporting segments in accordance with SFAS No. 131 and considered the discrete financial information reviewed by our chief operating decision maker in making decisions regarding allocation of resources and in assessing performance. Reporting in this format provides management with the financial information necessary to evaluate the success of the segments and the overall business. Prior to December 6, 2007, we operated under one segment, Retail. Results by business segment are presented in the following table for fiscal year 2007.

Fiscal Year 2007
in thousands

	Retail	Direct	Total
Sales	$ 963,863	$ 5,540	$ 969,403
Adjusted EBITDA	$ 22,157	$ (380)	$ 21,777
Interest expense	(19,104)	(641)	(19,745)
Income tax provision	(750)		(750)
Depreciation and amortization	(26,418)	(185)	(26,603)
Exit costs, impairment and other charges	(6,493)		(6,493)
Net Loss	$ (30,608)	$ (1,206)	$ (31,814)
Total assets	$ 622,050	$ 57,882	$ 679,932
Inventories	384,510	19,173	403,683
Goodwill and intangible assets	7,083	66,818	73,901
Long term debt	$ 26,673	$ 37,500	$ 64,173

We offer a broad and deep assortment of equipment, apparel, footwear, related accessories and consumable supplies to meet the outdoor activity needs of our customers. The extensive breadth and depth of our product offerings allow us to carry a full range of merchandise at price points within each category to appeal to customers ranging from the beginner to the expert.

Another important element of our merchandise strategy is anticipating new merchandise trends and consumer preferences and attempting to be the first to market with new products. Our goal is to capitalize on new merchandise trends early in their product life cycles. We are able to do this by frequent communications between our customers, store associates, buyers and vendors, and by utilizing consumer research.

The following table shows our sales during the past three fiscal years by product category:

Category(1)	Fiscal 2007	Fiscal 2006	Fiscal 2005
Hunting	43.0%	45.1%	42.8%
Fishing and Marine(2)	16.0%	14.6%	15.5%
Camping, Paddlesports and Backyard Equipment	7.2%	7.7%	8.3%
Apparel and Footwear	24.0%	25.1%	26.3%
Powersports	6.8%	4.3%	3.8%
Other	1.8%	2.3%	2.5%
Parts and services	1.2%	0.9%	0.7%
Total	100.0%	100.0%	100.0%

(1) Certain reclassifications to categories have been made. All years are stated on a comparable basis.

(2) Overton's sales of $5.5 million for two months of fiscal 2007 have been included in the Fishing and Marine category.

Hunting. Hunting is our largest merchandise category, representing approximately 43% of our sales during fiscal 2007. Our hunting merchandise assortment provides equipment, accessories and consumable supplies for virtually every type of hunting and sport shooting. Gunsmith services and archery technicians support our hunting assortments to service the complete needs of the hunter.

Our hunting assortment includes a wide variety of firearms, including rifles, shotguns, handguns, air guns and black powder muzzle loaders. We also buy and sell used firearms. In addition to firearms, we carry a wide selection of products in the ammunition, hunting equipment, optics, dog training, archery and food plots/feeding categories.

Fishing and Marine Accessories. Fishing and marine accessories represented approximately 16% of our sales during fiscal 2007 and includes products for fresh-water fishing, salt-water fishing, fly-fishing, ice-fishing and boating. Our broad assortment appeals to the beginning angler and the weekend angler, as well as avid and tournament anglers. In addition to lures, rods and reels, our fishing assortment features a wide selection of products in the tackle supplies, electronics, fly-fishing, ice-fishing and marine accessories categories. We also provide fishing line winding services in all of our stores and live bait in most of our large-format stores.

Our marine accessory assortment includes products for boat care and maintenance, as well as safety equipment and products for fun on the water, such as wake boards and tubes. Our acquisition of Overton's allows us to expand our marine product line including specialty water sports and accessories, marine apparel, electronics, boat covers and boat seats.

Camping, Paddlesports and Backyard Equipment. Camping, paddlesports and backyard equipment represented approximately 7.2% of our sales during fiscal 2007. Our camping assortment primarily focuses on family camping and the weekend hiker, and includes the camping, paddlesports, backyard cooking and entertainment, and food processing product categories.

Apparel and Footwear. Our apparel and footwear product categories include both technical gear and lifestyle apparel for the active outdoor enthusiast. Apparel and footwear represented approximately 24.0% of our sales during fiscal 2007, and our assortments in these categories include fieldwear, sportswear, work wear and marine wear.

Fieldwear apparel and footwear offer technical performance capabilities for a variety of hunting activities, including upland, waterfowl, archery, big game hunting, turkey hunting and shooting sports.

Performance attributes include waterproofing, temperature control, scent control features and visual capabilities, including camouflage and blaze orange. Outerwear, particularly performance rainwear, is an important category for customers who are fishing, hiking, hunting or marine enthusiasts.

We complement our technical apparel with an assortment of casual apparel and footwear that fits our customers' lifestyles, as well as workwear and boots.

Power Sports. Certain of our large-format stores carry an assortment of ATVs and ATV accessories, boats and a small number of power tools. We are one of the largest ATV dealers in the country. In addition to selling a high volume of units, we typically sell a significant amount of accessories with each vehicle. Our power sports category represented approximately 6.8% of our sales during fiscal 2007.

Many of our customers view ATVs as working vehicles and appreciate the broad assortment of accessories and attachments we carry to enhance their effectiveness. These attachments range from simple trailers and blades to expensive cultivators that hunters use to plant food plots for game on their hunting land. Our expansion into the ATV market led us to develop our power shop services. Our service shops provide a full range of services and parts and are staffed with trained technicians who can service most small engines. As we have expanded our offering of boats, our power shop services have expanded to provide marine engine services.

As of February 2008, we distributed a full line of Tracker Marine Group's popular line of fishing and recreational boats in 27 of our stores. In addition, we carry Tracker Marine Group jon-boats in all stores and Mercury or Yamaha engines in selected stores. We also offer small fishing boats, kayaks, canoes and small boat motors.

Other. Products in this category include cabin and ranch décor items, gifts, books, videos and food.

We also operate Outdoor Expeditions, a travel business that specializes in packaging hunting and fishing trips to domestic and international destinations and providing expert advice on selecting outdoor destinations, gear outfitting, accommodations and guide services. Our Outdoor Expeditions staff has accumulated a wealth of knowledge and expertise in packaging rewarding hunting and fishing vacations. We do not own or lease any hunting land or provide guide services.

Focus on Branded Products

Our primary merchandise focus is to offer our customers a broad selection of competitively priced national and regional brand products. Our national-brand focus is driven by our customers' buying preferences for national brands and the fact that the national-brand manufacturers are often responsible for most of our industry's new product innovation and development. We not only offer an extensive breadth of brands across multiple product categories, but also offer extensive depth of product within most brands.

Another important element of our branding strategy is the development of strong owned brands, primarily *Gander Mountain*, *Guide Series* and *Three Forks Ranch*, by leveraging the strength of our brand image to create our own line of high-quality products. Our owned-brand strategy is designed to augment our assortment of nationally and regionally branded merchandise with our owned-brand products in select merchandise categories. While the majority of owned-brand products are in the apparel category, we offer an expanding assortment of owned-brand equipment.

Our *Gander Mountain* and *Guide Series* products are designed and priced to offer our customers the quality characteristics of many of our branded products at a price that reflects exceptional value. We believe that by offering a high-quality, competitively priced owned brand, we create an even more compelling value proposition for our customers. Our *Three Forks Ranch* line of products is comprised of premium hunting and fishing apparel and equipment. Our owned-brand products are sourced from a diversified group of established vendors. Owned brand products accounted for approximately 13% of our total sales in fiscal 2007 and approximately 11% of our sales in fiscal 2006.

In the recreational boating, specialty water sports and marine accessories categories, our *Overton's*, *Gladiator*, and *Dockmate* brand products are recognized for quality and value. These branded products include wetsuits, towables, water skis, wakeboards, flotation vests, dock supplies and other marine accessories.

Localization and Relevancy of Product Assortment

We customize our merchandise assortment on a market-by-market basis. We do this by featuring well-known regional brands that we augment with local brands, allowing us to tailor our merchandise assortment to the local market. This is extremely important across many of our merchandise categories, given the significant differences in product and brand preferences. Also, as we expand geographically, we need to merchandise each of our stores appropriately for the climate and seasonal variations from market to market.

Services

We provide our customers with a wide range of in-store, value-added, technical support services. Nearly all of our stores offer full-service gunsmith shops, archery technicians, fishing-reel line winding, and hunting and fishing license sales. We also offer small-engine repair services at all of our stores that sell ATVs, including servicing of boat motors. We believe that offering these services is consistent with our goal of offering products and services for all our customers' outdoor lifestyle needs. It is also an important driver of additional sales by building customer traffic and enhancing our relationships with our customers. We believe the ability to provide the necessary technical support in our major product categories is essential to our positioning in the outdoor lifestyle market. We also provide training and seminars for our customers, including gun-safety training, in all our stores.

Pricing

Our pricing policy is to maintain prices that are competitive in our markets. We believe our competitive pricing strategy reinforces our strong value proposition, instills price confidence in both our customers and our store associates, and is a critical element of our competitive strategy. We achieve price leadership through our commitment to an every-day-low-price strategy and supporting policies such as our "Low Price Guarantee." Our *Three Forks Ranch* line of products is priced at a level reflecting the premium quality of the apparel and equipment.

Store Design and Visual Merchandising

We design our large-format, open-style stores to create an exciting shopping environment and to highlight our extensive product assortments. We use our store design and layout to emphasize our positioning as a value-oriented outdoor lifestyle retailer. We use a variety of display fixtures, in-aisle merchandise displays, tables and end-caps to create a functional design that enables us to expand and adjust the size of our merchandise offerings by season and market. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores and all of our new stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements.

PURCHASING AND DISTRIBUTION

Our merchandising team is responsible for all product selection and procurement except for certain purchases by our store managers to address local customer preferences or seasonal considerations. In addition, our merchandising team's responsibilities include the determination of initial pricing, product marketing plans and promotions. They coordinate with our merchandise planning and allocation team to establish inventory levels and product mix. Our merchandising team also regularly communicates with our store management to monitor shifts in consumer tastes and market trends.

Our merchandise planning and allocation team is responsible for merchandise distribution, inventory control, and replenishment. This team also coordinates the inventory levels necessary for each advertising promotion with our buyers and our advertising department. They track the effectiveness of each advertisement to allow our buyers and our advertising department to determine the relative success of each promotional program. Other responsibilities include price changes, creation of purchase orders and determination of store-level inventory.

We purchase merchandise from over 2,200 vendors. We have no long-term purchase commitments, and no single vendor represented more than 4% of our purchases during fiscal 2007.

We operate a distribution center to which vendors ship our merchandise. We lease a second building of approximately 202,000 square feet to add additional capacity at our distribution center, bringing the total capacity to 427,000 square feet. Our product is processed at our distribution center as necessary and shipped to our stores. In addition, approximately 20% of our merchandise is shipped directly to our stores by the vendors.

Overton's operates a fulfillment and distribution center in Greenville, North Carolina, with capacity of approximately 383,000 square feet for its Internet and catalog marketing business. This business distributes substantially all of its products direct to consumers. Overton's also maintains an efficient call center operation that is seasonally staffed from approximately 60 to 150 employees. Calls are answered 24 hours/365 days per year and forecasted and monitored on an hourly basis to maximize agent utilization and service levels.

We believe that we will be able to service our existing stores from our distribution center through fiscal 2009. We have undertaken a study to analyze our future distribution requirements. We believe we will need to expand our distribution capabilities in two to three years depending on our business success, the number of additional new stores we build in the future and the growth of our Internet and catalog business.

MARKETING AND ADVERTISING

Our marketing strategy communicates our "We Live Outdoors" culture and theme and is designed to emphasize Gander Mountain's position in the market as a leader in selection, service and competitive pricing in our core categories hunting, fishing, camping, boating, apparel and footwear. In addition, we seek to develop a unique relationship with our customers and establish our store associates as true experts in their field. Our advertising calendar focuses on the key hunting, fishing and camping seasons.

We use a combination of radio, print, television, and outdoor advertising to communicate our message. We anticipate our primary advertising vehicle in fiscal 2008 will be radio. Print advertising will support store openings and other events, using a combination of newspapers and direct mail appropriate to our markets. We also utilize television advertisements, sponsorships of key sporting events and fishing tournaments, event marketing and grassroots marketing through support of community organizations. In addition, our "We Live Outdoors" television show airs on The Outdoor Channel.

A significant element of our local and grassroots marketing effort is our use of the Gander Mountain Lodge. The Lodge is a designated space in nearly all our stores that serves as a meeting place for local outdoor groups. Our store management schedules presentations and training seminars from our world-class pro-staff in conjunction with natural resource organizations, including local chapters of Ducks Unlimited, Pheasants Forever, Muskies, Inc. and boy and girl scout troops. The Lodge is also used for firearms training and youth certification, making us one of the largest providers of hunter safety training in the country.

Overton's direct business uses the Internet and catalogs as marketing tools to generate sales. Orders are received via the Internet, telephone and by mail. Overton's produces and distributes over 15 million catalogs annually in multiple editions throughout the year. Overton's employs a variety of marketing tools, including its proprietary customer database, Internet marketing arrangements, email marketing and direct mail.

RETAIL STORES AND MARKETS

Store Locations

The following table lists the location by state of our 113 stores open as of February 2, 2008:

States and Number of Stores

Northern Markets		**Southern Markets**	
Colorado	2	Alabama	1
Illinois	4	Arkansas	1
Indiana	6	Florida	3
Iowa	2	Kansas	1
Maryland	1	Kentucky	2
Michigan	13	Mississippi	1
Minnesota	12	North Carolina	3
New York	9	Tennessee	3
North Dakota	1	Texas	10
Ohio	9	Virginia	2
Pennsylvania	12	West Virginia	1
Wisconsin	14		
	85		**28**

We have announced plans to open five new stores in fiscal 2008, including one relocation and the consolidation of two smaller format stores into one large-format store. These new stores will further increase our geographic diversity.

Site Selection

We select geographic markets and store sites on the basis of:

- demographic information,
- quality and nature of neighboring tenants,
- store visibility,
- accessibility and
- lease economics.

Key demographics include not only population density, but also the number of outdoor activity participants, as measured by hunting and fishing licenses, and proximity to outdoor recreation areas. While we will continue to build stores in urban markets, we believe that moderate to mid-sized markets offer great opportunities. In these markets, we are often the only retailer offering a broad selection of products and services to outdoor enthusiasts, and it is less likely that one of our larger competitors will enter one of these markets once we are established there.

Generally, we seek to locate our new stores in retail areas with major discount retailers, such as Wal-Mart or Target, or other specialty retailers, such as The Home Depot, Bed, Bath and Beyond or Best Buy. Our market and site selection decision-making process is ultimately based on the projected economics of the new store.

Our ability to adapt our store format gives us flexibility to utilize both recycled, or second-use, facilities and build-to-suit opportunities as the market dictates. We have the flexibility to adapt our store model from 30,000 square feet up to 120,000 square feet. We are now building our large-format stores primarily at 60,000 to 65,000 square feet, and we prefer sites where we can include an outside selling area to display large items such as ATVs, boats, trailers, kayaks and canoes. We believe that there is ample availability of recycled real estate at reasonable occupancy costs to accommodate a portion of our future growth. We believe that our flexible real estate strategy will assist us in meeting our expansion objectives and operating with reasonable occupancy costs.

Our expansion strategy is to open stores in both new and existing markets. In our existing markets, we will add stores to further penetrate certain market areas. In certain situations, opening new stores in existing markets will negatively impact comparable store sales for a period of time. However, by clustering our stores, we seek to gain additional market share and take advantage of economies of scale in advertising, promotion, distribution and management supervisory costs. In new markets, we generally seek to expand in geographically contiguous areas in order to build on our experience in the same or nearby regions. We intend to continue our expansion into the southern and southeastern markets of the U.S. in order to expand our geographic diversity.

INFORMATION SYSTEMS

Over the past several years, we have made significant investments in our infrastructure, including our information systems, distribution capabilities and management ranks, to support our accelerating growth. We use enterprise-wide merchandise and financial systems which we believe are scalable. In fiscal 2007, we continued to upgrade our merchandise and information systems providing enhanced efficiencies in buying, receiving, payables management and provide better and more detailed operating information for decision making and continued supply chain improvement. We expect to continue to evaluate, modify and update our information systems over the next several years.

SEASONALITY

Our business is subject to seasonal fluctuations. We generated 60% of our annual sales in the third and fourth quarters of fiscal 2007 and approximately 63% of our annual sales in those same quarters of fiscal 2006. The third and fourth quarters are primarily associated with the fall hunting seasons and the holiday season. In addition, we typically have opened a greater number of new stores during the second half of the year, which further increases the percentage of our sales generated in the third and fourth fiscal quarters. We also incur significant additional expenses in the third and fourth fiscal quarters due to higher volume and increased staffing in our stores.

Unseasonable weather conditions affect outdoor activities and the demand for related apparel and equipment. Customers' demand for our products, and therefore our sales, can be significantly impacted by weather patterns.

We are working to reduce the seasonality of our business by opening new stores in the south and southeast. As of the end of fiscal 2007, we have increased our number of stores located outside our traditional northern markets to 28 stores. Customers in these markets enjoy longer seasons for outdoor activities. As we open more stores in these regions, we expect over time to increase the percentage of our sales that are generated in the first half of the year. Our acquisition of Overton's expands our marine business, which we believe will increase our sales in the first half of our fiscal year.

EMPLOYEES

As of February 2, 2008, we had 6,238 associates, approximately 2,650 of whom were employed by us on a full-time basis. We also employ additional associates during peak selling periods. We consider our relationships with our associates to be good. None of our associates are covered by a collective bargaining agreement.

COMPETITION

We operate in a large, highly fragmented and competitive industry, which we believe is currently underserved. The outdoors is an integral part of many Americans' lifestyles. We believe the principal competitive factors in our industry are breadth and depth of product selection, value pricing, convenient locations, technical services, and customer service. Our principal competitors include the following:

- local specialty stores;
- large-format entertainment-focused outdoor retailers, such as Cabela's and Bass Pro Shops;
- other outdoor-focused chains, such as Sportsman's Warehouse;
- catalog and Internet-based retailers, such as Cabela's, Bass Pro Shops and The Sportsman's Guide;
- traditional sporting goods chains, such as Dick's Sporting Goods, The Sports Authority and Academy;
- discount chains and mass merchants, such as Wal-Mart and Kmart;
- ATV and boat dealers;
- power shops; and
- marinas and marine supply stores, such as West Marine and Boater's World.

Local Specialty Stores. These stores generally range in size from approximately 2,000 to 10,000 square feet, and typically focus on one or two specific product categories such as hunting, fishing or camping and usually lack a broad selection of product.

Large-Format Entertainment-Focused Outdoor Retailers. These large-format retailers generally range in size from 100,000 to 250,000 square feet and seek to offer a broad selection of merchandise focused on hunting, fishing, camping and other outdoor product categories. These stores combine the characteristics of an outdoor retailer with outdoor entertainment and theme attractions. We believe the number of these stores that can be supported in any single market area is limited because of their large size and significant per-store cost.

Other Outdoor-Focused Chains. These smaller chains typically focus on offering a broad selection of merchandise in one or more of the following product categories hunting, fishing, camping or other outdoor product categories. The largest of these chains is significantly smaller than our company. We believe that these other outdoor-focused chains generally do not offer a similar depth and breadth of merchandise or specialized services in all of our product categories.

Catalog and Internet-Based Retailers. These retailers sell a broad selection of merchandise through the use of catalogs and the Internet. The products are competitively priced and the direct channel offers relative convenience to customers. However, catalog and Internet retailers are not able to provide face-to-face customer service and support, nor offer the expert technical, repair and other services that are provided at our retail stores.

Traditional Sporting Goods Chains. These stores generally range from 20,000 to 80,000 square feet and offer a broad selection of sporting goods merchandise covering a variety of sporting goods categories, including baseball, basketball, football, and home gyms, as well as hunting, fishing and camping. However, we believe the amount of space devoted to our outdoor product categories limits the extent of their offerings in these areas.

Discount Chains and Mass Merchants. These stores generally range in size from approximately 50,000 to over 200,000 square feet and are primarily located in shopping centers, free-standing sites or regional malls. Hunting, fishing and camping merchandise and apparel represent a small portion of the store assortment, and of their total sales.

ATV and Boat Dealers. In many markets, the retail ATV and boat industries are served by franchise and independent dealers. Although most competitors are primarily local in focus, some of these companies operate retail ATV or boat stores on a national or regional basis. We are subject to competition from dealers that sell the same brands of new ATVs or boats that we sell and from dealers that sell other brands of ATVs or boats that we do not represent in a particular market. Certain ATV or boat manufacturers may designate specific marketing and sales areas within which only one dealer of a given brand may operate. We may also be impacted by various state franchise or dealer protection laws from featuring a particular brand of ATV or boat within any area that is served by another dealer of the same brand, and we may need manufacturer approval to relocate or feature a particular brand in a new store.

Power Shops. Our power shop operations are subject to competition from independent ATV and boat service shops and service center chains. We believe that the principal competitive factors in the service and repair industry are price, location, the use of factory-approved replacement parts, expertise with the particular ATV and boat lines, and customer service.

Marinas and Marine Supply Stores. There are national chains that sell marine accessories and supplies. These products can also be found in a wide range of other retail outlets, including marine dealers, marina shops, boat service and repair shops, sporting goods suppliers and mass merchants.

GOVERNMENT REGULATION

We operate in highly regulated industries. A number of federal, state and local laws and regulations affect our business. In every state in which we operate, we must obtain various licenses or permits in order to operate our business.

Because we sell firearms at all of our retail stores, we are subject to regulation by the Bureau of Alcohol, Tobacco, Firearms and Explosives, or BATFE. Each store has a federal firearms license permitting the sale of firearms, and our distribution center has obtained a federal firearms license to store firearms. Our federal firearms licenses permit gunsmith activities at each of our stores. We have also obtained in certain stores a federal license to sell black powder used to shoot muzzle-loading firearms. Certain states require a state license to sell firearms and we have obtained these licenses for the states in which we operate.

We must comply with federal, state and local regulations, including the National Firearms Act and the federal Gun Control Act, which require us, among other things, to maintain federal firearms licenses for our locations and perform a pre-transfer background check in connection with all firearms purchases. We perform this background check using either the FBI-managed National Instant Criminal Background Check System, or NICS, or a comparable state government-managed system that relies on NICS and any additional information collected by the state, a state point of contact or POC. The federal categories of prohibited purchasers are the prevailing minimum for all states. States (and, in some cases, local governments) on occasion enact laws that further restrict permissible purchasers of firearms. These background check systems confirm either that a transfer can be made, deny the transfer or require that the transfer be delayed for further review, and provide us with a transaction number for the proposed transfer. We are required to record the transaction number on BATFE Form 4473 and retain this form in our records for 20 years for auditing purposes for each approved, denied or delayed transfer.

We are also subject to numerous other federal, state and local laws regarding firearm sale procedures, record keeping, inspection and reporting, including adhering to minimum age restrictions regarding the purchase or possession of firearms or ammunition, residency requirements, applicable waiting periods, importation regulations, and regulations pertaining to the shipment and transportation of firearms. The Protection of Lawful Commerce in Arms Act, which became effective in October 2005, prohibits civil liability actions from being brought or continued against manufacturers, distributors, dealers or importers of firearms or ammunition for damages, injunctions or other relief resulting from the misuse of their products by others. The legislation does not preclude traditional product liability actions. From time to time, federal, state or local governments consider proposed bills relating to the sale of firearms, such as laws that confirm or support an individual's right to possess a firearm or laws that would further restrict or prohibit certain firearm sales.

We are subject to a variety of federal, state and local laws and regulations relating to, among other things, protection of the environment, human health and safety, advertising, pricing, weights and measures, product safety, and other matters. Some of these laws affect or restrict the manner in which we can sell certain items such as hand guns, black powder, ammunition, bows, knives and other products. Our ATV and boat dealership operations may be impacted by various state franchise or dealership protection laws that may prohibit or restrict our ability to feature a particular brand of ATV or boat within any area that is served by another dealer of the same brand, and we may need manufacturer approval to relocate or feature a particular brand in a new store. State and local laws and regulations governing hunting, fishing, boating, ATVs and other outdoor activities can also affect our business. We believe that we are in substantial compliance with the terms of such laws and that we have no liabilities under such laws that we expect could cause a material adverse effect on our business, results of operations or financial condition.

In addition, many of our imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that we may import into the U.S. and other countries or impact the cost of such products. To date, quotas in the operation of our business have not restricted us, and customs duties have not comprised a material portion of the total cost of our products.

PROPRIETARY RIGHTS

Each of "Gander Mountain," "Gander Mountain Guide Series," "Gander Mtn.," "Overton's," "Gladiator," and "Dockmate" and our logos has been registered as a service mark or trademark with the United States Patent and Trademark Office. In addition, we have other pending applications for additional trademarks, including "We Live Outdoors." We also own other registered and unregistered trademarks and service marks utilized in our business.

EXECUTIVE OFFICERS

The following table sets forth the name, age and positions of each of our executive officers as of April 1, 2008.

Name	Age	Position
Mark R. Baker	50	President, Chief Executive Officer and Director
Richard J. Vazquez	49	Executive Vice President, Merchandising and Marketing
JoAnn Bailey Boldt	54	Senior Vice President, Human Resources
Mark A. Bussard	44	Senior Vice President, Retail Sales
Kerry D. Graskewicz	43	Senior Vice President, Inventory Management
Eric R. Jacobsen	51	Senior Vice President, General Counsel and Secretary
Robert J. Vold	49	Senior Vice President, Chief Financial Officer and Treasurer

Mark R. Baker, an avid outdoorsman, was appointed president in February 2004 and has served as our chief executive officer since September 2002. Mr. Baker was an independent consultant from August 2001 through September 2002. From May 1996 though July 2001, he served in various positions with Home Depot Inc., including executive vice president, chief operating officer and chief merchandising officer from April 1999 to July 2001. Prior to joining Home Depot, Mr. Baker held senior leadership positions in the retail sector, serving in various management positions for Knox Hardware and Lumber from 1980 through 1988, as vice president of merchandising and marketing of Scotty's Home Improvement Centers from 1988 through 1992 and as executive vice president of merchandising of HomeBase from 1992 through 1996. Mr. Baker is a director of The Scotts Company, a public company that manufactures and markets lawn and garden products.

Richard J. Vazquez joined our company as executive vice president, merchandising in August 2005 and assumed responsibility for marketing in November 2005. Prior to joining our company, Mr. Vazquez served in various positions at Home Depot Inc. from 1994 to 2005, most recently as vice president, merchandising and marketing, Mexico Division. He served as vice president, merchandising and marketing for Home Depot's Expo Design Center from 2002 to 2004; and general merchandising director, Chile and Argentina, from 1996 to 2001.

JoAnn Bailey Boldt joined the company in 1999 as Director, Human Resources and was promoted to Vice President, Human Resources, in April 2005. Ms. Boldt is currently the company's Senior Vice President, Human Resources, having been appointed in June 2007. Prior to joining the company, Ms. Boldt was with Wells Fargo Mortgage and ADP, among others.

Mark A. Bussard was named senior vice president of retail sales in December 2006, with responsibility for driving sales and increasing communication between the stores and the merchant and marketing teams. He began his career at Gander Mountain in 1994 as a store manager in Michigan and progressed through roles as district manager and regional manager. In 2002, he joined the corporate staff, where he led the hunting and fishing merchant teams as divisional vice president. Before joining Gander Mountain, Mr. Bussard served as a store manager and as a regional recruiter of store managers for Quality Stores, Inc.

Kerry D. Graskewicz joined Gander Mountain in October 2005 as Vice President, Merchandise Planning and Replenishment. He was appointed Senior Vice President, Inventory Management in February 2008. From 2003 to 2005 he held various positions at Organized Living, most recently serving as Vice President of Merchandise Planning/Allocation/Space. Between 1992 and 2002 he progressed through several roles at Bath and Body Works, the last of which was Vice President of Merchandise

Planning/Inventory Management. He began his career at May Department stores and has also held positions at Victoria's Secret in merchandise planning and at Venture Stores in inventory management.

Eric R. Jacobsen joined us in May 2005 as senior vice president, general counsel and secretary. From November 1998 to November 2004, he served as general counsel for Northwestern Corporation, serving most recently as senior vice president and general counsel, and from 1995 to 1998 he served as vice president, general counsel and secretary of Lodgenet Entertainment Corporation. Previously, he was a partner in the law firm of Manatt, Phelps & Phillips in Los Angeles, California, specializing in corporate finance, mergers and acquisitions. Mr. Jacobsen holds a JD-MBA degree from the University of Southern California.

Robert J. Vold was named senior vice president, chief financial officer and treasurer in January 2007. He joined Gander Mountain in October 2005 as vice president, finance. Mr. Vold previously spent seventeen years in positions of increasing responsibility in finance at Norstan, Inc., including chief financial officer. He began his career with Arthur Andersen LLP.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our current business strategy that focuses on large-format retail stores has not been proven successful on a long-term basis and may negatively impact our operating results.

In fiscal 2003, we began implementing our current business strategy that focuses on large-format retail stores. The viability of this business strategy has not been proven on a long-term basis. We have transitioned from opening approximately 30,000-square-foot stores to predominantly opening stores ranging from 50,000 to 120,000 square feet. The results we achieved at our small-format stores may not be indicative of the results that we may achieve at our new large-format stores. The large format increases our operating costs per store, but may not lead to proportionately increased revenues per store. Our mix of higher and lower-margin merchandise in our large-format stores differs from the merchandise mix in our small-format stores, and therefore, may negatively impact our gross margins in our large-format stores. We cannot assure you that we will be successful in operating our large-format stores on a profitable basis. If a large-format store is unprofitable, the impact on our financial results could be greater than the impact of an unprofitable small-format store.

Our concentration of stores in the Great Lakes region of the United States makes us susceptible to adverse conditions in this region, including atypical weather.

The majority of our stores are located in the Great Lakes region of the United States. Our growth may result in other regional concentrations over time, such as in Texas and Florida. As a result, our operations are more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include regional economic and weather conditions, natural disasters, demographic and population changes and governmental regulations in the states in which we operate. Environmental changes and disease epidemics affecting fish or game populations in any concentrated region may also affect our sales. If a concentrated region were to suffer an economic downturn or other adverse event, our operating results could suffer.

Our results of operations may be harmed by atypical weather conditions. Many of our stores are located in areas that traditionally experience seasonably cold weather. Abnormally warm weather conditions could reduce our sales of seasonal items and harm our operating results. Moreover, significant snowfalls or other adverse weather on peak shopping days, particularly during the holiday season, could adversely impact our sales if potential customers choose not to shop during those days.

Our operating results are subject to seasonal fluctuations.

We experience substantial seasonal fluctuations in our sales and operating results. We generated approximately 60% of our net sales in our third and fourth quarters of fiscal 2007, which include the peak hunting and holiday seasons. We incur significant additional expenses in the third and fourth fiscal quarters due to higher purchase volumes and increased staffing in our stores. If, for any reason, we miscalculate the demand for our products or our product mix during the third or fourth fiscal quarters, our sales in these quarters could decline, resulting in higher labor costs as a percentage of sales, significantly lower margins and excess inventory, which could cause our annual operating results to suffer and our stock price to decline significantly. Due to our significant seasonality, the possible adverse impact from other risks associated with our business, including atypical weather, consumer spending levels, and general business conditions, is potentially greater if any such risks occur during our peak sales seasons.

The continued growth and operation of our business is dependent upon the availability of adequate capital.

The continued growth and operation of our business depends on the availability of adequate capital, which in turn depends in large part on cash flow generated by our business and the availability of equity and debt financing. We cannot assure you that our operations will generate positive cash flow or that we will be able to obtain equity or debt financing on acceptable terms or at all. Our credit facility contains provisions that restrict our ability to incur additional indebtedness or make substantial asset sales that might otherwise be used to finance our expansion. Security interests in substantially all of our assets, which may further limit our access to certain capital markets or lending sources, secure our obligations under the credit facility. The actual availability of funds under our credit facility is limited to specified percentages of our eligible inventory and accounts receivable. The value of our eligible inventory is subject to periodic adjustment based on independent valuations performed on behalf of the banks. Any downward adjustment in the value of our inventory resulting from an independent valuation, whether based on an assessment of the nature and quality of our inventory or a perceived increase in the difficulty of selling collateral under current economic conditions, would adversely affect our availability. Moreover, opportunities for increasing our cash on hand through sales of inventory would be partially offset by reduced availability under our credit facility. As a result, we cannot assure you that we will be able to finance our future expansion plans.

Our expansion into new, unfamiliar markets presents increased risks that may prevent us from being profitable in these new markets.

Pursuant to our growth strategy, we are opening stores in new markets. In these new markets, we may have less familiarity with local customer preferences, difficulties in attracting customers due to a reduced level of customer familiarity with our brand, difficulties in hiring a sufficient number of qualified store associates and other challenges. In addition, entry into new markets may bring us into competition with new, unfamiliar competitors. We cannot assure you that we will be successful in operating our stores in new markets on a profitable basis.

Our expansion strategy includes further penetration of our existing markets, which could cause sales at our existing stores to decline.

Pursuant to our expansion strategy, we are opening additional stores in our existing markets. Because our new, larger stores typically draw customers from a greater area, a new store may draw customers away from any existing stores in the general service area and may cause sales performance and customer counts at those existing stores to decline, which may adversely affect our overall operating results.

We are expanding into new product areas, such as boats, with which we have limited experience and which may not be profitable for us.

In fiscal 2007, we began to distribute Tracker boats through many of our large-format stores. We have limited experience in selling boats and entering the boat business on a large scale represents a significant investment of resources by us. We may not realize a return on this investment and our boat business may not generate profits while diverting the attention of management and store-level personnel away from businesses with which we have greater familiarity. In addition, Tracker is affiliated with one of our primary competitors, Bass Pro Shops, which may adversely affect our relationship with Tracker.

We are continually looking for new products to introduce at our stores and believe that entering new product areas is an important part of our growth strategy. We cannot assure you that we will be able to identify new product areas or successfully introduce them at our stores. In addition, the identification, introduction and operation of these new businesses may distract our attention from existing product areas and adversely affect our overall operating results.

An inability to find suitable new store sites or delays in new store openings could materially affect our financial performance.

In order to meet our growth objectives, we will need to secure an adequate number of suitable new store sites. We require that all proposed store sites satisfy our criteria regarding cost and location. In addition, we are experiencing increased competition for store sites as our competitors seek to expand. Local land use and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations, and also influence the cost of constructing new stores. We cannot assure you that we will be able to find a sufficient number of suitable new sites for any planned expansion in any future period.

Our expected financial performance is based on our new stores opening on expected dates. It is possible that events such as problems with our credit, delays in the entitlements process or construction delays caused by permitting or licensing issues, material shortages, labor issues, weather delays or other acts of god, discovery of contaminants, accidents, deaths or injunctions could delay planned new store openings beyond their expected dates or force us to abandon planned openings altogether. Any failure on our part to recognize or respond to these issues may adversely affect our sales growth, which in turn may adversely affect our future operating results.

If we lose key management or are unable to attract and retain the talent required for our business, our operating results and financial condition could suffer.

Our performance depends largely on the leadership efforts and abilities of our senior management and other key employees. None of our employees, except certain senior executive officers, have an employment agreement with us. If we lose the services of one or more of our key employees, we may not be able to successfully manage our business or achieve our growth objectives. As our business grows, we will need to attract and retain additional qualified personnel in a timely manner.

We rely on a single distribution center for our retail business and a single fulfillment center for our Internet and catalog business, and if there is a natural disaster or other serious disruption at either facility, we may be unable to deliver merchandise effectively to our stores or customers.

We rely on a single distribution center in Lebanon, Indiana for our retail business, and a single fulfillment center in Greenville, North Carolina for our Internet and catalog business . Any natural disaster or other serious disruption at either facility due to fire, tornado, flood or any other cause could damage our on-site inventory or impair our ability to use such distribution center or fulfillment center. While we maintain business interruption insurance, as well as general property insurance, the amount of insurance coverage may not be sufficient to cover our losses in such an event. Any of these occurrences could impair our ability to adequately stock our stores or fulfill customer orders and harm our operating results.

Our planned growth may strain our business infrastructure, which could adversely affect our operations and financial condition.

Over time, we expect to significantly expand the size of our retail store network. As we grow, we will face the risk that our existing resources and systems, including management resources, accounting and finance personnel and operating systems, may be inadequate to support our growth. We cannot assure you that we will be able to retain the personnel or make the changes in our systems that may be required to support our growth. Failure to secure these resources and implement these systems could have a material adverse effect on our operating results. In addition, the retention of additional personnel and the implementation of changes and enhancements to our systems will require capital expenditures and other increased costs that could also have a material adverse impact on our operating results.

Our expansion in new and existing markets and our acquisition of Overton's may also create new distribution and merchandising challenges, including strain on our distribution facilities, an increase in information to be processed by our management information systems and diversion of management attention from operations towards the opening of new stores and markets. We intend to upgrade and replace certain of our current management information systems in order to support our growth strategy. Based on our current growth strategy, we will need to increase our distribution capabilities within the next few years, which could disrupt our business operations. To the extent that we are not able to meet these additional challenges, our sales could decrease and our operating expenses could increase.

We are implementing substantial information systems changes in support of our business that might disrupt our operations.

Our success depends on our ability to efficiently source, distribute and sell merchandise through our stores utilizing appropriate management information systems. We are in the process of implementing modifications to our technology that will involve updating or replacing our information systems with successor systems over the course of several years. There are inherent risks associated with replacing or modifying these systems, including supply chain disruptions that could affect our ability to deliver products to our stores in an efficient manner. In addition, in updating and replacing our systems, we may be unable to accurately capture and transfer data. We may be unable to successfully launch these new systems, the launch of these new systems could result in business disruptions or the actual cost may exceed the estimated cost of these new systems, any of which could have an adverse effect on our financial condition and results of operations. Additionally, there is no assurance that successfully implemented new systems will deliver the expected value to us.

Our ability to operate profitably is uncertain.

Through much of our history, we have experienced net losses and negative cash flow from operations. As of February 2, 2008, we had an accumulated deficit of $83.5 million. We have increased our expenses significantly to expand our store base. We may not generate sufficient revenue to offset these expenditures and may incur losses that we would not incur if we developed our business more slowly. If our revenue grows more slowly than we anticipate, or if our cost of goods sold or operating expenses exceed our expectations, our operating results would be harmed.

Our business depends on our ability to meet our labor needs.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including store managers, assistant managers, customer service representatives and store associates, who understand and appreciate our "We Live Outdoors" culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the retail industry is high. If we are unable to hire and retain sales associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our business could be materially adversely affected. Although none of our employees is currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may delay the planned openings of new stores. Any such delays, any material increases in employee turnover rates at existing stores or any increases in labor costs could have a material adverse effect on our business, financial condition or operating results.

If we fail to anticipate changes in consumer demands, including regional preferences, in a timely manner, our operating results could suffer.

Our products appeal to consumers who regularly hunt, fish, camp and boat. The preferences of these consumers cannot be predicted with certainty and are subject to change. In addition, due to different types of fish and game stocks and different weather conditions found in different markets, it is critical that our stores stock appropriate products for their markets. Our success depends on our ability to identify product trends in a variety of markets as well as to anticipate, gauge and react to changing consumer demands in these markets in a timely manner. If we misjudge the market for our products, our sales may decline significantly and we may face significant excess inventory of some products and missed opportunities for other products, which could harm our operating results.

Failure to protect the integrity and security of our customers' information could expose us to litigation and materially damage our standing with our customers.

The increasing costs associated with information security such as increased investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud could cause our business and results of operations to suffer materially. There can be no assurance that our efforts to protect customer and confidential information will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments may not prevent the compromise of our customer transaction processing capabilities and personal data even if we implement them. If any compromise of our information security were to occur, it could have a material adverse effect on our reputation, business, operating results and financial condition and may increase the costs we incur to protect against such information security breaches or subject us to fines, penalties or litigation.

Our ability to use certain of our trademarks in direct marketing activities is uncertain.

We and one of our competitors, Cabela's Incorporated, have a dispute regarding the enforceability and scope of a non-competition agreement entered into in 1996. Although the non-competition provisions of the agreement expired in June 2003, our competitor contends that a contingent trademark licensing provision may require us to grant it a license that would restrict our ability to use certain of our trademarks that were in existence in 1996 in a "direct marketing business" (as defined in the agreement).). In July 2004, we filed a complaint in the U.S. District Court for the District of Minnesota seeking clarification as to the interpretation and enforceability of the non-competition agreement. In

July 2007, the U.S. District Court issued an order granting our motion for summary judgment, ruling that the contingent trademark licensing provision was unenforceable. The order provides, in part, that we are free to use our trademarks in all respects including direct marketing to consumers. Cabela's has appealed the ruling to the U.S. Court of Appeals, 8th Circuit. We are not able to predict the ultimate outcome of this litigation, but it could be costly and disruptive. The total costs may not be reasonably estimated at this time. If the July 2007 order is reversed, subsequent proceedings might impact the manner in which we market our products in certain distribution channels in the future.

We may be named in litigation, which may result in substantial costs and divert management's attention and resources.

We face legal risks in our business, including claims from disputes with our employees and our former employees and claims associated with general commercial disputes, product liability and other matters. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. While we maintain director and officer insurance, as well as general and product liability insurance, the amount of insurance coverage may not be sufficient to cover a claim and the continued availability of this insurance cannot be assured. We may in the future be the target of litigation and this litigation may result in substantial costs and divert management's attention and resources.

Our comparable store sales will fluctuate and may not be a meaningful indicator of future performance.

Our comparable store sales have fluctuated significantly. Changes in our comparable store sales results could adversely affect the price of our common stock. Among the factors that have historically affected, and will continue to affect, our comparable store sales are: competition, our new store openings, general and regional economic conditions, consumer trends and preferences, timing and effectiveness of promotional events, loss of key vendors, disruption to our supply chain, seasonality, natural disasters and adverse weather. There is no assurance that we will be able to maintain or increase our comparable store sales over time.

Our computer hardware and software systems are vulnerable to damage that could harm our business.

Our success, in particular our ability to successfully manage inventory levels, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information and aggregate daily sales, margin and promotional information. These systems are vulnerable to damage or interruption from:

- fire, flood, tornado and other natural disasters;
- power loss, computer system failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events;
- computer viruses; and
- upgrades, installations of major software releases and integration with new systems.

Any failure that causes an interruption in our systems processing could disrupt our operations and result in reduced sales. We have centralized the majority of our computer systems in our corporate office. It is possible that an event or disaster at our corporate office could materially and adversely affect the performance of our company and the ability of each of our stores to operate efficiently.

If any of our key vendors or manufacturers fails to supply us with merchandise or changes key business terms, we may not be able to meet the demands of our customers and our sales could decline.

We depend on merchandise purchased from our vendors and sourced from third-party manufacturers to obtain products for our stores. Our vendors and manufacturers could discontinue selling products to us at any time. The loss of any key vendor or manufacturer for any reason could limit our ability to offer products that our customers want to purchase. In addition, we believe many of our vendors obtain their products from China, Taiwan, Korea, Mexico and other foreign countries and we source products from third-party manufacturers in foreign countries. A vendor could discontinue selling to us products manufactured in foreign countries at any time for reasons that may or may not be in our control or the vendor's control, including foreign government regulations, political or financial unrest, war, trade restrictions, tariffs, currency exchange rates, the outbreak of pandemics, disruption or delays in shipments, port security, changes in local economic conditions and other issues. In addition, to the extent that any foreign supplier utilizes labor or other practices that vary from those commonly accepted in the U.S., we could be adversely affected by any resulting negative publicity or otherwise. Changes in commercial practices of our key vendors or manufacturers, such as changes in vendor support and incentives or changes in credit or payment terms, could negatively impact our results. Our operating results could also suffer if we are unable to promptly replace a vendor or manufacturer who is unwilling or unable to satisfy our requirements with a vendor or manufacturer providing equally appealing products.

We recently acquired Overton's and may pursue additional strategic acquisitions, which could have an adverse impact on our business.

We recently acquired Overton's and we may from time to time acquire complementary businesses in the future. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate companies that we acquire, including their personnel, financial systems, distribution, operations and general store-operating procedures. If we fail to successfully integrate acquired companies, our business could suffer. In addition, the integration of any acquired business, and its financial results, into ours may adversely affect our operating results.

Risks associated with Internet sales could adversely affect our business.

Internet sales through the websites that were acquired as part of the Overton's business and any website store that we may launch in the future are subject to numerous risks that could result in lower revenue, increase our costs or otherwise adversely affect our business, including:

- operating problems, system failures and reliance on third party computer hardware/software providers;
- rapid technological change, including a failure to offer new website functionality that customers favor or increases in software filters that may inhibit our ability to market our products through email messages;
- extensive federal and state regulations, including liability for online content and violations of privacy laws;
- credit card fraud;
- risks related to the failure of the computer systems that operate our websites and their related support systems, including computer viruses, breaches of Internet security or similar disruptions;
- failure of telecommunications, power services or other necessary infrastructure resulting in website downtime, call center closure or other problems; and

- failure to timely and accurately fulfill customer orders.

There is no assurance that our internet operations will achieve sales and profitability growth.

Risks associated with catalog sales could adversely affect our business.

There are risks associated with our catalog sales channel that could result in lower revenue, increase our costs or otherwise adversely affect our business, including:

- customer acceptance of our catalog presentations and lower than expected response rates;
- increases in paper and printing costs, postage rates and other costs relating to our catalog mailings;
- a failure in the timing of design, production or deliveries of catalogs;
- failure to timely and accurately fulfill customer orders;
- the implementation of government-mandated return policies that would require us to pay for all returns;
- our inability to adequately replenish our customer database; and
- the accuracy, breadth and depth of the information contained in our customer database so we can correctly analyze our mailing lists and maximize our customer targeting efforts.

In addition, catalog sales may decline as a result of customers switching from catalog purchases to internet purchases.

Risks Related to Our Industry

A downturn in the economy may affect consumer purchases of discretionary items, which could harm our operating results.

In general, our sales result from discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others:

- weather,
- general business conditions,
- interest rates,
- inflation,
- the availability of consumer credit and consumer debt levels,
- taxation,

- energy and fuel prices,
- unemployment trends,
- natural disasters,
- terrorist attacks and acts of war, and
- other matters that influence consumer confidence and spending.

Changes in energy costs impact our business, both by influencing the cost of operating our stores and transporting goods, and by affecting consumer spending patterns. Our customers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. If this occurs, our operating results could suffer.

Competition in the outdoor products industry could limit our growth and harm our operating results.

The retail market for outdoor products is highly fragmented and competitive, with competition increasing in recent periods. Our current and prospective competitors include many large companies that have substantially greater market presence, name recognition, and financial, marketing and other resources than we do. In addition, most of our largest competitors have undertaken accelerated growth strategies. We compete directly or indirectly with the following categories of companies:

- large format entertainment-focused outdoor retailers, such as Bass Pro Shops and Cabela's;
- other outdoor-focused chains, such as Sportsman's Warehouse;
- catalog and Internet-based retailers, such as Bass Pro Shops, Cabela's, and The Sportsman's Guide;
- traditional sporting goods chains, such as Dick's Sporting Goods, The Sports Authority and Academy;
- discount chains and mass merchants, such as Wal-Mart and Kmart;
- ATV and boat dealers, local specialty stores and repair shops; and
- marinas and marine supply stores, such as West Marine and Boater's World.

Pressure from our competitors could require us to reduce our prices or increase our spending for advertising and promotion, which could erode our margins. Increased competition in markets in which we have stores or the adoption by competitors of innovative store formats, aggressive pricing strategies and retail sale methods, such as the Internet, could cause us to lose market share and could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to product liability claims relating to our sale of outdoor equipment and firearms, and our insurance may not be sufficient to cover damages related to those claims.

We may incur damages due to lawsuits relating to equipment that we sell. We may also be subject to lawsuits relating to the design, manufacture or sale of our owned-brand products. In addition, we sell and service rifles, shotguns and handguns, along with archery equipment, which are products that are associated with an increased risk of injury and death. We may incur damages due to lawsuits relating to the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearm manufacturers and retailers relating to the misuse of firearms. We may be subject to lawsuits relating to our performance of background checks on firearms purchasers as mandated by state and federal law. We also sell and service boats and all-terrain vehicles (ATVs), which are motorized vehicles designed for off-road use. Lawsuits relating to the products we sell could result in substantial liability, which would adversely affect our business and financial condition. There is a risk that claims or liabilities relating to products we sell will exceed our insurance coverage and we may be unable to retain adequate liability insurance in the future. In addition, the commencement of lawsuits against us relating to our sale of outdoor equipment or firearms could cause us to reduce our sales of those products.

Increased regulation of the sale of firearms could cause us to reduce our firearm sales, which could harm our operating results.

Increased federal, state or local regulation, including taxation, of the sale of firearms in our current markets or in future markets in which we may operate could cause us to reduce our firearm sales or adversely affect our margins on these sales. Sales of firearms represent a significant percentage of our net sales and are critical in drawing customers to our stores. A substantial reduction in our sales or margins on sales of firearms due to the establishment of new regulations could harm our operating results.

Some of the products and services we sell are highly regulated, which could lead to high compliance costs.

We are subject to regulation by the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Consumer Product Safety Commission, the Occupational Safety and Health Administration and similar state regulatory agencies. Compliance with these regulatory requirements is costly and these costs could increase in the future. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and adverse publicity that could have a material adverse effect on our business, results of operations and financial condition. In addition, regulations issued by the Bureau of Alcohol, Tobacco, Firearms and Explosives may delay our ability to change certain of our officers and prohibit some individuals from serving in certain of our offices.

Risks Related to Our Common Stock

Pratt family members, Erickson family members and their affiliates collectively own a controlling interest in our company and these individuals and entities may have interests that differ from those of our other shareholders.

Members of the Pratt family, the Erickson family and their affiliates collectively own a controlling interest in us through a combination of their individual stock ownership and their beneficial interest in certain entities that hold our shares. While neither the Pratt family nor the Erickson family, together with their respective affiliates, owns a controlling interest in our company, each of them owns in excess of 30% of our outstanding voting stock. As a result, these shareholders are able to individually influence and collectively control matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may have interests that differ from or otherwise conflict with those of other shareholders and may vote in a way with which you disagree and that may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

No members of the Pratt family, the Erickson family or their affiliates are subject to any contractual obligations to retain their interests. Certain individual members of the Erickson family and certain of the entities described above have rights to cause us to register their shares. A sale by these shareholders of a large interest in us, or the perception that such a sale could occur, could cause the market price of our common stock to decline significantly.

Conflicts of interest may arise as a result of the significant interest in our company held by the Pratt family, the Erickson family and their affiliates.

Conflicts of interest may arise as a result of the significant ownership interests in us by the Pratt family, the Erickson family and their affiliates. David C. Pratt is the chairman of our board of directors and two members of our board of directors are members of the Erickson family, including Ronald Erickson, our vice chairman, and Gerald Erickson. We may face unavoidable conflicts of interest when our board of directors faces decisions that affect both us and either Pratt family or Erickson family interests.

We can issue shares of preferred stock without shareholder approval, which could adversely affect the rights of common shareholders.

Our articles of incorporation permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our shareholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common shareholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

Certain provisions of Minnesota law may make a takeover of our company more difficult, depriving shareholders of opportunities to sell shares at above-market prices.

Certain provisions of Minnesota law may have the effect of discouraging attempts to acquire us without the approval of our board of directors. Section 302A.671 of the Minnesota statutes, with certain exceptions, requires approval of any acquisition of the beneficial ownership of 20% or more of our voting stock then outstanding by a majority vote of our shareholders prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable by us at their then-fair market value within 30 days after the acquiring person failed to give a timely information statement to us or the date the shareholders voted not to grant voting rights to the acquiring person's shares. Section 302A.673 of the Minnesota statutes generally prohibits any business combination by us, or any of our subsidiaries, with an interested shareholder, which includes any shareholder that purchases 10% or more of our voting shares within four years following such interested shareholder's share acquisition date, unless the business combination is approved by a committee of all of the disinterested members of our board of directors before the interested shareholder's share acquisition date. Consequently, our common shareholders may lose opportunities to sell their stock for a price in excess of the prevailing market price due to these protective measures.

The price of our common stock is volatile.

The trading price of our common stock fluctuates substantially. These fluctuations could cause you to lose part or all of your investment in our shares of common stock. The factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of outdoor and sporting goods companies and other retail companies;
- relatively few shares available for public trading;
- actual or anticipated changes in our sales and earnings, fluctuations in our operating results or the failure to meet the expectations of financial market analysts and investors;
- investor perceptions of the outdoor products, sporting goods and marine industries, the retail industry in general and our company in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- changes in accounting standards, policies, guidance, interpretation or principles;
- adverse weather conditions in our markets;

regulatory changes;

loss of external funding sources;

sales of large blocks of our stock or sales by insiders; or

departures of key personnel.

We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future.

We have never declared or paid any cash dividends on our shares of common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board of directors. In addition, our credit facility restricts our ability to pay cash dividends or other non-stock distributions on any shares of our capital stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Saint Paul, Minnesota where we lease approximately 63,000 square feet. The initial term of this lease expires March 31, 2020, and is subject to two renewal options of five years each. Renewal rent is to be established at the then-current market rate. This lease also provides us with expansion options.

We currently lease 427,000 square feet in two buildings for our distribution center in Lebanon, Indiana. The first building is approximately 225,000 square feet with an initial lease term that expires in 2011 and is subject to multiple five-year renewal options and rent escalation provisions. The second building is approximately 202,000 square feet with an initial lease term that expires in 2010 and is subject to multiple one-year renewal options and rent escalation provisions.

We lease all of our 113 stores, which are in various locations in Alabama, Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Tennessee, Texas, Virginia, West Virginia and Wisconsin. Our Bemidji, Minn., store is leased from Holiday Stationstores, Inc.., a company controlled by the Erickson family. Our stores are generally leased for 10 to 15 years, and most leases contain multiple five-year renewal options and rent escalation provisions.

Overton's leases 383,000 square feet in a building in Greenville, North Carolina that functions as the fulfillment and distribution center for its direct-to-consumer marketing business. Overton's also leases 46,000 square feet of office space.

ITEM 3. LEGAL PROCEEDINGS

Trademark Litigation On July 2, 2004, we filed a complaint in the U.S. District Court for the District of Minnesota seeking declaratory relief that the contingent trademark licensing provision of a noncompetition agreement dated May 16, 1996, made between our predecessor and Cabela's Incorporated, is invalid and unenforceable. Although the noncompetition provisions of the noncompetition agreement expired in June 2003, Cabela's contends that a contingent trademark licensing provision of the noncompetition agreement requires us to grant Cabela's a license that would preclude our use of certain of our trademarks for direct marketing purposes.

On July 10, 2007, the U.S. District Court issued an order granting our motion for summary judgment, ruling that the contingent trademark licensing provision was unenforceable. The order provides, in part, that we are free to use our trademarks in all respects including direct marketing to consumers. Cabela's has appealed the ruling to the U.S. Court of Appeals, 8th Circuit.

We are not able to predict the ultimate outcome of this litigation, but it could be costly and disruptive. The total costs may not be reasonably estimated at this time. If the July 10, 2007 order is reversed, subsequent proceedings might impact the manner in which we market our products in certain distribution channels in the future. Such an adverse result is not expected to have an affect on our marketing of products through our retail stores. Nor would an unfavorable result preclude us from engaging in direct marketing activities using trademarks not in dispute. A favorable result would confirm our right to use the subject trademarks in all direct marketing activities.

Other Legal Claims Various claims and lawsuits arising in the normal course of business may be pending against us from time to time. The subject matter of these proceedings typically relate to commercial disputes, employment issues, product liability and other matters. As of the date of this report, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of our common stock are traded on the Nasdaq Global Market under the symbol "GMTN." Our common stock began trading on April 21, 2004. The following table shows the high and low sales prices of our common stock on the Nasdaq Global Market for the periods indicated:

	High	Low
Fiscal 2007:		
First Quarter	$ 13.78	$ 9.36
Second Quarter	$ 16.00	$ 9.49
Third Quarter	$ 11.19	$ 4.95
Fourth Quarter	$ 5.83	$ 4.00
Fiscal 2006:		
First Quarter	$ 9.90	$ 6.05
Second Quarter	$ 9.97	$ 5.01
Third Quarter	$ 7.75	$ 4.95
Fourth Quarter	$ 10.49	$ 7.31

On April 25, 2008, the last reported sale price for shares of our common stock on the Nasdaq Global Market was $5.33 per share.

Holders

There were 89 holders of record of our common stock as of April 25, 2008.

Issuer Purchases of Equity Securities

We did not make any purchases of our equity securities during the fourth quarter of fiscal year 2007.

Dividends

We have never declared or paid any cash dividends on our shares of common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board of directors. In addition, our credit facility restricts our ability to pay cash dividends or other non-stock distributions on any shares of our capital stock.

Sales of Unregistered Securities

On December 6, 2007, we entered into stock purchase agreements with Gratco, LLC, an entity controlled by David C. Pratt, our Chairman, and with Holiday Stationstores, Inc., an entity controlled by Ronald Erickson, our Vice Chairman, and Gerald Erickson, a member of our board of directors. Pursuant to the agreements we sold an aggregate of 4,067,797 shares of common stock at $5.90 per share for an aggregate purchase price of $24.0 million. Gratco purchased 3,065,000 shares and Holiday Stationstores purchased 1,002,797 shares . The net proceeds were used to partially fund the purchase price of Overton's.

The shares were not registered under the Securities Act of 1933 upon issuance. We offered and sold the shares to the purchasers in reliance on the exemption from registration provided by Rule 506 promulgated under Regulation D. We relied on this exemption from registration based in part on representations made by the purchasers in the stock purchase agreements.

Company Stock Performance

The following graph compares the quarterly change in the cumulative total shareholder return on our common stock from April 21, 2004, which is the day our common stock began to trade publicly, through February 2, 2008 with the cumulative total return on the Nasdaq Composite Index and S&P Retailing Index. The comparison assumes $100 was invested on April 21, 2004 in our common stock and in each of the foregoing indices and assumes that dividends were reinvested when and as paid. We have not declared dividends on our common stock. You should not consider shareholder return over the indicated period to be indicative of future shareholder returns.

COMPARISON OF 47 MONTH CUMULATIVE TOTAL RETURN*

Among Gander Mountain Company, The NASDAQ Composite Index
And The S&P Retailing Group

*

$100 invested on 4/21/04 in stock or on 3/31/04 in index-including reinvestment of dividends. Indexes calculated on month-end basis.

www.researchdatagroup.com/S&P.htm

	April 21, 2004	April 30, 2004	July 31, 2004	October 30, 2004	January 29, 2005	April 30, 2005	July 30, 2005	October 29, 2005	January 28, 2006	April 29, 2006	July 29, 2006	October 28, 2006	February 3, 2007	May 5 2007
Gander Mountain Company	**100.00**	**100.59**	**97.41**	**88.35**	**39.37**	**47.23**	**52.09**	**22.71**	**28.11**	**40.83**	**25.70**	**33.97**	**46.00**	**57.63**
NASDAQ Composite	**100.00**	**100.00**	**98.15**	**102.29**	**107.11**	**100.21**	**113.55**	**110.63**	**121.23**	**122.34**	**111.04**	**126.08**	**129.17**	**135.01**
S&P Retailing Group	**100.00**	**96.50**	**95.10**	**103.26**	**107.66**	**100.25**	**122.54**	**110.75**	**117.14**	**120.04**	**107.52**	**128.10**	**133.84**	**133.85**

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified by reference to and should be read in conjunction with our consolidated financial statements and notes thereto included in Item 8 and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7.

The selected financial data presented below under the heading "Statement of Operations Data" for the years ended February 2, 2008, February 3, 2007 and January 28, 2006, and the selected financial data presented below under the heading "Balance Sheet Data" as of February 2, 2008 and February 3, 2007 have been derived from our audited consolidated financial statements included under Item 8.

The selected financial data presented below under the heading "Statement of Operations Data" for the years ended January 29, 2005 and January 31, 2004 and the selected financial data presented below under the heading "Balance Sheet Data" as of January 28, 2006, January 29, 2005 and January 31, 2004 have been derived from our audited consolidated financial statements that are not required to be included in this report.

The fiscal year ended February 3, 2007 included 53 weeks. All other fiscal years presented include 52 weeks. The unaudited selected financial data presented below under the heading "Operating Data," for all periods have been derived from our internal records of our operations, except for "Gross profit as a percentage of sales," which is derived from our audited consolidated financial statements. Our fiscal year ended February 2, 2008 is referred to as fiscal 2007, our fiscal year ended February 3, 2007 is referred to as fiscal 2006, our fiscal year ended January 28, 2006 is referred to as fiscal 2005, our fiscal year ended January 29, 2005 is referred to as fiscal 2004, and our fiscal year ended January 31, 2004 is referred to as fiscal 2003. Our fiscal year ending January 31, 2009 is referred to as fiscal 2008.

Beginning with this filing of our Form 10-k for fiscal 2007, the Company changed the presentation of its consolidated statement of operations as a result of the acquisition of Overton's, a direct marketing company, by the historical retail-only Gander Mountain Company. Previously, we presented two operating expense captions: "Store Operating expenses" and "General and Administrative expenses". These two captions are now combined into the caption "Selling, General and Administrative expenses". This reclassification has been made for all years presented.

	Fiscal Year Ended(1)				
	February 2, 2008	**February 3, 2007**	**January 28, 2006**	**January 29, 2005**	**January 31, 2004**
	(dollars in thousands, except per share data)				
Statement of Operations Data					
Sales	$ 969,403	$ 911,438	$ 804,474	$ 644,014	$ 489,530
Cost of goods sold(2)	728,649	686,722	612,029	479,662	370,532
Gross profit	240,754	224,716	192,445	164,352	118,998
Operating expenses:					
Selling, general and administrative expenses	240,744	207,431	187,956	149,343	107,844
Exit costs, impairment and other charges	6,493	458	2,635	108	
Pre-opening expenses	4,836	3,245	6,555	8,194	4,921
Gain on insurance settlement		(1,400)			
Gain on contract settlement			(2,500)		
Income (loss) from operations	(11,319)	14,982	(2,201)	6,707	6,233
Interest expense	19,745	19,187	11,106	5,137	4,760
Debt conversion charge		9,037			
Income (loss) before income taxes	(31,064)	(13,242)	(13,307)	1,570	1,473
Income tax provision	750				
Net income (loss)	$ (31,814)	$ (13,242)	$ (13,307)	$ 1,570	$ 1,473
Loss applicable to common shareholders	$ (31,814)	$ (13,242)	$ (13,307)	$ (2,735)	$ (15,050)
Basic and diluted loss applicable to common shareholders per share	$ (1.52)	$ (0.88)	$ (0.93)	$ (0.25)	$ (15.47)

Historical results are not necessarily indicative of the results of operations to be expected for future periods. See Note 2 and Note 18 to our consolidated financial statements included in this report for a description of the method used to compute basic and diluted net earnings (loss) per share.

	Fiscal Year Ended(1)				
	February 2, 2008	**February 3, 2007**	**January 28, 2006**	**January 29, 2005**	**January 31, 2004**
	(dollars in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 2,622	$ 1,342	$ 1,580	$ 1,033	$ 970
Inventories, net	403,683	349,120	308,395	264,138	180,361
Goodwill and other intangible assets	73,901	2,837	2,837	2,837	2,837
Total assets	679,932	521,617	458,930	385,843	249,701
Borrowings under revolving credit facility	246,013	168,485	174,936	114,441	102,058
Long term debt	64,173	16,421	30,953	11,757	
Notes payable to affiliate					9,840

	Fiscal Year Ended(1)				
Total shareholders' equity	$ 193,820	$ 196,791	$ 149,825	$ 162,308	$ 64,498

	Fiscal Year Ended(1)				
	February 2, 2008	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004
	(dollars in thousands, except per square foot data)				
Operating Data					
Comparable store sales increase / (decrease)(1)(3)	(5.4)%	(1.1)%	(6.0)%	(2.5)%	11.5%
Number of stores at end of period	113	105	98	82	65
Total square feet at end of period	6,182,916	5,483,029	4,999,813	3,773,835	2,533,223
Sales per square foot(4)	$ 165	$ 175	$ 180	$ 205	$ 227
Gross profit as a percentage of sales(5)	24.8%	24.7%	23.9%	25.5%	24.3%
Operating margin(6)	(1.2)%	1.6%	(0.3)%	1.0%	1.3%
Adjusted EBITDA(7)	$ 21,777	$ 37,415	$ 18,667	$ 18,471	$ 14,459

(1)

Our fiscal year ends on the Saturday closest to the end of January, electing a 52-53 week fiscal year. All years presented herein include 52 weeks, except the fiscal year ended February 3, 2007, which includes 53 weeks.

For the year ended February 2, 2008, the comparable store sales decrease of -5.4% is based on a 52-week to 52-week comparison, and is not derived from a comparison to the 53 week year ended February 3, 2007.

For the year ended February 3, 2007, the comparable stores sales decrease of -1.1% is based on a 53-week to 53-week comparison, and is not derived from a comparison to the 52-week year ended January 28, 2006.

(2)

Beginning in fiscal 2004, we agreed with our vendors to eliminate proof-of-performance requirements on substantially all of our contracts. Accordingly, vendor monies that support our advertising programs are now recorded as a reduction in the cost of inventory, and are recognized as a reduction of cost of goods sold when the inventory is sold. Prior to fiscal 2004, vendor monies were accounted for as a reduction of advertising costs at the time the advertising programs occurred.

(3)

For fiscal 2003, a store was included in the comparable store base in its fourteenth full month of operations. A relocated store was returned to the comparable store base in its fourteenth full month of operations following relocation. Beginning in fiscal 2004, we include a store, including a relocated store, in the comparable store base in its fifteenth full month of operations. This change did not have a material impact on comparable store sales.

(4)

Calculated based on the weighted average of the gross square footage in the period, which includes office, storage and receiving areas. Excludes catalog and Internet sales of Overton's.

(5)

Gross profit includes store occupancy costs and distribution costs for all years presented. For fiscal year 2007 it also includes the cost of goods sold for the acquired Overton's direct-to-consumer business for approximately two months.

(6)

Calculated based on operating income (loss) and sales for the period.

(7)

Adjusted EBITDA consists of net income (loss) plus interest expense, plus income tax provision or minus income tax benefit, plus depreciation and amortization, plus exit costs, impairment and other charges, and plus debt conversion expense. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with U.S. generally accepted accounting principles. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing

performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense and depreciation and amortization.

We do not use it as a measure of liquidity. The funds depicted by Adjusted EBITDA are not necessarily available for discretionary use and exclude the impact of interest expense,income taxes and other items. Adjusted EBITDA should not be considered as a substitute for net income or net loss, net cash provided by or used in operations, or other financial data prepared in accordance with U.S. generally accepted accounting principles, or as a measure of liquidity.

We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is a widely accepted financial indicator of a company's ability to service its debt

- it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired; and

- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing from our operating results the impact of our capital structure, primarily interest expense from our outstanding debt, and asset base, primarily depreciation and amortization of our property and equipment.

Our management uses Adjusted EBITDA:

- as a measurement of operating performance because it assists us in comparing our performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense from our outstanding debt, and our asset base, which includes depreciation and amortization of our property and equipment;

- under our secured credit facility which sets the applicable margin on LIBOR based loans with reference to our EBITDA; and

- in presentations to the members of our board of directors to enable our board to have the same consistent measurement basis of operating performance used by management.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Fiscal Year Ended(1)				
	February 2, 2008	**February 3, 2007**	**January 28, 2006**	**January 29, 2005**	**January 31, 2004**
			(dollars in thousands)		
Net income (loss)	$ (31,814)	$ (13,242)	$ (13,307)	$ 1,570	$ 1,473
Depreciation and amortization(8)	26,603	21,975	18,233	11,656	8,226
Interest expense	19,745	19,187	11,106	5,137	4,760
Debt conversion charge		9,037			
Exit costs, impairment and other charges	6,493	458	2,635	108	
Income tax provision	750				
Adjusted EBITDA	$ 21,777	$ 37,415	$ 18,667	$ 18,471	$ 14,459

(8) Excludes amortization of loan origination fees which are included in interest expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion may contain forward-looking statements regarding us, our business prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Commission that advise interested parties of the risks and factors that may affect our business.

Overview

Gander Mountain Company operates the nation's largest retail network of stores specializing in hunting, fishing, camping, marine and outdoor lifestyle products and services. We have expanded our store base to 113 conveniently located Gander Mountain outdoor lifestyle stores, providing approximately 6.2 million square feet of retail space in 23 states: Alabama, Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Tennessee, Texas, Virginia, West Virginia and Wisconsin. We anticipate opening five new stores in 2008, including one relocation and the consolidation of two smaller format stores into one large-format store.

Our core strategy is to provide our target customers with a unique and broad assortment of outdoor equipment, accessories, related technical apparel and footwear; expert services; convenient locations and value pricing. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal and regional or local preferences. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

Since its origin in 1960, our brand name has developed a strong appeal and relevance to consumers who participate in outdoor sports and recreation activities. Our customers value our "We Live Outdoors" culture and theme. From 1960 to 1996, our predecessor operated a nationwide catalog business that, by 1996, included 17 retail stores. In 1996 and 1997, Holiday Companies, which at the time owned and operated a group of retail sporting goods stores, acquired these Gander Mountain retail stores, formed our company and began to build a new outdoor lifestyle business utilizing the historic Gander Mountain brand.

In March 2003, we began transforming our market position from a traditional specialty store to a large-format, category-focused store. We did this by opening new stores in a large format and increasing the selling space within our original, small-format stores. Prior to March 2003, our typical store was approximately 31,000 square feet. Our large-format stores range from approximately 50,000 to 120,000 square feet, with our current focus primarily upon stores of 60,000 to 65,000 square feet plus an outside selling area. Our large-format stores are generally located with convenient access to a major highway and have an open-style shopping environment characterized by wide aisles, open bar-joist ceilings and high-density racking. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores and our new stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements. As of February 2, 2008, 68 of our 113 stores were in our large format.

The larger format enables us to offer more products and services to our customers. In 2004 we began offering the Arctic Cat brand of all-terrain vehicles (ATVs) in our large format stores. In spring 2007 we began to feature the popular Tracker Marine Group boat brands in our stores, including Tracker and Fisher fishing boats, Sun Tracker and Fisher pontoon boats, Nitro and ProCraft high-performance fishing boats, Tahoe runabout/deck boats, Mako offshore/inshore fishing boats, and Kenner Bay boats. To support these efforts we began to offer power shop services in our larger stores, including maintenance and repairs for ATVs, boats and other small engines. We have learned that we can be most successful offering ATVs, boats and related power shop services in selected markets based on market demand, competitive conditions and customer preferences. As of fiscal 2007 year end, we had reduced the number of our large-format stores offering ATVs and Tracker brand boats to 22 and 27, respectively.

Our large-format stores offer other unique features and specialized services, including a full-service gunsmith shop, a full-service archery pro shop and archery target lanes. Some of the large-format stores also include a bait shop that opens early for the convenience of our customers. We utilize outside selling areas adjacent to most of our large-format stores to display additional offerings of larger items such as ATVs, boats, kayaks, trailers and canoes.

Nearly all of our stores have a Gander Mountain Lodge, which is an in-store meeting room available for public use, where we provide hunter safety classes, outdoor-skills seminars and other community-focused activities.

On December 6, 2007 we acquired Overton's, Inc., a leading internet and catalog marketing company targeting recreational boaters and water sports enthusiasts.. Overton's product line is extensive, ranging from water skis, wakeboards and apparel to electronics, boat covers, boat seats and other marine accessories. Overton's products are sold under two principal brands, Overton's and Consumers Marine, through a multi-channel approach that includes catalogs, websites (*www.Overtons.com* and *www.Consumersmarine.com*) and three retail showrooms. Overton's is a wholly-owned subsidiary of Gander Mountain headquartered in Greenville, North Carolina.

We are utilizing several strategic and operating initiatives aimed at improving our merchandise offerings, enhancing profitability and expanding the number and geographic diversity of our stores. We measure performance using such key operating statistics as comparable store sales, sales per square foot, gross margin percentage and store operating expenses, with a focus on labor, as a percentage of sales.

We also measure and evaluate investments in our retail locations, including inventory and property and equipment. Inventory performance is primarily measured by inventory per square foot and by inventory turns, or the number of times store inventory turns over in a given period, and amounts of owned inventory at various times based on payment terms from our vendors. The most significant investments in property and equipment are made at the time a store is opened by us.

We believe that the overall growth of our business will allow us to generally maintain or increase our product gross margins. Increased merchandise volumes should enable us to improve our purchasing leverage and achieve greater support throughout the supply chain. The mix of merchandise in our total sales also influences our product gross margins. As we continue sales and store growth, a number of other factors may impact, positively or negatively, our product gross margin percentage, including:

- the introduction of new product categories with varying gross margin percentage characteristics,
- changes in the merchandise mix at our current locations,
- differences in merchandise mix by geographic location,
- price competition,

clearance activities in connection with seasonal inventory management,

closeout sales in connection with store relocations and consolidations,

sourcing of products from locations outside the United States,

vendor programs, and

supply chain enhancements.

In addition, our gross margin is impacted by store occupancy and distribution costs. We monitor these costs in absolute dollars and as a percentage of sales.

The most significant store operating expenses are labor and related employee benefits and advertising. Our employee benefits include health insurance, the cost of which continues to increase faster than the general rate of inflation. We continually monitor this cost and review strategies to effectively control increases, but we are subject to the overall trend of increases in health care costs. Advertising costs are monitored as a percentage of sales. These costs are largely variable, which allows us to actively manage them to facilitate achieving our sales, gross margin percentage and store operating contribution objectives.

Store operating contribution, which is calculated by deducting a store's operating expenses from its gross margin, is used to evaluate overall performance on an individual store basis.

Selling, general and administrative expenses are monitored and controlled as a percentage of sales. We have made significant investments in infrastructure, including our information systems, distribution capabilities and personnel. Our current infrastructure facilitates our planned opening of stores. We expect these expenses to decrease as a percentage of sales over time.

Pre-opening expenses will continue to be related to store openings, including relocations. These expenses will fluctuate based on the number and timing of new store openings.

Inventory turns are based on cost of sales and average inventory for the applicable period. We recognize that our inventory turns may be lower than those of other retailers, which we believe is due, in part, to the categories of merchandise we carry, including firearms, and the large quantities of merchandise we use in our in-store displays. We believe we have the opportunity to enhance our supply chain to improve our inventory turns. Additionally, in merchandise categories that experience slower inventory turns, we continue to work with vendors to increase our trade credit terms to reduce our investment in owned inventory. We cannot assure you that we will be able to improve our inventory turns or inventory investment.

Identification of appropriate new store sites is essential to our growth strategy. We believe our focus on our larger store size and our ability to utilize either recycled, or second-use, facilities or build-to-suit locations provides us with increased opportunities to find optimal real estate locations on attractive terms. We evaluate and invest in new stores based on site-specific projected returns on investment.

Since the acquisition of Overton's, we now have two reportable segments: Retail and Direct. The Retail segment sells its outdoor lifestyle products and services through its 113 retail stores located in 23 states. The Direct segment is the internet and catalog operations of Overton's, offering primarily boating and watersports accessory products through numerous direct mail catalogs and its e-commerce websites. We evaluated our operating and reporting segments in accordance with SFAS No. 131 and considered the discrete financial information reviewed by our chief operating decision maker in making decisions regarding allocation of resources and in assessing performance. Reporting in this format provides management with the financial information necessary to evaluate the success of the segments and the overall business. Prior to December 6, 2007, we operated under one segment, Retail.

Results of Operations

The following table presents, for the periods indicated, selected items in the consolidated statements of operations as a percentage of our sales:

	Fiscal Year Ended		
	52 weeks	**53 weeks**	**52 weeks**
	February 2, 2008	**February 3, 2007**	**January 28, 2006**
Sales	100%	100%	100%
Cost of goods sold	75.2%	75.3%	76.1%
Gross profit	24.8%	24.7%	23.9%
Operating expenses:			
Selling, general and administrative expenses	24.8%	22.8%	23.4%
Exit costs, impairment and other charges	0.7%	0.1%	0.3%
Pre-opening expenses	0.5%	0.4%	0.8%
Gain on insurance settlement		(0.2)%	
Gain on contract settlement			(0.3)%
(Loss) Income from operations	(1.2)%	1.6%	(0.3)%
Interest expense, net	2.0%	2.1%	1.4%
Debt conversion charge		1.0%	
Loss before income taxes	(3.2)%	(1.5)%	(1.7)%
Income tax provision	0.1%		
Net loss	(3.3)%	(1.5)%	(1.7)%

Sales consist of sales from comparable stores, new stores and non-comparable stores, as well as direct sales through Overton's since December 6, 2007. A store is included in the comparable store base in its fifteenth full month of operations. A relocated store returns to the comparable store base in its fifteenth full month after relocation. New store sales include sales from stores we opened during the current period. Non-comparable store sales include sales in the current period from our stores opened during the previous fiscal year before they have begun their fifteenth month of operation.

Cost of goods sold includes the cost of merchandise, freight, distribution, inventory shrinkage and store occupancy costs. Store occupancy costs include rent, real estate taxes and common area maintenance charges. Cost of goods sold also includes the cost of merchandise and freight expenses of our wholly owned subsidiary, Overton's.

Selling, general and administrative expenses include store associate payroll, taxes and fringe benefits, advertising, maintenance, utilities, depreciation, insurance, bank and credit card charges and other store level expenses. It also includes all expenses associated with operating our corporate headquarters in St. Paul, MN as well as the expenses of Overton's direct marketing business since December 6, 2007, the date of acquisition. Refer to Note 1 in the accompanying notes to our consolidated financial statements for further detail on expense classification.

Pre-opening expenses consist primarily of payroll, rent, recruiting, advertising and other costs incurred prior to a new store opening.

Fiscal Year 2007 compared to Fiscal Year 2006

Sales. Sales increased by $58.0 million, or 6.4%, to $969.4 million in fiscal 2007 from $911.4 million in fiscal 2006. The increase resulted from sales of $122.3 million from fiscal 2007 and fiscal 2006 new stores not included in the comparable store sales base, a comparable store sales

decrease of $58.0 million and an $11.8 million sales decrease from stores closed during 2007 but open in 2006 as well as changes in other revenue. Overton's sales for two months in fiscal 2007 also contributed $5.5 million of the increase. In fiscal 2007, we opened 13 new stores, including three relocated stores, and added 700,000 square feet of retail selling space, a 12.8% increase. We also closed two underperforming stores in the fourth quarter of fiscal 2007. During fiscal 2006, we opened eight new stores, including one relocated store, and added 483,000 square feet of retail selling space, a 9.7% increase.

Our comparable store sales declined 5.4% for fiscal 2007, as compared to a comparable store sales decline of 1.1% for fiscal 2006. For fiscal 2007, the 5.4% decline is calculated by comparing the 52 weeks of fiscal 2007 to 52 weeks, not the actual 53 weeks, for fiscal 2006. The fiscal 2007 decline is due to weak sales in the second half of fiscal 2007. Comparable store sales in our fiscal third quarter decreased 8.4% and our fiscal fourth quarter decreased 11.9%, eroding the 2.7% comparable store sales increase in the first half of fiscal 2007. The sales decline was impacted by worsening overall economic conditions, including credit concerns, housing market foreclosures, rising fuel and food prices, and decreased consumer confidence. We believe these conditions negatively impacted many specialty retailers especially in the fourth quarter. In addition, in the fourth quarter of fiscal 2007, we believe sales were negatively impacted by our decision to reduce advertising expenditures.

Overall, the sales mix for fiscal 2007 was relatively consistent with fiscal 2006 with no product category changing its sales mix more than 125 basis points, except the powersports category. Powersports continued to gain market share with a significant increase in comparable stores sales and increased sales penetration of 252 basis points, driven largely by increased penetration of boat sales. The apparel category experienced a decline in its share of the sales mix, driven by less clearance sales in fiscal 2007 and less traffic in our stores during our third and fourth quarter prime seasons. The fishing category increased its penetration due partly to store expansion into the south and southeast where fishing participation is year-round, while footwear increased penetration due to store merchandising changes and new products.

Gross Profit. Gross profit increased by $16.0 million, or 7.1%, to $240.8 million in fiscal 2007 from $224.7 million in fiscal 2006. As a percentage of sales, gross profit increased 18 basis points to 24.8% in fiscal 2007 from 24.7% in fiscal 2006. The more significant factors affecting gross margin during fiscal year 2007 were:

- an initial product margin increase of 180 basis points as a result of continued benefits from increasing scale, the positive impact of our Everyday Low Price strategy on our pricing structure, higher penetration of our owned-brand merchandise, and lower clearance inventory coupled with better management of clearance merchandise and pricing,

- a 73 basis point negative impact on initial margin from the change in our product mix, largely due to increased lower margin power sports sales and decreased higher-margin apparel sales, and

- a 55 basis point negative impact from increased store occupancy costs as a result of reduced leverage from lower comparable store sales and lower sales per square foot at our newer, less mature stores.

Selling, General and Administrative Expenses. SG&A expenses increased by $33.3 million, or 16.1%, to $240.7 million in fiscal 2007 from $207.4 million in fiscal 2006. As a percentage of sales, SG&A expenses increased 208 basis points to 24.8% in fiscal 2007 from 22.8% in fiscal 2006. The primary factors in this increase were (i) labor costs in the retail stores that accounted for 66 basis points of the increase, as labor costs could not be adjusted commensurate with the sales decline, (ii) increased depreciation at the retail store level that resulted in a 29 basis points negative impact, and (iii) other selling, general and administrative costs which were negatively impacted 84 basis points from de-leverage due to weak sales. Overton's also added 28 basis points in selling, general and administrative expenses in fiscal 2007 during a seasonally slow two month sales period for Overton's.

Exit Costs, Impairment and Other Charges. During the latter half of fiscal 2007, in response to changes in economic and retail industry conditions, management began efforts to streamline operating activities and took further actions designed to improve profitability. This included closing two unprofitable stores, a reduction in the stores and markets that sold our powersports products and reductions in workforce at our headquarters location in St. Paul. In addition, we recorded severance costs earlier in fiscal 2007 relative to two executive terminations. Also, as a result of the Overton's acquisition in December 2007, we wrote-off certain assets, whose use was discontinued, related to capitalized web site development costs that began earlier in fiscal 2007.

These charges in the aggregate were $6.5 million for fiscal 2007 with $4.3 million incurred in the fourth quarter. For fiscal 2006, these charges were $458,000 and represented exit costs for closed stores and severance costs only.

Pre-opening Expenses. Pre-opening expenses increased $1.6 million, or 49.0%, to $4.8 million in fiscal 2007 from $3.2 million in fiscal 2006. We opened 13 new stores in fiscal 2007 and eight new stores in fiscal 2006, including relocated stores in both periods. Pre-opening expenses on a per store basis declined slightly in fiscal 2007 due to continued efficiencies in store opening processes and cost control.

Gain on Insurance Settlement. During our third quarter of fiscal 2006, we recorded a gain of $1.4 million in connection with an insurance settlement resulting from flood damage at one of our stores.

Interest Expense, net. Interest expense increased by $0.6 million, or 2.9%, to $19.7 million in fiscal 2007 from $19.2 million in fiscal 2006. The increase in interest expense resulted from higher average outstanding borrowings used to fund our growth and operating loss. Average outstanding borrowings during fiscal 2007 increased 13%, as compared to fiscal 2006, due primarily to increased cash used to fund our growth and operating loss, for capital expenditures in connection with new and existing stores and the Overton's acquisition. Higher average borrowings were substantially offset by an approximately 50 basis points decrease in average interest rates due to general interest rate declines and as a result of the February 28, 2007 amendment to our credit facility. Average interest rates on our outstanding borrowings were 56 basis points lower in fiscal 2007 than in fiscal 2006. The average effective interest rate on all of our outstanding borrowings as of February 2, 2008 and February 3, 2007 was 6.82% and 7.85%, respectively.

Debt conversion charge. In December 2006, we completed a private placement of $50 million of our common stock. The purchase price was paid with $30 million in cash and the tender of our outstanding $20 million convertible note in exchange for 5,701,255 shares of common stock. In connection with this transaction, we recorded a non-cash charge of $9.0 million in fiscal 2006 representing the fair value of the common shares issued in excess of the shares that were issuable under the original convertible note agreement executed in August 2005.

Income Tax Provision. Our fiscal 2007 tax provision primarily represents minimum or net worth taxes due in various states. Certain states have adopted an adjusted gross receipts tax. We have no provision for Federal income tax for fiscal 2007 or fiscal 2006 due to the uncertainty of the realization of the net operating loss carryforwards. We have determined the realization of the tax benefit related to our net deferred tax asset is uncertain at this time and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

Net Loss. Our net loss was $31.8 million for fiscal 2007, as compared to net loss of $13.2 million for fiscal 2006, due to the factors discussed above.

Fiscal Year 2006 compared to Fiscal Year 2005

Sales. Sales increased by $107.0 million, or 13.3%, to $911.4 million in fiscal 2006 from $804.5 million in fiscal 2005. The increase resulted from sales of $118.4 million from fiscal 2006 and fiscal 2005 new stores not included in the comparable store sales base, a comparable store sales increase of $2.3 million and a $13.7 million sales decrease from stores closed during 2006 but open during 2005 and changes in other revenue. Our comparable store sales decline of 1.1% is the result of comparing the 53 weeks of fiscal 2006 to 53 weeks, not the actual 52 weeks, for fiscal 2005. In fiscal 2006, we opened eight new stores, including one relocated store, and added 483,000 square feet of retail selling space, a 9.7% increase. During fiscal 2005, we opened 19 new stores, including two relocated stores, and added 1.2 million square feet of retail selling space, a 33% increase.

Comparable store sales decreased 1.1% for fiscal 2006 primarily from weak sales in our first half of fiscal 2006. Comparable store sales in our fiscal third quarter increased 7.4% and were approximately flat in our fiscal fourth quarter at 0.4%. Our fiscal fourth quarter was negatively impacted by particularly warm weather in our northern states in December, which adversely affected apparel and footwear. The slower first half of fiscal 2006 is primarily reflective of (i) reduced spending in advertising and promotions, (ii) our focus on our Everyday Low Price strategy that resulted in fewer promotions to drive customer traffic, and (iii) lower levels of clearance merchandise available to customers. Cannibalization from some of the new store openings and new competition entering some of our markets continues to reduce our overall level of comparable store sales.

Overall, the sales mix for fiscal 2006 was relatively consistent with fiscal 2005 with no product category changing its sales mix more than 1%, except the firearms/ammunition category. Our firearms/ammunition category continues to gain market share with a significant increase in comparable stores sales and increased sales penetration of 170 basis points. The power sports category increased its sales penetration by 60 basis points, driven largely by ATV sales at new large-format stores and increased penetration of boat sales in our second year with this category. The apparel/footwear category experienced a decline in its share of the sales mix, primarily driven by weather factors.

Gross Profit. Gross profit increased by $32.3 million, or 16.8%, to $224.7 million in fiscal 2006 from $192.4 million in fiscal 2005. As a percentage of sales, gross profit increased 80 basis points to 24.7% in fiscal 2006 from 23.9% in fiscal 2005. The more significant factors primarily affecting gross margin during fiscal year 2006 were:

- an initial product margin increase of approximately 140 basis points as a result of continued benefits from increasing scale, the positive impact of our Everyday Low Price strategy on our pricing structure, higher penetration of our owned-brand merchandise, and lower clearance inventory coupled with better management of clearance merchandise and pricing,

- an approximately 40 basis point negative impact from the change in our product mix,

- an approximately 30 basis point favorable impact from increased co-branded credit card revenues,

- an approximately 25 basis point favorable impact from improved leverage from distribution costs,

- an approximately 30 basis point negative impact from increased store occupancy costs as a result of reduced leverage from lower comparable store sales and lower sales per square foot at our newer, less mature stores,

- an approximately 40 basis point negative impact from reduced vendor discounts for new stores as a result of opening fewer new stores with lower inventories for those new stores, and

- an approximately 25 basis point negative impact from the continuation in the trend toward higher freight-in costs as fuel prices increased.

Selling, General and Administrative Expenses. SG&A expenses increased by $19.5 million, or 10.4%, to $207.4 million in fiscal 2006 from $188.0 million in fiscal 2005. As a percentage of sales, SG&A expenses decreased 61 basis points to 22.8% in fiscal 2006 from 23.4% in fiscal 2005. Advertising expense decreased 74 basis points due to our decision to reduce advertising in the first half of the fiscal year and shift a portion of advertising expenditures from print media to local radio in the second half of the fiscal year.

Exit Costs, Impairment and Other Charges. Exit costs, impairment and other charges decreased by $2.2 million, or 82.6%, to $458,000 in fiscal 2006 from $2.6 million in fiscal 2005. In fiscal 2006, we incurred minimal charges for stores that were closed for relocation and a minimal amount for severance. In fiscal 2005, we incurred $1.3 million in charges for stores that were closed for relocation, one with a significant remaining lease commitment and an additional $1.3 million in severance costs, primarily at the executive and corporate level.

Pre-opening Expenses. Pre-opening expenses decreased $3.3 million, or 50.5%, to $3.2 million in fiscal 2006 from $6.6 million in fiscal 2005. We opened eight new stores in fiscal 2006 and 19 new stores in fiscal 2005, including relocations. Pre-opening expenses on a per store basis declined slightly due to continued efficiencies in store opening processes and cost control, with the exception of costs related to one significantly larger store.

Gain on Insurance Settlement. During our third quarter of fiscal 2006, we recorded a gain of $1.4 million in connection with an insurance settlement resulting from flood damage at one of our stores.

Gain on Contract Settlement. During our first quarter of fiscal 2005, we received a $2.5 million non-recurring payment relating to the termination of our contract with the former provider of our co-branded credit card services in consideration of the lost opportunity.

Interest Expense, net. Interest expense increased by $8.1 million, or 72.8%, to $19.2 million in fiscal 2006 from $11.1 million in fiscal 2005. The increase in interest expense resulted from higher average net borrowings used to fund our growth, including the placement of $20 million of convertible debt in August 2005 and the addition of a $20 million term loan to our credit facility in March 2006. Average interest rates on our credit facility were approximately 200 basis points higher in fiscal 2006 than in fiscal 2005. The interest rate in effect on our credit facility at February 3, 2007 and January 28, 2006 was 7.3% and 6.5%, respectively.

Debt conversion charge. In December 2006, we completed a private placement of $50 million of our common stock. The purchase price was paid with $30 million in cash and the tender of our outstanding $20 million convertible note in exchange for 5,701,255 shares of common stock. In connection with this transaction, we recorded a non-cash charge of $9.0 million representing the fair value of the common shares issued in excess of the shares that were issuable under the original convertible note agreement executed in August 2005.

Income Tax Provision. We did not record an income tax provision for fiscal 2006 or fiscal 2005 due to the uncertainty of the realization of the net operating loss carryforwards. We have determined the realization of the tax benefit related to our net deferred tax asset was uncertain and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

Net Loss. Our net loss was $13.2 million for fiscal 2006, as compared to net loss of $13.3 million for fiscal 2005, due to the factors discussed above.

Quarterly Results of Operations and Seasonality

Our quarterly operating results may fluctuate significantly because of several factors, including the timing of new store openings and related expenses, profitability of new stores, weather conditions and general economic conditions. Our business is also subject to seasonal fluctuation, with the highest sales activity normally occurring during the third and fourth quarters of our fiscal year, which are primarily associated with the fall hunting seasons and the holiday season. In recent years, the second half of our fiscal years have generated approximately 60% to 65% of our annual sales, including new store sales. In addition, our customers' demand for our products and therefore our sales can be significantly impacted by unseasonable weather conditions that affect outdoor activities and the demand for related apparel and equipment. Our grand opening activities surrounding our new store openings can also cause fluctuations in sales when compared to operating periods in later months. It is for this reason we include a new store in our comparable store sales base in its fifteenth full month to minimize the effect of grand opening activities.

This seasonality also impacts our inventory levels, which tend to rise beginning approximately in April, reach a peak in November, and decline to lower levels after the December holiday season.

The recently acquired Overton's business is also subject to seasonal fluctuations, with its highest sales activity normally occurring during the first and second quarters of our fiscal year, which is the primary season for boating, marine and watersports related products. Historically, Overton's has generated approximately 65% to 70% of its sales during the first half of our fiscal year and approximately 50% during the second quarter of our fiscal year.

Our pre-opening expenses have and will continue to vary significantly from quarter to quarter, primarily due to the timing of store openings. We typically incur most pre-opening expenses for a new store during the three months preceding, and the month of, it's opening. In addition, our labor and operating costs for a newly opened store can be greater during the first one to two months of operation than what can be expected after that time, both in aggregate dollars and as a percentage of sales. Accordingly, the volume and timing of new store openings in any quarter has had, and is expected to continue to have, a significant impact on quarterly pre-opening costs and store labor and operating expenses. Due to these factors, results for any particular quarter may not be indicative of results to be expected for any other quarter or for a full fiscal year.

See Note 21 *"Summary of Quarterly Results*" to our financial statements included in this report for additional information.

Liquidity and Capital Resources

Our primary capital requirements are for inventory, property and equipment and pre-opening expenses to support our new store growth plans and, to the extent of the highly seasonal nature of our business, operating losses. Until the completion of our initial public offering, our main sources of liquidity were equity investments by, and advances from, Holiday Companies and its affiliated entities, and borrowings under our credit facility. The following chart summarizes the principal elements of our cash flow for the past three fiscal years and the number of stores opened during the period.

	Cash Flow Summary Fiscal Year Ended		
	52 weeks	53 weeks	52 weeks
	February 2, 2008	February 3, 2007	January 28, 2006
Net cash provided by (used in) operating activities	$ (30,397)	$ 604	$ (30,279)
Net cash used in investing activities	(122,316)	(28,291)	(49,477)
Net cash provided by financing activities	153,993	27,449	80,303
Total net increase (decrease) in cash	$ 1,280	$ (238)	$ 547
Details of financing activities:			
Borrowings (repayments) under credit facility	$ 77,528	$ (6,451)	$ 60,495
Proceeds from issuance of long-term debt	53,082	5,300	20,000
Reductions in long-term debt	(3,874)	(1,229)	(697)
Proceeds from stock sales and exercise of options	27,257	29,829	505
Net cash provided by financing activities	$ 153,993	$ 27,449	$ 80,303
New store openings, including relocated stores	13	8	19

Net cash used in operating activities was $30.4 million in fiscal 2007, compared to net cash provided by operating activities of $0.6 million in fiscal 2006 and net cash used in operating activities of $30.3 million in fiscal 2005. The overall $31.0 million increase in net cash used in operating activities in fiscal 2007 compared to fiscal 2006 is primarily due to:

- decreased funding of $18.3 million as a result of the increased net loss in fiscal 2007 as compared to fiscal 2006, adjusted for changes in non-cash charges (depreciation and amortization, exit costs, impairment and other charges, and the debt conversion charge)

- decreased funding from accounts payable and other accrued liabilities of approximately $26.5 million primarily from (i) a $16.4 million boat inventory increase in fiscal 2007, for which a substantial part of the vendor financing had expired by year end and the related accounts payable balances were reduced, and (ii) a general reduction in accounts payable balances due to lower inventory turn as a result of sales weakness in the third and fourth quarters of fiscal 2007, offset by

- an increase of $12.6 million in funds as a result of account balance activity in accounts receivable, inventories, prepaid assets and other assets. Cash used for inventories was $4.4 million less in fiscal 2007 as we decreased the amount of opening inventories in our new stores as well as decreased the inventories in existing stores (non-power sports). Cash provided by accounts receivable was $6.2 million more in fiscal 2007 than fiscal 2006 due to insurance receivables in 2006 and less growth in vendor allowance receivables. Cash used for prepaids and other current assets was $4.0 million less due primarily to an increase in prepaid rent in fiscal 2006 due to the 53-week year.

Net cash used in investing activities was $122.3 million in fiscal 2007, $28.3 million in fiscal 2006 and $49.5 million in fiscal 2005. In fiscal 2007, net cash used in investing activities includes $76.5 million for the acquisition of Overton's ($72.3 million) and the acquisition of a retail competitor in Baxter, MN ($7.1 million). The $76.5 million cash outlay is net of $1.4 million in cash acquired and $1.5 million in deferred payments. Excluding the fiscal 2007 acquisitions, net cash used in investing activities consists entirely of purchases of property and equipment, net of proceeds received from sales of assets, and insurance proceeds. We use cash for leasehold improvements and equipment to open new

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and relocated stores and to remodel and upgrade existing stores. We opened 13, 8 and 19 new stores in fiscal 2007, 2006 and 2005, respectively. Purchases of property and equipment also include purchases of information technology systems and expenditures for our distribution facility and our corporate headquarters.

Net cash provided by financing activities was $154.0 million in fiscal 2007 compared to $27.4 million in fiscal 2006 and $80.3 million in fiscal 2005. The financing activities during these periods were primarily related to financing the increased inventory levels and property and equipment purchases for store openings and operating losses. In fiscal 2007, cash provided by financing activities also included proceeds of $40 million from the issuance of Term Note B to Bank of America, NA and $24 million in proceeds from our sale of an aggregate of 4,067,797 shares of the Company's common stock at a per share purchase price of $5.90. Both these proceeds were used to fund the acquisition of Overton's. An additional approximately $6 million was borrowed under our revolving credit facility to fund the balance of the Overton's purchase price.

Also included in cash provided by financing activities in fiscal 2007 are proceeds of $12.8 million from two promissory notes with two banks that allowed us to finance capital expenditures of certain of our new stores under secured financing arrangements. The notes carry fixed interest rates and four and five year repayment terms.

Credit Facility

We have maintained a revolving credit facility with Bank of America, N.A. since 2001. On August 15, 2007, pursuant to an amended and restated agreement, we agreed with Bank of America, N.A., as agent, and the lenders named therein, to increase our revolving credit facility to $345 million from $275 million, with an option to increase the revolving facility by another $55 million subject to certain terms and conditions. The amended facility also extends the maturity date for the revolving and term loan, by three years, to June 30, 2012. The actual availability under the credit facility is limited to specific advance rates on eligible inventory and accounts receivable. Typically, availability will be highest in the latter half of our fiscal year as inventory levels and advance rates increase. Interest on the outstanding indebtedness under the revolving portion of the credit facility currently accrues at the lender's prime commercial lending rate, or, if we elect, at the one, two, three or six month LIBOR plus 1.25% to 1.75%, depending on our EBITDA, as defined in the credit agreement. Our obligations under the credit facility are secured by interests in substantially all of its assets.

Term Loan A. In addition to the revolving credit facility, our credit facility includes a $20 million term loan. The amount of the term loan is not deducted in determining availability under the revolving credit facility, except to the extent that the balance of the term loan exceeds approximately 4% to 5% of the eligible borrowing base. The term loan matures on June 30, 2012 and bears interest at either (a) 1.25% over the higher of (i) Bank of America's prime rate or (ii) the federal funds rate plus 0.5%, or (b) LIBOR plus 2.75%. This additional financing was obtained to maintain the liquidity levels necessary to fund continued growth and seasonal cash flow needs.

The table below summarizes pertinent information regarding the Company's credit facility with Bank of America, N.A. as of the end of fiscal years 2007, 2006 and 2005:

	February 2, 2008	February 3, 2007	January 28, 2006
		(in thousands)	
Maximum credit facility available	$ 345,000	$ 275,000	$ 275,000
Revolver and Term Loan A balance	$ 246,013	$ 168,485	$ 174,936
Term loan B balance (long-term)	$ 40,000	$	$
Outstanding letters of credit	$ 7,271	$ 9,619	$ 5,120
Borrowing availability	$ 22,313	$ 51,299	$ 18,960
Interest rate at year end	6.3%	7.3%	6.5%
Agreement maturity	June 2012	June 2009	June 2009

Credit Facility Amendment and Long Term Note Payable in Connection with Acquisition

On December 6, 2007, the Company entered into a Fourth Amended and Restated Loan and Security Agreement with Bank of America, N.A., as agent ("Bank of America"), Bank of America Securities, LLC, as the lead arranger, Wells Fargo Foothill, Inc., as the syndication agent, the CIT Group/Business Credit, Inc., as collateral agent, General Electric Capital Corporation, as documentation agent, and the lenders named therein. The amendment and restatement was effected in order to add an additional $40.0 million term loan ("Term Loan B") to the Company's secured credit facility to partially fund the acquisition of Overton's and to make certain other amendments, including reducing permitted capital expenditures and replacing former covenants relating to minimum operating cash flow and EBITDA with a minimum excess availability reserve covenant.

Term Loan B will have a four year maturity with interest only payments in year one, mandatory semi-annual principal payments in years two and three, and mandatory quarterly principal payments in year four that will fully amortize the loan. Interest on Term Loan B will be on a tiered schedule ranging from LIBOR plus 3.375% to LIBOR plus 3.875%, based on the principal amount outstanding. Term Loan B may be prepaid at any time without penalty, provided that any such prepayments are subject to specified minimum availability tests. The Company will not have the ability to exercise the $55.0 million accordion feature under its revolving credit facility while Term Loan B is outstanding. All of the proceeds of Term Loan B were used by the Company to partially fund the acquisition of Overton's. The amendment and restatement does not change the interest rates applicable to revolving advances or the Company's previously outstanding term loan. The long-term portion of Term Loan B is classified as long term debt in the consolidated balance sheets. .

David C. Pratt, our Chairman, and Holiday Stationstores, Inc., an affiliate of Ronald A. Erickson, our Vice Chairman, and Gerald A. Erickson, a director of our company, provided guaranties of Term Loan B to Bank of America in connection with the financing. Mr. Pratt is guaranteeing up to $40.0 million of the obligations under Term Loan B while Holiday is separately guaranteeing up to $9.9 million of the obligations under Term Loan B. Neither Mr. Pratt nor Holiday received any consideration in exchange for their guaranties.

Availability. Outstanding borrowings under the credit facility, including Term Loan A, as of February 2, 2008 and February 3, 2007, were $246.0 million and $168.5 million, respectively. These amounts exclude Term Loan B which was made in connection with the Overton's acquisition. Our remaining borrowing capacity under the credit facility, after subtracting letters of credit, as of February 2, 2008 and February 3, 2007 was $22.3 million and $51.3 million, respectively.

Covenants. Effective with the December 6, 2007 amendment, financial covenants under the credit facility require that availability under the line of credit not fall below 5% of the lower of the borrowing base, as defined, or the credit facility limit. This availability test is applied and measured on a daily basis. The 5% requirement increases to 7.5% in August 2009. The credit facility also contains other covenants that, among other matters, restrict our ability to incur substantial other indebtedness, create certain liens, engage in certain mergers and acquisitions, sell assets, enter into certain capital leases or make junior payments, including cash dividends. We were in compliance with all covenants as of February 2, 2008 and February 3, 2007. Although our current expectations of future financial performance indicate that we will remain in compliance with the covenants under our credit facility, if actual financial performance does not meet our current expectations, our ability to remain in compliance with these covenants will be adversely affected. We face a number of uncertainties that may adversely affect our ability to generate sales and earnings, including the possibility of continued weakness in the retail environment in North America, which weakness may negatively affect future retail sales.

Unregistered Sale of Equity Securities Issued in Connection with the Acquisition of Overton's

On December 6, 2007, we entered into stock purchase agreements with Gratco, LLC, ("Gratco")an entity controlled by David C. Pratt, our Chairman, and with Holiday Station Stores, Inc, ("Holiday") an affiliate of Ronald A. Erickson, our Vice Chairman, and Gerald A. Erickson, a member of our board of directors. Pursuant to the agreements we sold an aggregate of 4,067,797 shares of common stock at $5.90 per share for an aggregate purchase price of $24.0 million. Gratco purchased 3,065,000 shares for a purchase price of $18.1 million and Holiday purchased 1,002,797 shares for a purchase price of $5.9 million. The net proceeds were used to partially fund the purchase price of Overton's.

The shares were not registered under the Securities Act of 1933 upon issuance. We offered and sold the shares to the purchasers in reliance on the exemption from registration provided by Rule 506 promulgated under Regulation D. We relied on this exemption from registration based in part on representations made by the purchasers in the stock purchase agreements.

We provided customary registration rights to the purchasers under the stock purchase agreements. Under the stock purchase agreements, we agreed to file a shelf registration statement on Form S-3 for resales of the shares within 365 days of the closing date of December 6, 2007. We are further obligated to use our best efforts to cause the shelf registration statement to become effective under the Securities Act of 1933 within 420 days after the closing date (480 days in the event of a full review of the shelf registration statement by the Securities and Exchange Commission). Each of Gratco and Holiday have confirmed to us their long-term investment focus and represented to us in their respective stock purchase agreement that they are purchasing the shares for their own account and have no present intent to resell or distribute the shares. The shares may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Unregistered Sale of Equity Securities and Conversion of Convertible Subordinated Note

On December 8, 2006, we agreed with the holder of our $20.0 million floating rate convertible subordinated note due August 15, 2010 to amend and restate the note in order to (i) eliminate the right to convert the note into shares of our common stock and to (ii) eliminate the floating rate feature of the note and fix the interest rate at 6.75% per year, a reduction of 25 basis points. The holder of the note was a trust, the annual income beneficiary of which is our chairman, David C. Pratt. Following the amendment of the note, the trust assigned the note to a newly formed limited liability company managed by Mr. Pratt and comprised of certain Pratt family trusts, the current beneficiaries of which are Mr. Pratt or members of his immediate family.

On December 11, 2006, we entered into a stock purchase agreement pursuant to which we sold 5,701,255 shares of common stock to the limited liability company for an aggregate purchase price of $50.0 million, or $8.77 per share. The per share price of the stock purchase was equal to the closing bid price per share of our common stock on the Nasdaq Global Market on December 11, 2006. The purchase price for the shares was paid by surrendering the note for cancellation of the $20 million in principal due thereunder and by delivering $30 million in cash for the balance of the purchase price. The net proceeds from the stock purchase, after deducting the expenses incurred to complete the deal, were approximately $29.5 million, and were used to reduce outstanding borrowings under our credit facility.

The modifications to the note and subsequent tendering and cancellation of the note in a short time period were deemed to be an in-substance conversion and, in effect, represented a modification to the conversion price. Accordingly, we recorded a non-cash debt conversion charge in fiscal 2006 in the amount of $9.0 million. This charge was required because the note was tendered as consideration for equity shares and we issued additional shares beyond the number of shares issuable in the original note agreement. U.S. generally accepted accounting principles require that the resulting incremental 1.03 million shares issued, valued at the $8.77 fair value, be reflected as a debt conversion charge in our statement of operations.

The 5,701,255 shares were not registered under the Securities Act of 1933 upon issuance, but we are required to register these shares.

Other Financings

During fiscal 2007, we entered into agreements with two banks that allowed us to finance capital expenditures of certain of our new stores under long-term, secured financing arrangements. In June 2007, in exchange for $7.3 million, we issued a promissory note carrying a fixed interest rate of 8.7% and a five year repayment term. In September 2007, in exchange for $5.5 million, we issued a promissory note carrying a fixed interest rate of 8.0% and a four year repayment term. Monthly payments of principal and interest are made under these notes, which are secured by certain property and equipment of 18 new stores we opened in fiscal 2007, 2006 and 2005.

During July 2006, we completed the purchase of an aircraft and financed $5.3 million of the $5.7 million purchase price with a term note. The term note matures in seven years and has a 7.26% fixed annual interest rate. The note is collateralized by the aircraft. We received $2.1 million in proceeds from the sale of the aircraft we replaced.

During fiscal 2007 and fiscal 2006, we purchased information technology equipment totaling $3.6 million and $2.4 million, respectively, financed through capital lease transactions. These capital lease purchases are excluded from the caption "purchases of property and equipment" in our statements of cash flows for fiscal 2007 and fiscal 2006, as they did not require the use of cash.

The deferred payments in connection with the aquisition of Overton's require a $900,000 payment in each June 2009 and June 2010. The liability was discounted using a long term borrowing rate with an adjustment for risk premium.

Income Taxes / Net Operating Losses.

Our tax provision in fiscal 2007 primarily represents minimum or net worth taxes due in various states. Certain states have recently adopted an adjusted gross receipts tax. We have no provision for Federal income tax for the three fiscal years ending February 2, 2008 due to accumulated operating losses. Due to the uncertainty of the realization of net operating loss carry forwards, we have determined the realization of the tax benefit related to our net deferred tax asset is uncertain at this time and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

In 2005, we determined that a "change in ownership", within the meaning of Section 382 of the Internal Revenue Code, occurred effective February 8, 2005. This change in ownership imposes a limitation on the amount of our net operating losses that we may deduct for tax purposes in any given year. We have federal and state net operating loss carry-forwards of approximately $83.4 million expiring between 2016 and 2027. The amount of our net operating loss carry-forwards subject to the

Section 382 limitation was $9.4 million at February 2, 2008. Unrestricted net operating losses carry-forwards were $74.0 million. We do not expect this limitation to materially impact our future tax provision for financial reporting purposes.

Future Capital Requirements

Our future capital requirements will primarily depend on the growth and success of our direct marketing business, the number of new stores we open, the timing of those openings within a given fiscal year and the need to fund operating losses. These requirements will include costs directly related to opening new stores and may also include costs necessary to ensure that our infrastructure, including technology and distribution capabilities, is able to support our store base and expected growth in our retail stores and internet and catalog business. We opened 13, 8 and 19 new stores in each of fiscal years 2007, 2006 and 2005, respectively, including one to three relocated/consolidated stores in each year. Our cash used in investing activities, for property and equipment purchases, was approximately $46 million, $28 million and $50 million in fiscal 2007, 2006 and 2005, respectively.

We currently plan to open five new stores in fiscal 2008, including one relocation and the consolidation of two smaller format stores into one large-format store and expect our total capital expenditures in fiscal 2008 to be approximately $22 to $25 million, including capital expenditures to improve certain existing stores. However, business conditions, business strategy or other factors may cause us to adjust these plans. We believe that we will be able to service our business from our existing distribution facilities through fiscal 2009. We believe the timing of any expansion of our distribution capabilities will depend on the number of new stores we open, the growth of our internet and catalog business and the ability to finance an expansion. The number of new stores we open will depend on the success of our business in fiscal 2008 and fiscal 2009.

In December 2007, we expended $72.3 million to acquire Overton's, a direct-to-consumer marketing company. This acquisition enables us to leverage the value of our retail store distribution network and develop strategies to reach our customers through other channels catalog and internet based selling. As Overton's is a company with existing fulfillment and business capacity that is a close match with our seasonal needs, we do not anticipate our capital investment in the Overton's business in fiscal 2008 to exceed $1 million to $2 million.

In 2006, we began a significant effort to upgrade our merchandise and information systems that will provide enhanced efficiencies in buying, receiving, payables management and provide better and more detailed operating information for decision making and continued supply chain improvement. We expect to continue to update our information systems over the next several years.

We intend to satisfy our capital requirements in fiscal 2008 with cash flows from operations, funds available under our credit facility and equipment financing leases. However, if capital requirements for our business strategy change, or if sales and cash flows from operations do not meet anticipated levels, we may need to seek additional debt or equity financing in the public or private markets. Beyond fiscal 2008, we anticipate needing additional financing to grow our business. There is no assurance that we will be successful in borrowing additional funds at reasonable rates of interest or issuing equity at a favorable valuation, or at all.

Interest Rate Risk

Our earnings are affected by changes in interest rates due to the impact those changes have on our interest expense on borrowings under our credit facility. Our floating rate indebtedness was $286.0 million at February 2, 2008 and $168.5 million at February 3, 2007. If short-term floating interest rates on our average fiscal 2007 and fiscal 2006 variable rate debt had increased by 100 basis points, our annual interest expense would have increased by approximately $2.4 million and $2.1 million, respectively, assuming comparable borrowing levels. These amounts are determined by considering the impact of the hypothetical interest rates on our average amount of floating rate indebtedness outstanding for each of the respective fiscal years. We have not contracted for any derivative financial instruments. We have no international sales, however, we import certain items for sale in our stores. Substantially all of our purchases are denominated in U.S. dollars.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for each of our fiscal years in the three-year period ended February 2, 2008. We cannot assure you that inflation will not have an adverse impact on our operating results and financial condition in future periods. Inflation in particular commodities, for example gasoline and food, that impact the general economic well-being of consumers does impact consumer confidence and therefore may negatively impact our sales, depending on the severity of price increases and negative changes in economic conditions.

Off-Balance Sheet Arrangements, Contractual Obligations and Commitments

The following table contains information regarding our total contractual obligations, including off-balance sheet arrangements, as of February 2, 2008:

	Payments due by pay period (in thousands)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating leases(1)	$ 809,748	$ 70,116	$ 142,937	$ 139,582	$ 457,113
Purchase obligations(2)	11,748	10,042	1,667	40	
Capital lease obligations(3)	17,048	3,264	4,203	1,732	7,849
Long-term debt(4)	70,937	10,863	33,615	22,648	3,811
Total	$ 909,481	$ 94,284	$ 182,422	$ 164,002	$ 468,773

(1) Includes store-operating leases, which generally provide for payment of direct operating costs, primarily common area costs and real estate taxes, in addition to rent. These obligation amounts include future minimum lease payments and exclude direct operating costs. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.

(2) In the ordinary course of business, we enter into arrangements with vendors to purchase merchandise in advance of expected delivery. Because these purchase orders do not contain any termination payments or other penalties if cancelled, they are not included in this table of contractual obligations. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.

These obligations include standby and documentary letters of credit outstanding in connection with the importing of merchandise, as well as for insurance purposes. Also includes other obligations for miscellaneous goods and services acquired, related primarily to marketing, advertising and information technology obligations. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.

(3) Includes the payment obligation associated with the capital lease of one of our stores, which provides for a maximum $150,000 payment quarterly for 20 years from lease inception. The payment obligation is reflected herein with interest to be paid. This obligation will be reduced by allowable sales tax credits as defined in the related development agreement. We can not estimate the amounts of these future credits, and accordingly, have not reduced payment obligations by any allowable credits. These obligations also include capital leases for certain information technology equipment.

(4) Includes the $40 million Term Loan B, various secured equipment notes payable and a deferred payment obligation in connection with the Overton's acquisition.

Impact of Recent Accounting Pronouncements

2006 Adoptions:

SFAS No. 123R Effective January 29, 2006, we adopted the fair-value recognition provisions of the Financial Accounting Standards Board's Statement No. 123 (revised 2004), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors including employee stock option awards and employee stock purchases made under our employee stock purchase plan. We adopted the provisions of SFAS No. 123R, using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in our financial statements for granted, modified, or settled stock options and for expense related to our employee stock purchase plan. The provisions of SFAS No. 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date of January 29, 2006. In accordance with the modified-prospective transition method, results for prior periods have not been restated.

EITF No. 06-3 In March 2006, the Financial Accounting Standards Board's Emerging Issues Task Force released Issue 06-3, How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. A consensus was reached that entities may adopt a policy of presenting sales taxes in the statement of operations on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amount of taxes if reflected on a gross basis in the income statement. EITF 06-3 is effective for periods beginning after December 15, 2006. We present sales net of sales taxes in our statement of operations and have adopted to continue that policy.

SAB No. 108 In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 was effective for fiscal 2006. The adoption of this statement did not have a material impact on our results of operations, cash flows or financial position.

2007 Adoptions:

FIN 48 In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on our results of operations, cash flows or financial position.

2008 and Future Adoptions:

SFAS No. 157 In September 2006, the Financial Accounting Standards Board, issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, as the Financial Accounting Standards Board previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007. However, a Financial Accounting Standards Board Staff Postion issued in February 2008, delayed the effectiveness of SFAS No. 157 for one year, but only as applied to nonfinancial assets and nonfinancial liabilities. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. We do not expect its adoption to have a material impact on our financial position, results of operations or cash flows.

SFAS No. 159 In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective at the beginning of fiscal 2008. We have elected not to adopt SFAS No. 159.

SFAS No. 141R In December 2007, the FASB issued FAS No. 141R, *Business Combinations,* which replaces FAS No. 141. FAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired and the liabilities assumed. In addition, under SFAS 141(R) adjustments associated with changes in tax contingencies that occur after the one year measurement period are recorded as adjustments to income. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of an entity's first fiscal year that begins after December 15, 2008; however, the guidance in this standard regarding the treatment of income tax contingencies is retrospective to business combinations completed prior to January 1, 2009. We adopt SFAS 141(R) for any business combinations occurring at or subsequent to January 1, 2009.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time the financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with U.S. generally accepted accounting principles. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 to our financial statements included elsewhere in this report, and readers should review those policies for additional information. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results.

Inventory Valuation

We maintain inventory at the lower of cost or market. We reduce inventory costs for estimates of vendor allowances, as described below. Valuation reserves are established based primarily on forecasted consumer demand, inventory aging and obsolescence. If our estimates regarding consumer demand are inaccurate or other changes impact demand for certain products in an unforeseen manner, we may be exposed to losses in excess of our established reserves that could be material.

We also establish inventory shrink reserves. We estimate a provision for these losses based on independent, periodic physical inventory counts. We accrue for anticipated physical inventory losses on a location-by-location basis, based on a number of factors, including historical results. If our estimates regarding inventory losses are inaccurate, we may be exposed to losses in excess of our established reserves that could be material.

We are not aware of any events or changes in demand or price that would indicate to us that our inventory valuation is not in compliance with our policy.

Vendor Allowances

We receive allowances in the form of reductions to amounts owed and/or payments from vendors related to volume rebates, new store purchases, cooperative advertising allowances and other purchase discounts. Amounts to be received from a vendor are estimated on a monthly basis and are recognized as a reduction of costs of goods sold as the merchandise is sold. We record an estimate of earned allowances based on actual and estimated volumes of merchandise purchased from these vendors. The majority of these vendor allowances are based on specific contract terms with our vendors.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future, undiscounted net cash flows estimated by us to be generated by these assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Our impairment loss calculation contains uncertainty because management must use judgment to estimate future cash flows and asset fair values and to determine the useful lives of the assets. If actual results are not consistent with our assumptions and estimates regarding these factors, we may be exposed to losses that could be material.

Costs Associated with Exit Activities

The calculation of our location-closing liability requires us to make assumptions and to apply judgment regarding the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income.

When making these assumptions, we consider a number of factors, including historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions. Financial accounting standards require that we estimate the potential value of sub-lease income for store locations slated to be closed in our calculation of lease termination charges. Estimated sub-lease income can be of material amounts. If actual results are not consistent with our assumptions and judgments, we may be exposed to additional charges that could be material. We are not aware of any events or changes in circumstances that would require calculation of a location closing liability at this time, except as we have recorded and disclosed in our current financial statements.

Insurance

We retain a portion of the risk related to certain general liability, workers' compensation, property loss and employee medical and dental claims. Liabilities associated with these losses are calculated for claims filed, and claims incurred but not yet reported, at our estimate of their ultimate cost, based upon analysis of historical data and actuarial estimates. Our expected loss accruals are based on estimates, and while we believe the amounts accrued are adequate, the ultimate loss may differ from the amounts provided.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings are affected by changes in interest rates due to the impact those changes have on our interest expense on borrowings under our credit facility. Our floating rate indebtedness was $286.0 million at February 2, 2008 and $168.5 million at February 3, 2007. If short-term floating interest rates on the average fiscal 2007 and fiscal 2006 variable rate debt had increased by 100 basis points, our annual interest expense would have increased by approximately $2.4 million and $2.1 million, respectively, assuming comparable borrowing levels. These amounts are determined by considering the impact of the hypothetical interest rates on our average amount of floating rate indebtedness outstanding for each of the respective fiscal years. We have not contracted for any derivative financial instruments. We have no international sales, however, we import certain items for sale in our stores. Substantially all of our purchases are denominated in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal controls are 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.

All internal controls, no matter how well designed, have inherent limitations. Therefore, even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of February 2, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*.

Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Overton's Inc, which is included in the February 2, 2008 consolidated financial statements of Gander Mountain Company and constituted 13.5% of total assets as of February 2, 2008 and 0.6% and 3.8% of revenues and net income, respectively, for the year then ended.

Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our company's internal control over financial reporting was effective as of February 2, 2008.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal controls over financial reporting as of February 2, 2008 as stated in their report included herein.

/s/ MARK R. BAKER

Mark R. Baker
Chief Executive Officer and President

/s/ ROBERT J. VOLD

Robert J. Vold
Senior Vice President, Chief Financial Officer and Treasurer

May 2, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Gander Mountain Company

We have audited Gander Mountain Company's internal control over financial reporting as of February 2, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gander Mountain Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Gander Mountain Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Overton's Inc., which is included in the February 2, 2008 consolidated financial statements of Gander Mountain Company and constituted 13.5% of total assets as of February 2, 2008 and 0.6% and 3.8% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Gander Mountain Company also did not include an evaluation of the internal control over financial reporting of Overton's Inc.

In our opinion, Gander Mountain Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the PCAOB, the consolidated balance sheets of Gander Mountain Company as of February 2, 2008, and February 3, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three fiscal years in the period ended February 2, 2008, and our report dated May 1, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
May 1, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Gander Mountain Company

We have audited the accompanying consolidated balance sheets of Gander Mountain Company as of February 2, 2008, and February 3, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended February 2, 2008. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gander Mountain Company at February 2, 2008, and February 3, 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 2, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2, in 2006, Gander Mountain Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment.*

We also have audited, in accordance with the standards of the PCAOB, the effectiveness of Gander Mountain Company's internal control over financial reporting as of February 2, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 1, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
May 1, 2008

Gander Mountain Company

Consolidated Balance Sheets

(In thousands)

	February 2, 2008	February 3, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 2,622	$ 1,342
Accounts receivable	10,992	10,337
Income tax receivable	486	
Inventories	403,683	349,120
Prepaids and other current assets	15,987	10,681
Total current assets	433,770	371,480
Property and equipment, net	168,685	144,439
Goodwill	48,803	2,837
Acquired intangible assets, net	25,098	
Other assets, net	3,576	2,861
Total assets	$ 679,932	$ 521,617
Liabilities and shareholders' equity		
Current liabilities:		
Borrowings under credit facility	$ 246,013	$ 168,485
Accounts payable	72,563	62,868
Accrued and other current liabilities	60,606	48,032
Current maturities of long term debt	8,247	1,677
Total current liabilities	387,429	281,062

	February 2, 2008	February 3, 2007
Long term debt	64,173	16,421
Deferred income taxes	7,113	
Other long term liabilities	27,397	27,343
Shareholders' equity:		
Preferred stock ($.01 par value, 5,000,000 shares authorized; no shares issued and outstanding)		

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The Swedish National Economic Crimes Bureau has added to the indictment against some current and former employees of Ericsson for evasion of tax control. The addition concerns the way the accounting of some payments from Ericsson to Bank Austria during the years 1999 and 2000 was handled.

From 2001 to the beginning of 2005, Swedish fiscal authorities disallowed, for corporate income tax purposes, the Parent Company and the subsidiary companies Ericsson Telecom AB and Ericsson Radio Systems AB (renamed Ericsson AB) deductions for sales commission payments via external service companies to sales agents in certain countries. Most of these taxes have been paid with the rest provisioned for.

BOARD OF DIRECTORS

More information regarding the Board Of Directors and its members as well as the Board and its committee activities can be found in the Corporate Governance section.

Changes to the Board membership

The Board of Directors is elected yearly at the Annual General Meeting for the period until the end of the next Annual General Meeting. At the Annual General Meeting on April 6, 2005, Ulf J. Johansson was elected to succeed Lena Torell. Sir Peter L. Bonfield, Sverker Martin-Löf, Nancy McKinstry, Eckhard Pfeiffer and Carl-Henric Svanberg were re-elected as members of the Board. Michael Treschow was re-elected chairman of the Board. Arne Mårtensson and Marcus Wallenberg were re-elected deputy chairmen.

Board compensation

Members of the Board, who are not employees of the Company, have not received any compensation other than the fees paid for Board duties as outlined in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management. Members and Deputy Members of the Board, who are employees, i.e. the CEO and the employee representatives, have not received any remuneration or benefits other than their normal employee entitlements, with the exception of a small fee paid to the employee representatives for each board meeting attended.

PARENT COMPANY

The Parent Company business consists mainly of corporate management, holding company functions and, from January 1, 2005, internal banking activities previously performed on a commission basis by Ericsson Treasury Services AB. The Parent Company business also includes customer credit management performed on a commission basis by Ericsson Credit AB.

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

February 2, 2008	February 3 2007

The Parent Company has 8 (11) branch offices. In total, the Group has 51 (45) branch and representative offices.

Net sales for the year amounted to SEK 1.1 (2.6) billion and income after financial items was SEK 14.0 (7.4) billion. Exports accounted for 96 percent of net sales in 2005 (98 percent in 2004). No consolidated companies were customers of the Parent Company s sales in 2005 or 2004, while 27 percent (21 percent in 2004) of the Company s total purchases of goods and services were from such companies. Profits from disposal of shares to a subsidiary contributed SEK 6.8 billion to income.

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February 2, 2008	February 3, 2007

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Major changes in the Parent Company s financial position for the year include increased current and non-current receivables from subsidiaries of SEK 11.3 billion, increased investments in subsidiaries of SEK 4.2 billion and decreased other current receivables of SEK 4.5 billion. At year-end, cash and short-term cash investments amounted to SEK 75.0 (71.7) billion.

In accordance with the conditions of the Stock Purchase Plans and Option Plans for Ericsson employees, 31,649,876 shares from treasury stock were sold or distributed to employees during the year. The nominal amount of these shares is SEK 31.6 million, representing less than one percent of capital stock, and compensation received amounted to SEK 179.1 million. The holding of treasury stock at December 31, 2005 was 268,065,241 Class B shares. The nominal amount of these shares is SEK 268.1 million, representing 2 percent of capital stock, and related acquisition cost amounts to SEK 596.5 million.

SUBSEQUENT EVENTS

For information on subsequent events, please see Notes to the Consolidated Financial Statements Note C33, Subsequent Events .

PROPOSED DISPOSITION OF EARNINGS

The Board of Directors proposed that a dividend of SEK 0.45 (0.25) per share be paid to shareholders duly registered on the Record date of April 13, 2006, and that the Company retain the remaining part of non-restricted equity. The Class B treasury shares held by the Parent Company were not entitled to receive a dividend.

Assuming that no treasury shares remained within the Company on the Record date, the Board of Directors proposed that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 7,259,516,405
Amount to be retained by the Parent Company	SEK 21,709,793,259
Total non-restricted equity of the Parent Company	SEK 28,969,309,664

As basis for its proposal for a dividend, the Board of Directors made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Company s and the Group s need for financial resources as well as the Company s and the Group s liquidity, financial position in other respects and long-term ability to meet its commitments. The company reports an equity ratio of 50.5% and net cash amounts to SEK 53.4 billion.

The Board of Directors also considered the Company s and the Group s position in general. In this respect, the Board of Directors took into account known commitments that may have an impact on the Company s financial position. Such commitments are for example the acquisition of certain operations from Marconi and repayment of debts during 2006.

The proposed dividend does not limit the Company s ability to make investments or its need of funds.

It was the Board of Directors assessment that the proposed dividend is well-balanced considering the type, scope and risks of the business activities and the Company s and the Group s capital requirements.

At the Annual General Meeting held April 10, 2006, the proposed dividend of SEK 0.45 was approved.

February 2, 2008	February 3, 2007

February 2, 2008	February 3, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ),

In our opinion, the accompanying consolidated balance sheets, the related consolidated statements of income, of cash flows and of changes in stockholders equity present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson (publ) and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005, in conformity with International Financial Reporting Standards as adopted by the EU. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the accounting policies, note C1, the Group adopted International Accounting Standards (IAS) 32 Financial Instruments: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement in accordance with IFRS as adopted by the EU. The change has been accounted for prospectively from 1 January 2005.

International Financial Reporting Standards adopted by the EU vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note C32 to the consolidated financial statements.

PricewaterhouseCoopers AB

Stockholm, Sweden

February 24, 2006

February 2, 2008	February 3, 2007

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CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK million	**Notes**	**2005**	**2004**
Net sales	C4, C5	**151,821**	131,972
Cost of sales		**-82,369**	-70,864
Gross margin		**69,452**	61,108
Research and development and other technical expenses		**-24,454**	-23,421
Selling and administrative expenses		**-16,800**	-15,921
Operating expenses		**-41,254**	-39,342
Other operating income	C7	**2,491**	2,617
Share in earnings of joint ventures and associated companies	C13	**2,395**	2,323
Operating income		**33,084**	26,706
Financial income	C8	**2,653**	3,541
Financial expenses	C8	**-2,402**	-4,081
Income after financial items		**33,335**	26,166
Taxes	C9	**-8,875**	-8,330
Net income		**24,460**	17,836
Of which:			
Net income attributable to stockholders of the parent company		**24,315**	17,539
Net income attributable to minority interest		**145**	297
Other information			
Average number of shares, basic (million)		**15,843**	15,829
Earnings per share, basic (SEK)	C10	**1.53**	1.11
Earnings per share, diluted (SEK)	C10	**1.53**	1.11

February 2, 2008	February 3, 2007

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ERICSSON ANNUAL REPORT ON FORM 20-F 2005

CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2005	2004
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development expenses	C11	**6,161**	8,091
Goodwill		**7,362**	5,766
Other		**939**	748
Property, plant and equipment	C12, C27, C28	**6,966**	5,845
Financial assets	C13		
Equity in joint ventures and associated companies		**6,313**	4,155
Other investments in shares and participations		**805**	543
Customer financing, non-current		**1,322**	2,150
Other financial assets, non-current		**3,514**	1,236
Deferred tax assets	C9	**17,294**	20,766
		50,676	49,300
Current assets			
Inventories	C14	**19,208**	14,003
Financial assets			
Accounts receivable trade	C15	**41,242**	32,644
Customer financing, current		**3,624**	1,446
Other current receivables	C16	**12,574**	12,239
Short-term investments	C21	**39,767**	46,142
Cash and cash equivalents	C21	**41,738**	30,412
		158,153	136,886
Total assets		**208,829**	186,186
EQUITY AND LIABILITIES			
Equity			
Stockholders equity	C17	**104,677**	80,445
Minority interest in equity of consolidated subsidiaries		**850**	1,057
		105,527	81,502
Non-current liabilities			
Post-employment benefits	C18	**3,125**	10,087
Other provisions, non-current	C19	**904**	1,146
Deferred tax liabilities		**391**	421
Borrowings, non-current	C20, C21	**14,185**	21,837
Other non-current liabilities		**2,740**	1,856
		21,345	35,347
Current liabilities			
Other provisions, current	C19	**17,764**	23,632

		February 2, 2008	February 3, 2007
Borrowings, current	C20, C21	**10,784**	1,719
Accounts payable	C23	**12,584**	10,988
Other current liabilities	C22	**40,825**	32,998
		81,957	69,337
Total equity and liabilities [1)]		**208,829**	186,186
Assets pledged as collateral	C24	**549**	7,985
Contingent liabilities	C25	**1,708**	1,014

1) Of which interest-bearing provisions and liabilities 28,094 (33,643).

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February 2, 2008	February 3 2007

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CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK million	Notes	2005	2004
OPERATIONS			
Net income attributable to stockholders of the parent company		**24,315**	17,539
Adjustments to reconcile net income to cash	C26	**10,845**	10,490
		35,160	28,029
Operating net assets			
Inventories		**-3,668**	-3,432
Customer financing, current and non-current		**-641**	-65
Accounts receivable		**-5,874**	-1,403
Provisions and post-employment benefits		**-15,574**	-1,990
Other operating assets and liabilities, net		**7,266**	1,340
Cash flow from operating activities		**16,669**	22,479
Investing activities			
Investments in property, plant and equipment	C12	**-3,365**	-2,452
Sales of property, plant and equipment		**362**	358
Acquisitions and sales of shares and other investments, net	C26	**-957**	-1,549
Product development	C11	**-1,174**	-1,146
Net change in capital contributed by minority		**20**	71
Other investing activities		**-230**	-70
Cash flow from operating investing activities		**-5,344**	-4,788
Cash flow before financial investing activities		**11,325**	17,691
Short-term investments		**6,375**	-26,050
Cash flow from investing activities		**1,031**	-30,838
Cash flow before financing activities		**17,700**	-8,359
Financing activities			
Changes in borrowings, current, net		**-1,216**	-1,502
Proceeds from issuance of non-current borrowings		**93**	870
Repayment of non-current borrowings		**-947**	-13,649
Sale/repurchase of own stock		**117**	15
Dividends paid		**-4,133**	-292
Cash flow from financing activities		**-6,086**	-14,558
Effect of exchange rate changes on cash		**-288**	214

		February 2, 2008	February 3, 2007
Net change in cash		**11,326**	-22,703
Cash and cash equivalents, beginning of period		**30,412**	53,115
Cash and cash equivalents, end of period	C21	**41,738**	30,412

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2005			2004		
Years ended December 31, SEK million	**Stock-holders equity [1)]**	**Minority interest**	**Total equity**	**Stock-holders equity [1)]**	**Minority interest**	**Total equity**
Opening balance	80,445	1,057	81,502	63,820	2,299	66,119
Adjustment for IAS 39, net	1,489		1,489			
Adjusted opening balance	**81,934**	**1,057**	**82,991**	**63,820**	**2,299**	**66,119**
Changes in hedge reserve, net	-1,859		-1,859			
Revaluation of other investments in shares and participations, net	-150		-150			
Changes in cumulative translation effects due to changes in foreign currency exchange rates	4,037	147	4,184	-1,135	-65	-1,200
Business combinations		-342	-342		-1,182	-1,182
Net income	24,315	145	24,460	17,539	297	17,836
Total income and expenses for the period	**26,343**	**-50**	**26,293**	**16,404**	**-950**	**15,454**
Stock issue, net		17	17			
Sale of own shares	117		117	15		15
Stock Purchase and Stock Option Plans	242		242	204		204
Dividends paid	-3,959	-174	-4,133		-292	-292
Adjustment of cost for stock issue 2002				2		2
Total transactions with owners	**-3,600**	**-157**	**-3,757**	**221**	**-292**	**-71**
Closing balance	**104,677**	**850**	**105,527**	**80,445**	**1,057**	**81,502**

[1)] For further information, please see Notes to the consolidated statements, Note C17, Stockholders equity .

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C1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Telefonaktiebolaget LM Ericsson, the Parent Company and its subsidiary companies (the Company) for 2005 and 2004 are prepared in accordance with International Financial Reporting Standards. IFRS below refer to all these standards. For Ericsson, there is no difference between IFRS and IFRS as adopted by the EU by December 31, 2005 and the Swedish Annual Accounts Act. We have also applied URA 43 Accounting for special payroll tax and tax on investment returns and URA 46 IFRS 2 and accounting for social security expenses, issued by the Swedish Financial Accounting Standards Council (Redovisningsradet). IFRSs differs in certain aspects from generally accepted accounting principles in the United States (US GAAP). For a description of major differences, with respect to Ericsson s financial statements, see Note C32, Reconciliation to Accounting Principles Generally Accepted in the United States.

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Ericsson has applied IFRSs since January 1, 2005. All amounts related to 2004 have been restated in accordance with IFRSs, except for IAS 39 which has been applied as from January 1, 2005. In Note C3, Transition to IFRSs, a reconciliation of the restatement is made for the transition to IFRSs.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Parent Company and all subsidiary companies. Subsidiary companies are all companies in which Ericsson has an ownership and directly or indirectly, including effective potential voting rights, has a voting majority or Ericsson by agreement has control or retains the majority of the residual or ownership risk of the entity.

Inter-company transactions have been eliminated. Elimination of unrealized profits in inventory is made in full without consideration of minority interests.

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

ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in associated companies and joint ventures, where voting stock interest including effective potential voting rights is at least 20 percent but not more than 50 percent, or where a corresponding influence is obtained through agreement, are accounted for according to the equity method. IFRS 3 has been applied for the accounting of these companies. Ericsson s share of income before taxes is reported in item Share in earnings of joint ventures and associated companies , included in Operating Income. Taxes are included in item Taxes . Unrealized internal profits in inventory in associated companies purchased from subsidiary companies are eliminated in the consolidated accounts in proportion to ownership. Investments in associated companies are shown at equity after adjustments for unrealized inter-company profits and goodwill (see Goodwill below).

Undistributed earnings of associated companies included in consolidated equity are reported as Retained earnings, as detailed in Note C17, Stockholders equity.

All other equity instruments are accounted for as Other investments in shares and participations and carried at fair value. Fair values 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.

GOODWILL

At the acquisition of a business, an allocation is made of the purchase price in which fair values are assigned to acquired assets, for example intangible assets such as customer relations, brands and patents, based upon appraisals made. Goodwill arises when the purchase price exceeds the fair value of recognizable acquired net assets.

Goodwill resulting from acquisitions of businesses is subject to impairment review at least annually in the fourth quarter and when there are indications that the carrying value may not be recoverable. The carrying values are not considered to be recoverable when the expected discounted cash flows are less than the carrying values. An impairment loss is determined based on the amount by which the carrying value exceeds the recoverable amount. Goodwill related to

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assets in foreign currency is remeasured at period-end exchange rates.

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TRANSLATION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCY

For most subsidiary companies, joint ventures and associated companies, the local currency is the currency in which the companies primarily generate and expend cash, and is thus considered their functional (business) currency. Their financial statements plus goodwill related to such companies, if any, are translated to SEK by translating assets and liabilities to the closing rate at the balance sheet day and income statement items at average exchange rates, with translation adjustments reported directly in consolidated equity. When a company is sold, accumulated translation adjustments are included in consolidated income.

For a limited number of companies, the functional currency is a currency other than the local currency. The financial statements of such companies are translated in two steps. In the first step, remeasurement is made into the functional currency and resulting exchange rate gains/losses are reported in income. In the second step, from the functional currency to SEK, the financial statements are translated as above. Effective portion of foreign exchange gains and losses on hedge instruments designated to hedge the net investments in foreign entities are reported directly in consolidated equity, net of tax effects, to offset the translation adjustments above. Ineffective and undesignated portions of foreign exchange gains and lossed are reported in operating income.

REVALUATION OF FOREIGN CURRENCY ITEMS IN INDIVIDUAL COMPANIES

In the financial statements, receivables and liabilities in foreign currencies are revalued at year-end exchange rates.

Foreign exchange gains and losses are divided into operational and financial. Effects of hedging are in the income statement reported together with the hedged item.

The net difference between foreign exchange gains/losses on operating transactions and gains/losses on hedging through foreign exchange derivatives are included in cost of goods sold. Gains and losses on foreign exchange attributable to financial assets are included in financial income and gains and losses related to financial liabilities are included in financial expenses.

IAS 39 was adopted as from January 1, 2005 with early adoption of the amendment related to hedging of group internal transactions. In 2004, Foreign exchange derivatives hedging off-balance exposures were treated off-balance, also referred to as Deferral hedge accounting . When the hedged transaction occurred, the hedged spotrate was used for the transaction and the derivative was moved on-balance. The theoretical interest portion was accrued over the life of the derivative. Interest rate derivatives used as hedges were valued at amortized cost, which was in-line with the underlying transaction.

REVENUE RECOGNITION

Sales are recorded net of value added taxes, goods returned, trade discounts and rebates. Revenue is recognized with reference to all significant contractual terms when the product or service has been delivered, when the revenue amount is fixed or determinable and when collection is reasonably assured.

We offer a comprehensive portfolio of telecommunication and data communication systems and services covering a range of technologies. The majority of our products and services are sold as parts of contracts including several items. The nature of the products and services being sold, and the contractual terms taken as a whole, determine the appropriate revenue recognition method. The contracts are of three main types:

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delivery-type

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construction-type

contracts for various types of services, for example multi-year managed services contracts

Large customer frame agreements may include different types of undertakings and may result in a mix of construction-type contracts, delivery-type contracts and service contracts.

Different revenue recognition methods are applied based on the solutions provided to our customers, the nature and sophistication of the technology involved and the contract conditions in each case. Specific contractual performance and acceptance criteria impact the timing and amounts of revenue recognized.

Revenues from construction-type contracts are generally recognized using the percentage-of-completion method. The degree of completion is measured using either the milestone output method or, to a very limited extent, the cost-to-cost method. The terms of construction-type contracts generally define deliverables or milestones for progress billing to the customer, which also well reflect the degree of completion of the contract. In construction-type contracts where we apply the milestone output method, costs incurred pending the completion of milestones are reported as contract work in progress and included in Inventory. Such milestones are normally frequent, and the resulting amount in contract work in process is limited.

The profitability of contracts is periodically assessed and adjusted, if necessary, based on changes in circumstances. Provisions for losses, with full amounts, are immediately made when losses are probable.

For delivery-type contracts revenue is recognized when risks and rewards have been transferred to the customer, normally stipulated in terms of trade. Delivery-type contracts that have multiple elements, revenue is allocated to each element based on relative fair values. If there are undelivered elements essential to the functionality of the delivered elements, or, if fair values are not available for all elements, we defer the recognition of revenue until all elements essential to the functionality have been delivered or fair values exist for the undelivered elements.

Revenue for period service contracts and managed services contracts, covering longer periods is recognized pro rata over the contract period. Revenue for training, consulting, engineering, installation and similar services is generally recognized when the services are provided.

Mobile platform license revenues are included in reported Net Sales and contracted based on the number of handsets or components produced by the customer. Revenue is recognized when the customer production has been made.

For sales between consolidated companies, associated companies, joint ventures and segments we apply arm s length pricing.

SHARE-BASED EMPLOYEE COMPENSATION

Stock option plans

Ericsson has chosen to not apply IFRS 2 to equity instruments granted before November 7, 2002, in accordance with IFRS 1 and IFRS 2.

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IFRS 2 is applied for one employee option program granted after November 7, 2002. The vesting period for this program ended during 2005, and Ericsson recognized compensation costs representing the fair value at grant

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

date of the outstanding employee options. In the balance sheet the corresponding amounts are accounted for as equity. The fair value of the options was calculated using an option-pricing model. The total costs were recognized during the vesting period (3 years), i.e. the period during which the employees had to fulfil vesting requirements. When the options are exercised, social security charges are to be paid in certain countries on the value of the employee benefit; generally based on the difference between the market price of the share and the strike price. Until exercise, estimated costs for such social security charges are accrued.

Stock purchase plans

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the share at the employee s investment date. The fair value is based upon the share price at investment date adjusted for that no dividends will be received prior to matching. The investment date is considered as the grant date. In the balance sheet the corresponding amounts are accounted for as equity. Vesting conditions affect the number of shares that Ericsson will match. For shares under performance-based matching programs, the Company assesses the probability of meeting the performance targets when calculating the compensation costs. 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 social security charges are accrued.

BORROWING COSTS

The Company does not capitalize any borrowing costs, including borrowing cost related to financing of construction of tangible assets. Costs are expensed as incurred.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are valued at the lower of carrying amount and fair value less cost to sell. At present, the occurrence of assets held for sale are very limited.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income attributable to shareholders of the parent company by the average number of shares outstanding during the year.

Diluted earnings per share are calculated by dividing net income attributable to shareholders of the parent company by the sum of the average number of ordinary shares outstanding and potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares decrease earnings per share.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

IAS 39 was adopted as from January 1, 2005 with early adoption of the amendment related to hedging of group internal transactions.

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Short-term investments are valued at fair value through profit and loss in the consolidated accounts.

Loans and borrowings are valued using the amortized cost method. Derivative financial instruments are used to hedge foreign exchange and interest rate risks.

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Foreign exchange derivatives are valued at fair value through profit and loss. However, those foreign exchange derivatives fulfilling the requirements for cash flow hedge accounting are valued at fair value and effective portions of the designated risk are deferred in consolidated stockholders equity net of tax effects. Ineffective and undesignated portions are reported through profit and loss. The amount deferred in equity is released to profit or loss when the hedged transaction affects consolidated profit or loss, affecting net sales or cost of goods sold based on the nature of the hedge.

Interest rate-related derivatives are valued at fair value through profit and loss.

Ericsson s listed debt instruments (outstanding notes and bond loans) are valued at amortized cost, unless designated as hedged item in a fair value hedge, when the hedged risk is valued at fair value through profit and loss.

Foreign exchange gains and losses on operating assets and liabilities are reported as adjustments to Cost of Sales. The corresponding reporting for financial items is adjustments to financial income and expenses respectively.

In the consolidated accounts, gains and losses on operational hedges are reported together with losses and gains on the underlying position.

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right for offset and there is an intent to settle on a net basis.

Fair values of financial instruments 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.

INTANGIBLE ASSETS OTHER THAN GOODWILL

These assets consist of capitalized development expenses and aquired intangible assets, such as patents and software, and are stated at cost less accumulated amortization/write-down. Amortization, depreciation and any write-downs are included in Research and development and other technical expenses and 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 economical feasibility has been established until the product is available for sale or use. These capitalized costs are mainly generated internally and include direct labor and related overhead. Amortization of capitalized development costs begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development costs directly related to orders from customers are accounted for as a part of Cost of sales . Other research and development costs are charged to expense as incurred.

Impairment tests are performed on a regular basis whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. The carrying values are not considered to be recoverable when the expected discounted cash flows are less than the carrying values. An impairment loss is determined based on the amount by which the carrying value exceeds the recoverable amount.

PROPERTY, PLANT AND EQUIPMENT

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Property, plant and equipment is stated at cost less accumulated depreciation and any write-down due to impairment.

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Annual depreciation, based upon the component approach, is generally made using the straight-line method, with estimated useful lives of, in general, 40 years on buildings, 20 years on land improvements, 3 to 10 years on machinery and equipment, and up to 5 years on rental equipment. Depreciation and any write-downs are included in Cost of Sales and in the respective functional operating expenses.

Impairment tests of property, plant and equipment are made whenever there is an indication of possible impairment. Impairment losses occur, as for intangible assets, when the carrying value exceeds the recoverable amount. The recoverable amount is based upon either expected discounted cash flows or the selling price reduced by the costs of disposal. Provisions are made for expected costs for restoration of land or buildings due to environmental obligations.

LEASING

Leasing when the company is the lessee

Finance lease contracts are capitalized and reported as property, plant and equipment and as other current and non-current liabilities. Depreciations are made as for property, plant and equipment. Operating lease contracts are not capitalized.

Leasing when the company is the lessor

Leasing contracts with the company as a 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, we recognize a receivable at an amount equal to the net investment in the lease and recognize revenue in accordance with our revenue recognition principles. For operating leases, an asset is reported as property, plant and equipment and revenues and depreciation are recognized on a straight-line basis over the lease term.

DEFERRED TAXES

Deferred tax assets consist of (i) temporary differences between the book values of assets and liabilities and their tax values and (ii) unutilized tax loss carry-forwards. These assets are recognized to an amount not larger than probable future taxable profits, against which the tax deductions can be utilized.

The valuation of deferred tax assets involves assumptions regarding the deductibility of costs not yet subject to taxation and 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 possible utilization. The largest amounts of tax loss carry-forwards are in Sweden, with indefinite period of utilization.

The accumulated deferred tax assets/liabilities are remeasured regularly by applying the current tax rate in each country. Adjustments of deferred tax assets/liabilities attributable to changes in tax rates are included in current year income.

RECEIVABLES AND CUSTOMER FINANCING

Receivables are reported at amortized cost, less allowances for impairment charges.

When selling a receivable we de-recognize the receivable if we have transferred substantially all the risks and rewards of ownership of the receivable and recognize separately as assets or liabilities any rights and obligations created or

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retained in the transfer.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We assess the collectibility of our receivables for purposes of initial revenue recognition and to record receivables at fair value. In instances where we have exposures related to guarantees to third parties for customer financing, we have reported the extent of our exposure as contingent liabilities. These contingent liabilities are reported net of risk provisions.

INVENTORIES

Inventories are valued 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.

PROVISIONS

Provisions are made when we have 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 estimated reliably. However, the actual outflow as a result of the obligation may vary from that estimate.

Our provisions mainly relate to warranty commitments, restructuring, customer financing guarantees and other obligations, such as litigation obligations, contractual discounts, customer contract loss provisions, penalties or claims as well as unresolved income tax and value added tax issues.

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 long periods of time. We regularly assess 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 a liability has been incurred and the amount of the loss can be reasonably estimated based on a detailed analysis of each individual issue.

For losses on customer contracts we record provisions when a loss from a contract is anticipated and is possible to estimate reliably. We provide for the estimated future settlements related to patent infringements based on the probable outcome of each infringement. The ultimate outcome or actual cost of settling an individual infringement may vary from our estimates. We estimate the outcome of all potential patent infringements made known to us through assertion and through our own monitoring of patent-related cases in the relevant legal systems. To the extent that we determine that an identified potential infringement will more probably than not result in an outflow of resources, we record a provision based on our best estimate of the expenditure required to settle infringement proceedings.

At various intervals we give our suppliers and/or subcontractors forecasts of expected purchases and also sometimes commit to minimum levels during a certain period. The agreements often include compensation clauses for the event that material deviations from original plans regarding production volumes or product mix should occur. As a result of actual deviations from committed purchase levels or of received actual claims from these suppliers and/or subcontractors, we make provisions for estimated compensation to such suppliers and/or subcontractors. Additionally, provisions are estimated and accrued for charges as a result of known changes in design specifications that are provided to production subcontractors. Amounts for provisions and subsequent net amounts at settlements are charged to the corresponding item in the income statement (i.e. costs related to component suppliers, production subcontractors and installation subcontractors are included in Cost of Sales . Costs regarding development subcontractors are included in R&D and other technical expenses , and costs

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related to IT-providers and other services are included in operating expenses or Cost of Sales depending on the nature of the service. Such provisions are monitored closely on a regular basis, with any additions/reversals charged to the same account as the initial provision.

PENSIONS AND OTHER 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 fund), and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risk falls on the employee. Under a defined benefit plan it is the Company s obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The calculations are based upon actuarial assumptions 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 result will differ from the estimated result. 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, the effect of changes in the discount rate and differences between actual return on plan assets and the expected return on plan assets. Actuarial gains and losses are amortized over the employees expected average remaining service period if the gains/ losses exceed the greater of 10 percent of the present value of the defined benefit obligation or 10 percent of the fair value of plan assets at the beginning of period (the corridor).

The net of return on plan assets and interest on pension liabilities is reported as financial income or expense.

STATEMENT OF CASH FLOWS

Foreign subsidiary companies amounts are translated at the average exchange rate during the period. Subsidiary companies purchased and/or sold are reported as cash flow from investment activities, net of cash acquired/sold, and do not affect reported cash flow from operations.

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

SEGMENT REPORTING

Primary segments

Ericsson has the following business segments:

Systems, addressing operators of mobile and fixed line public telephone networks.

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Phones, addressing distributors of mobile handsets to end users. Financial information for this segment consists of our investment and share in earnings of Sony Ericsson.

Other operations, which consists of a number of different operations with different types of customers. Each included operation represents, however, less than 10 percent of total net sales and is therefore considered too small to be reported separately. Included operations are: Microwave Systems, Network Technologies, Enterprise Systems, Mobile Platform Technology, Power Modules and other.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

When determining our business segments, we have looked at which market and to what type of customers our products are aimed and through what distribution channels they are sold, as well as to commonality regarding technology, research and development. We regard the Systems segment as on business segment, where the business units Access, Systems, Global Services and Transmission and Transport Networks represent different product lines within the segment. This is due to the close technical relation between included products they are all integrated components in public telecommunications networks for fixed or mobile communication, subject to common technical systems standards for e.g. GSM, TDMA, CDMA and WCDMA and due to the common supply and sales through our own sales organization to operators of public networks, with contracts that as a rule include a mix of products and services as well as installation from several product lines.

Our second segment, Phones, is carried out through a joint venture with Sony and develops and sells handsets for mobile telecommunications to distributors.

Our segment Other Operations is composed of a number of smaller operating units, each too small to be reported individually as a separate segment, and each with different characteristics in terms of products, customers and distribution channels.

Secondary segments

Ericsson operates in five main geographical areas: (1) Western Europe, (2) Central and Eastern Europe, Middle East and Africa, (3) Asia Pacific, (4) North America and (5) Latin America. These areas represent our geographical segments.

Financial information is provided to the Board for both primary and secondary segments. These are subject to risk and returns that are different from those of other segments.

GOVERNMENT GRANTS

Government grants are recognized when there is a reasonable assurance of compliance with conditions attached to the grants and that the grants will be received.

For Ericsson, government grants are linked to performance of research or development work or to subsidized capital expenditures as governmental stimulus to employment or investments in a certain country or region. The occurance of government grants is very limited. Government grants are normally reported as reductions of development costs or reductions of capital expenditure, depending on their nature.

NEW IFRSs STANDARDS, AMENDED IAS STANDARDS AND IFRIC INTERPRETATIONS AS FROM JANUARY 1, 2006

IAS 19 Employee Benefits. As from January 1, 2006, the company will apply the option for recognition of actuarial gains and losses in equity. The amendment will be applied retrospectively as from January 1, 2004. The effect of the application is an increase of pension liability of approximately SEK 3.5 b. and accruals for social security of SEK 0.8 billion at January 1, 2006. The effect on stockholders equity net of tax is approximately SEK 3.1 b, as per January 1, 2006.

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IAS 39 Financial instruments: Recognition and Measurement. An amendment requires a company to include liabilities resulting from financial guarantee contracts in the balance sheet. This amendment is not expected to have a significant impact on the financial position and result.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IFRIC 4 Determining whether an Arrangement contains a Lease. This interpretation is not expected to have a significant impact on the financial position and result.

IFRIC 6 Liabilities arising from Participating in a Specific Market Waste of Electric and Electronical Equipment. This interpretation is not expected to have a significant impact on the financial position and result.

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements and application of accounting standards often involve management s judgment or the use of estimates and assumptions deemed to be reasonable and prudent at the time they are made. However, other results may be derived using different assumptions or estimates. Following are the accounting policies subject to such estimates or assumptions that we believe could have the most significant impact on our reported results and financial position.

REVENUE RECOGNITION

Parts of our sales is generated from large and complex customer contracts. Managerial judgment is applied, among other aspects, regarding contractual performance, estimated total contract costs, degree of completion and conformance with acceptance criteria to determine the amounts of revenue to be recognized and any loss provisions to be made.

INVENTORY VALUATION

Inventories are valued at the lower of cost or net realizable value. Total inventory reserves as of December 31, 2005 amount to SEK 2.5 (3.1) billion or 12 (18) percent of gross inventory. Of the total inventory of SEK 19.2 billion, SEK 11.6 billion is contract work in progress and SEK 7.6 billion is mainly related to components and finished goods. For the contract work in progress inventory, risks are related to the judgements made in relation to revenue recognition, while for the component and finished goods parts, the inventory risks are more related to technological obsolescence and estimates of net realizable values.

DEFERRED TAXES

Deferred tax assets are recognized for temporary differences between reported and taxable income and for unutilized tax loss carry-forwards. The largest amounts of tax loss carry-forwards are in Sweden, with an indefinite period of utilization (i.e. with no expiry date). The valuation of tax loss carry-forwards and our ability to utilize tax losses is based upon our estimates of future taxable income in different tax jurisdictions and involves assumptions regarding the deductibility of costs not yet subject to taxation.

At December 31, 2005, the value of unutilized tax loss carry forwards amounted to SEK 28.0 (34.1) billion. The deferred tax amounts related to loss carry-forwards are reported as non-current assets.

ACCOUNTING FOR INCOME-, VALUE ADDED- AND OTHER TAXES

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CAPITALIZED DEVELOPMENT COSTS

Development costs for products that will be sold, leased or otherwise marketed as well as those intended for internal use are capitalized. The starting point for capitalization is based upon management s judgment that the technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. Capitalization ceases and amortization of capitalized development amounts begins when the product is available for general use with impairment testing performed annually. The definition of amortization period also requires management s judgment.

At December 31,2005, the amount of capitalized development costs amounted to SEK 6.2 (8.1) billion.

PROVISIONS

Valuation of receivables and exposures in customer financing

We monitor the financial stability of our customers and the environment in which they operate to judge their guarantees and the likelihood that we will get paid for individual receivables. Most of our customers have good creditworthiness. Total allowances for doubtful accounts as of December 31, 2005, were SEK 1.4 (1.8) billion or 3.3 (5.3) percent of our gross accounts receivable.

We regularly assess the credit risk and based on these assessments, we record provisions for outstanding customer financing credits and contingent liabilities, i.e. third party credits under our guarantees. These risk provisions are included in Selling and administrative expenses .

Warranty commitments

Provisions for product warranties are based on historic quality rates as well as assumptions on estimated quality rates for new products and costs to remedy the various types of faults predicted. Total provisions for product warranties as of December 31, 2005, amounted to SEK 4.8 (6.4) billion.

Pension and other post-employment benefits

Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on actuarial valuations, relying on key assumptions for discount rates, expected return on plan assets, future salary increases, turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations similar to our pension plans. Expected return on plan assets consider long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2005, provisions for pensions and other post-employment benefits amounted to net SEK 2.0 (10.1) billion.

Other provisions

Other provisions are mainly comprised of contractual obligations and penalties with most of the rest for risks associated with patent and other litigations, contractual discounts and penalties of uncertain timing or amount, supplier or subcontractor claims and/or disputes, as well as provisions for income tax and value added tax unresolved issues and estimated losses on customer contracts. The nature and type of risks for these provisions differ and judgments related to them receive special attention from the management. At December 31, 2005, Other provisions amounted to SEK 11,5

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(14.5) billion.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

HEDGE ACCOUNTING AND FOREIGN EXCHANGE RISKS

Foreign exchange risk in highly probable sales in future periods are hedged using foreign exchange derivative instruments designated as cash-flow hedges.

Establishing highly probable sales volumes involves gathering and evaluating sales forecasts for future periods as well as analyzing actual outcome on a regular basis in order to fulfill effectiveness testing requirements for hedge accounting. Deviations in outcome of sales might result in that the requirements for hedging accounting is not fulfilled.

C3 TRANSITION TO IFRSs FROM SWEDISH GAAP

The International Financial Reporting Standards (IFRSs) were adopted in 2005. New IFRSs standards, amended IAS standards and IFRIC Interpretations up to December 31, 2005, as endorsed by EU have been applied.

In the transition to IFRSs, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. January 1, 2004, is the date of transition to IFRSs for Ericsson. IAS 32 and IAS 39 were adopted as from January 1, 2005, as allowed by IFRS 1. The comparison year 2004 is restated in accordance with IFRSs.

Of the IAS and IFRSs standards, intangible assets, business combinations, share-based payment and financial instruments have had the most significant impact on the financial position and result.

IAS 38 INTANGIBLE ASSETS

When adopting the Swedish accounting standard RR 15 Intangible assets in 2002, the standard was implemented prospectively only, i.e. no restatement of previous periods was allowed, whereas IAS 38 Intangible assets was implemented retrospectively. The capitalization according to Swedish GAAP during 2002-2004 was the same as per IFRSs. Retrospective application under IFRSs lead to an increase in the opening balance of intangible assets as of January 1, 2004, due to capitalized development costs in years prior to 2002, and increased amortizations on such assets during 2004 and onwards. The opening balance for 2004 was equal to the closing balance according to US GAAP per December 31, 2003, since capitalization of development costs has been made for US GAAP purposes historically. Due to the restatement to IFRSs, intangible assets increased by SEK 6, 408 million, deferred tax assets decreased by SEK 1,794 million and equity increased by SEK 4,614 million respectively. As a result, amortization for 2004 increased by SEK 2,660 million under IFRSs.

IFRS 3 BUSINESS COMBINATIONS INCLUDING GOODWILL

The standard for reporting of business combinations (IFRS 3) has resulted in changes in reporting of acquisitions of companies. Compared to previous standard, IFRS 3 requires a more detailed purchase price allocation, in which fair values to a larger extent are assigned to acquired intangible assets, such as customer relations, brands and patents. Goodwill arises when the purchase price exceeds the fair value of acquired net assets. Goodwill arising from acquisitions is no longer amortized but instead subject to impairment review; at least annually and when there are indicators that the carrying value may not be recoverable.

In Ericsson s reporting during 2005, acquisitions carried out in 2004 have been accounted for in accordance with IFRS 3. As allowed by IFRS 1, no adjustments for acquisitions prior to the transition date, January 1, 2004, were made. The value of goodwill has been frozen at January 1, 2004, and amortization reported under Swedish GAAP for 2004 has

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been reversed in IFRSs restatements.

For Ericsson, the new standard has resulted in an increase in reported operating profit for 2004 of SEK 475 million. No difference in reported earnings has arisen as a result of acquisitions carried out in 2004.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IFRS 2 SHARE-BASED PAYMENT

As allowed by IFRS 1, Ericsson has chosen not to apply IFRS 2 to equity instruments granted before November 7, 2002. For one employee option program, granted after November 7, 2002, and not yet vested by January 1, 2005, Ericsson recognizes a charge to income representing the fair value at grant date of the outstanding employee options. The fair value of the options was calculated using an option-pricing model. The total costs are recognized over the vesting period (3 years). The impact on operating profit was a charge of SEK 45 million in 2004.

For other programs there are no material differences.

IAS 32 AND 39 FINANCIAL INSTRUMENTS AND HEDGING

IAS 32 and 39 are standards that deal with disclosure, presentation, recognition and measurement of financial instruments. These standards are applied prospectively from January 1, 2005.

A major effect is that all derivatives are recognized at fair value on the balance sheet. Subsequent changes in fair value of derivatives are recognized in the income statement, unless the derivative is a hedging instrument in (i) a cash flow hedge or (ii) a hedge of a net investment in a foreign operation. In those cases, the effective portion of fair value changes of the derivative will be recognized in equity until the hedged transaction affects the income statement, at which moment the accumulated deferred amount in equity is recycled to the income statement.

For derivatives assigned as (iii) fair value hedges, fair value changes on both the derivative and the hedged item, attributable to the hedged risk, are recognized in the income statement and offset each other to the extent the hedge is effective.

The opening balance January 1, 2005, was affected by SEK 3,556 million in assets, SEK 1,952 million in liabilities and SEK 1,155 million in equity net of SEK 449 million deferred tax as a result of accounting for derivatives at fair value.

Other investments in shares and participations are classified as available-for-sale in accordance with IAS 39 and will thus be reported at fair value.

For investments in quoted companies, fair values are determined based on share prices at the balance sheet date and for non-quoted investments, fair values are estimated.

As disclosed under Revaluation of foreign currency items in individual companies in note C1, Significant Accounting Policies , IAS 39 was adopted as from January 1, 2005. The effect on the opening balance January 1, 2005, was an increase of SEK 411 million in assets and an increase of SEK 334 million in equity, net of deferred tax of SEK 77 million.

IAS 19 EMPLOYEE BENEFITS

Ericsson reports pensions and other post-employment benefits according to IFRSs (IAS 19), which is similar to RR 29 that was implemented from January 1, 2004.

Actuarial gains and losses were recognized in the opening balance January 1, 2004.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RECLASSIFICATION OF PROVISIONS

In accordance with IAS 1 Presentation of Financial Statements, provisions need to be presented as both current and non-current. A liability shall be classified as current when it satisfies any of the following criteria: a) it is expected to be settled in the entity s normal operating cycle; b) it is held primarily for the purpose of being traded; c) it is due to be settled within twelve months after the balance sheet date; or d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities shall be classified as non-current. Accordingly, Ericsson has reclassified provisions in the balance sheet to current and non-current liabilities under IFRSs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SUMMARY OF TRANSITION EFFECTS:

The effects of the adoption of IFRSs on the consolidated income statement, balance sheet, cash flow and equity are shown in the tables below.

RECONCILIATION OF CONSOLIDATED INCOME STATEMENT

	Jan-Dec 2004		
SEK million	**Swedish GAAP**	**IFRSs adjustments**	**IFRSs**
Net sales	131,972		131,972
Cost of sales	-70,864		-70,864
Gross margin	**61,108**		**61,108**
Research and development and other technical expenses	-20,861	-2,558	-23,421
Selling expenses and administrative expenses	-16,244	323	-15,921
Operating expenses	**-37,105**	**-2,235**	**-39,342**
Other operating income	2,617		2,617
Share in earnings of joint ventures and associated companies	2,318	5	2,323
Operating income	**28,938**	**-2,230**	**26,706**
Financial income	3,541		3,541
Financial expenses	-4,081		-4,081
Income after financial items	**28,398**	**-2,230**	**26,166**
Taxes	-9,077	745	-8,330
Minority interest	-297	297	
Net income	**19,024**	**-1,188**	**17,836**
Of which:			
Net income attributable to stockholders of the parent company			17,539
Net income attributable to minority interest			297
Other information			
Average number of shares, basic (million)	15,829		15,829
Earnings per share, basic (SEK)	1.20	-0.09	1.11
Earnings per share, diluted (SEK)	1.20	-0.09	1.11

Reconciliation of Net income from Swedish GAAP to IFRSs

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	Net income, Swedish GAAP	19,024
	Reclassification of minority interest	297
	Reversal of amortization of goodwill	475
	Stock option plans	-45
	Amortization of capitalization of development costs	-2,660
	Taxes	745
	Net income, IFRSs	**17,836**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET JAN 1, 2004

SEK million	Jan 1, 2004 Swedish GAAP[1)]	IFRSs adjustments	Jan 1, 2004 IFRSs
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development expenses	4,784	6,408	11,192
Goodwill	5,739		5,739
Other	687		687
Property, plant and equipment	6,505		6,505
Financial assets			
Equity in joint ventures and associated companies	2,970		2,970
Other investments in shares and participations	433		433
Customer financing, non-current	3,027		3,027
Other financial assets, non-current	1,342		1,342
Deferred tax assets	27,735	-1,794	25,941
	53,222	4,614	57,836
Current assets			
Inventories	10,965		10,965
Financial assets			
Accounts receivable trade	31,886		31,886
Customer financing, current	979		979
Other current receivables	12,718		12,718
Short-term investments		20,092	20,092
Cash and cash equivalents	73,207	-20,092	53,115
	129,755		129,755
Total assets	**182,977**	**4,614**	**187,591**
EQUITY AND LIABILITIES			
Equity			
Stockholders equity	59,206	4,614	63,820
Minority interest in equity of consolidated subsidiaries		2,299	2,299
	59,206	6,913	66,119
Minority interest in equity of consolidated subsidiaries	2,299	-2,299	
Non-current liabilities			
Post-Employment benefits	9,827		9,827

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Other provisions, non-current		2,095	2,095
Deferred tax liabilities	520		520
Borrowings, non-current	27,001		27,001
Other non-current liabilities	2,771		2,771
	40,119	2,095	42,214
Current liabilities			
Other provisions, current	27,601	-2,095	25,506
Borrowings, current	9,509		9,509
Accounts payable	8,895		8,895
Other current liabilities	35,348		35,348
	81,353	-2,095	79,258
Total equity and liabilities	**182,977**	**4,614**	**187,591**

1) Restated for changed accounting principle, IAS 19

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET DEC 31, 2004 AND JAN 1, 2005

SEK million	Dec 31, 2004 Swedish GAAP	IFRSs adjustments	Dec 31, 2004 IFRSs	IAS 39 adjustments	Jan 1, 2005 IFRSs
ASSETS					
Non-current assets					
Intangible assets					
Capitalized development expenses, net	4,343	3,748	8,091		8,091
Goodwill	5,324	442	5,766		5,766
Other	748		748		748
Property, plant and equipment	5,845		5,845		5,845
Financial assets					
Equity in joint ventures and associated companies	4,150	5	4,155		4,155
Other investments in shares and participations	543		543	411	954
Customer financing, non-current	2,150		2,150		2,150
Other financial assets, non-current	1,236		1,236	937	2,173
Deferred tax assets	21,815	-1,049	20,766	-77	20,689
	46,154	3,146	49,300	1,271	50,571
Current assets					
Inventories	14,003		14,003		14,003
Financial assets					
Accounts receivable trade	32,644		32,644	-956	31,688
Customer financing, current	1,446		1,446		1,446
Other current receivables	12,239		12,239	3,575	15,814
Short-term investments		46,142	46,142		46,142
Cash and cash equivalents	76,554	-46,142	30,412		30,412
	136,886		136,886	2,619	139,505
Total assets	**183,040**	**3,146**	**186,186**	**3,890**	**190,076**
EQUITY AND LIABILITIES					
Equity					
Stockholders equity	77,299	3,146	80,445	1,489	81,934
Minority interest in equity of consolidated subsidiaries		1,057	1,057		1,057
	77,299	4,203	81,502	1,489	82,991
	1,057	-1,057			

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Minority interest in equity of consolidated subsidiaries					
Non-current liabilities					
Post-employment benefits	10,087		10,087		10,087
Other provisions, non-current		1,146	1,146		1,146
Deferred tax liabilities	421		421	449	870
Borrowings, non-current	21,837		21,837	937	22,774
Other non-current liabilities	1,856		1,856		1,856
	34,201	1,146	35,347	1,386	36,733
Current liabilities					
Other provisions, current	24,778	-1,146	23,632		23,632
Borrowings, current	1,719		1,719		1,719
Accounts payable	10,988		10,988	-206	10,782
Other current liabilities	32,998		32,998	1,221	34,219
	70,483	-1,146	69,337	1,015	70,352
Total equity and liabilities	**183,040**	**3,146**	**186,186**	**3,890**	**190,076**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IMPACT OF IFRSs ON THE STATEMENT OF CASH FLOWS

According to IAS 7 Cash Flow , Ericsson defines cash and cash equivalents to include only short-term highly liquid investments with remaining maturity at acquisition date of three months or less. Under Swedish accounting standards, a broader interpretation was earlier made, where also readily marketable securities designated for liquidity management purposes only and with a low risk for value changes and with a maturity exceeding three months were included. The restated statements of cash flow for 2004 and the opening balance for the Ericsson group according to IAS 7 therefore reflects cash and cash equivalents that are different to those previously reported under Swedish GAAP.

(SEK million)	January 1, 2004	December 31, 2004
Cash and cash equivalents under Swedish GAAP	73,207	76,554
Less: amounts with maturity exceeding three months	-20,092	-46,142
Cash and cash equivalents under IFRSs	53,115	30,412

RECONCILIATION OF EQUITY

Reconciliation of equity, Dec 31, 2003, according to Swedish GAAP and Jan 1, 2004, according to IFRSs

Closing balance, Swedish GAAP	**60,481**
Effect of changed accounting principle, IAS 19	-1,275
Opening balance according to Swedish GAAP	59,206
Reclassification of minority interest	2,299
Capitalization of development costs, net	4,614
Opening balance, IFRSs	**66,119**

Reconciliation of equity, Dec 31, 2004, from Swedish GAAP to IFRSs

Closing balance, Swedish GAAP	**77,299**
Reclassification of minority interest	1,057
Capitalization of development costs, net	2,699
Goodwill	447
Closing balance, IFRSs	**81,502**

Reconciliation of equity Dec 31, 2004 according to IFRSs and Jan 1, 2005 including IAS 39

Closing balance, IFRSs	**81,502**
Hedge reserve, net	1,155
Revaluation of other investments, net	334
Opening balance Jan 1, 2005	**82,991**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C4 SEGMENT INFORMATION

BUSINESS SEGMENTS (PRIMARY)

2005	Systems	Phones	Other operations	Unallocated	Eliminations	Group
Net sales	141,986		9,835			151,821
Inter segment sales	113		1,061		-1,174	
Total net sales	**142,099**		**10,896**		**-1,174**	**151,821**
Share in earnings of JV and associated companies	118	2,257	20			2,395
Operating income	**30,885**	**2,257**	**283**	**-341**		**33,084**
Financial income				2,653		2,653
Financial expenses				-2,402		-2,402
Income after financial items	**30,885**	**2,257**	**283**	**-90**		**33,335**
Taxes				-8,875		-8,875
Net income	**30,885**	**2,257**	**283**	**-8,965**		**24,460**
Of which:						
Net income attributable to stockholders of the parent company	30,914	2,257	270	-9,126		24,315
Net income attributable to minority interest				145		145
Segment assets[1)2)]	85,958		10,541	106,017		202,516
Associates	1,185	5,044	84			6,313
Total assets	**87,143**	**5,044**	**10,625**	**106,017**		**208,829**
Segment liabilities[3)4)]	60,670		6,461	36,171		103,302
Total liabilities	**60,670**		**6,461**	**36,171**		**103,302**

1) Segment assets include property, plant and equipment, intangible assets, current and non-current customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues, derivatives and other current assets.
2) Unallocated assets include cash and cash equivalents, short term investments and deferred tax assets.
3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.

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4) Unallocated liabilities include accrued interests, tax liabilities and interest-bearing provisions and liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other segment items

2005	Systems	Phones	Other operations	Unallocated	Eliminations	Group
Property, plant and equipment and intangible assets						
Additions/capitalization	5,166		438			5,604
Depreciation	-2,676		-127	-1		-2,804
Amortization	-2,976		-377	84		-3,269
Write-downs/reversals of write-downs	271					271
Number of employees	50,107		5,948			56,055
Operating income	30,885	2,257	283	-341		33,084
Operating margin (%)	22%		3%			22%
Income after financial items	30,885	2,257	283	-90		33,335

GEOGRAPHICAL SEGMENTS (SECONDARY)

2005	Net sales	Total assets	Additions/ capitalization of PP&E and intangible assets	Number of employees
Western Europe	41,940	153,155	4,565	35,679
of which Sweden	6,110	132,442	3,502	21,178
Central and Eastern Europe, Middle East and Africa	39,948	7,421	107	4,360
Asia Pacific	31,426	20,867	291	8,723
of which China	11,544	8,964	123	3,601
North America	19,432	13,974	552	3,911
of which United States	17,904	13,207	453	2,113
Latin America	19,075	13,413	89	3,382
Total	**151,821**	**208,829**	**5,604**	**56,055**
of which EU	45,288	153,101	4,628	36,482

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BUSINESS SEGMENTS (PRIMARY)

2004	**Systems**	**Phones**	**Other operations**	**Unallocated**	**Eliminations**	**Group**
Net sales	121,549		10,423			131,972
Inter segment sales	1,348		966		-2,314	
Total net sales	122,897		11,389		-2,314	131,972
Share in earnings of JV and associated companies	90	2,143	68	22		2,323
Operating income	23,187	2,143	1,298	78		26,706
Financial income				3,541		3,541
Financial expenses				-4,081		-4,081
Income after financial items	23,187	2,143	1,298	-462		26,166
Taxes				-8,330		-8,330
Net income	**23,187**	**2,143**	**1,298**	**-8,792**		**17,836**
Of which:						
Net income attributable to stockholders of the parent company	23,187	2,143	1,298	-9,089		17,539
Net income attributable to minority interest				297		297
Segment assets[1) 2)]	66,973		9,452	105,606		182,031
Associates	961	3,092	97	5		4,155
Total assets	**67,934**	**3,092**	**9,549**	**105,611**		**186,186**
Segment liabilities[3) 4)]	54,728		6,627	43,329		104,684
Total liabilities	54,728		6,627	43,329		104,684

1) Segment assets include property, plant and equipment, intangible assets, current and non-current customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues, derivatives and other current assets.

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2) Unallocated assets include cash and cash equivalents, short term investments and deferred tax assets.
3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.
4) Unallocated liabilities include accrued interests, tax liabilities and interest-bearing provisions and liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other segment items

2004	Systems	Phones	Other operations	Unallocated	Eliminations	Group
Property, plant and equipment and intangible assets						
Additions/capitalization	3,898		399			4,297
Depreciation	-2,224		-209	-1		-2,434
Amortization	-4,381		-82	11		-4,452
Write-downs	-22		-61	-35		-118
Number of employees	45,500		5,034			50,534
Operating income	23,187	2,143	1,298	78		26,706
Operating margin (%)	19%		11%			20%
Income after financial items	23,187	2,143	1,298	-462		26,166

GEOGRAPHICAL SEGMENTS (SECONDARY)

2004	Net sales	Total assets	Additions/ capitalization of PP&E and intangible assets	Number of employees
Western Europe	40,542	148,532	3,571	32,826
of which Sweden	6,180	128,398	2,868	21,296
Central and Eastern Europe, Middle East and Africa	32,929	3,874	83	3,527
Asia Pacific	28,552	14,282	230	7,493
of which China	12,298	7,018	130	2,897
North America	15,471	9,360	320	4,139
of which United States	13,984	9,115	165	2,156
Latin America	14,478	10,139	93	2,549
Total	**131,972**	**186,186**	**4,297**	**50,534**
of which EU[1)]	42,366	148,528	3,620	33,625

1) Restated due to new members in EU as of May, 2004.

C5 REVENUES

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The majority of Ericsson s products and services are sold as parts of contracts including multiple elements. The nature of the products and services being sold, and the contractual terms taken as a whole, determine the appropriate revenue recognition method. The contracts are of three main types:

	2005	2004
Equipment sales	**125,856**	110,985
Of which:		
Construction-type contracts	**18,012**	23,319
Delivery-type contracts	**107,844**	87,666
Service sales	**23,477**	19,301
Licenses	**2,488**	1,686
Total	**151,821**	131,972
Capital gains, license fees and other operating revenues	**2,760**	3,119
Interest income	**2,310**	3,346
Dividends	**9**	8

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C6 EXPENSES BY NATURE

	2005	2004
Employee benefits expenses[1)]	**34,458**	32,356
Depreciation and amortization expense[1)]	**5,802**	7,004

1) Booked amount prior to adjustments for recognition and derecognition in inventory and capitalized development costs.

C7 OTHER OPERATING INCOME

	2005	2004
Gains on sales of intangible assets and PP&E	**29**	111
Losses on sales of intangible assets and PP&E	**-120**	-229
Gains on sales of investments and operations	**205**	510
Losses on sales of investments and operations	**-149**	-273
Capital gains/losses, net	**-35**	119
Other operating revenues mainly including license fees	**2,526**	2,498
Total other operating income	**2,491**	2,617

C8 FINANCIAL INCOME AND EXPENSES

	2005	2004
Financial income		
Result from securities and receivables accounted for as non-current assets	**293**	354
Other interest income and similar profit/loss items	**2,360**	3,187
Total	**2,653**	3,541
Financial expenses		
Interest expenses and similar profit/loss items	**-2,402**	-4,081
Financial net	**251**	-540

C9 TAXES

February 2, 2008	February 3 2007

INCOME STATEMENT

The following items are included in Taxes:

	2005	**2004**
Current income taxes for the year	**-3,635**	-2,324
Current income taxes related to prior years	**138**	-637
Deferred tax income/expense (-) related to temporary differences	**-4,753**	-4,635
Share of taxes in joint ventures and associated companies	**-625**	-734
Taxes	**-8,875**	-8,330

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax income and expenses

The amounts of deferred tax income and expenses are shown in the following table:

	2005	2004
Deferred tax income	**1,888**	3,082
Deferred tax expenses	**-6,641**	-7,717
Deferred tax income/expense, net	**-4,753**	-4,635

Deferred tax income refers mainly to certain provisions and consolidation adjustments on group level.

Deferred tax expenses SEK 2,666 million out of SEK 6,641 million refer to utilization of tax loss carry forwards. The remaining amount refers to reversals of temporary differences regarding certain provisions for mainly warranty commitments, provisions for customer financing commitments and inventory write-downs.

A reconciliation between actual tax income (expense) for the year and the theoretical tax income (expense) that would arise when applying statutory tax rate in Sweden, 28 percent on income before taxes is shown in the table:

	2005	2004
Income after financial items	**33,335**	26,166
Tax rate in Sweden (28%)	**-9,334**	-7,327
Effect of foreign tax rates	**-489**	-286
Current income taxes related to prior years	**138**	-637
Benefits from temporary differences of prior periods used to reduce deferred tax expense	**380**	
Tax effect of expenses that are non-deductible for tax purpose	**-515**	-910
Tax effect of income that are non-taxable for tax purpose[1)]	**944**	855
Tax effect of changes in tax rates	**4**	-18
Tax effect of tax loss carryforwards, net	**-3**	-9
Taxes	**-8,875**	-8,330

1) Income that is non-taxable includes R&D credits and other non-taxable income.

BALANCE SHEET

Deferred tax assets and liabilities

February 2, 2008	February 3, 2007

Tax effects of temporary differences, including unutilized tax loss carryforwards, have resulted in deferred tax assets and liabilities as follows:

	2005	2004
Deferred tax assets	**17,294**	20,766
Deferred tax liabilities	**391**	421

Deferred tax assets relate to tax loss carryforwards, temporary differences due to certain provisions and consolidation adjustments on group level. We estimate that approximately 40 percent of total deferred tax assets will be recovered within 12 months. Deferred tax assets regarding tax loss carryforwards amount to SEK 8,187 million (SEK 9,865 million in 2004).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax asset are amounts recognized in countries where we expect to be able to generate corresponding taxable income in the future to benefit from tax reductions. The significant tax loss carryforwards are related to countries with long or indefinite periods of utilization, mainly Sweden and the U.S. Of the total deferred tax assets for tax loss carryforwards, SEK 8,187 million, SEK 7,965 million will expire 2011 or later, of which SEK 6,363 million relate to Sweden with indefinite time of utilization.

With our strong current financial position and profitability during 2005, we have been able to use part of our tax loss carryforwards during the year, and we are convinced that Ericsson will be able to generate sufficient income in the coming years to utilize these deferred tax assets.

Investments in subsidiary companies, joint ventures and associated companies

Due to losses in certain subsidiary companies, the book value of certain investments in those subsidiary companies, joint ventures and associated companies are less than the tax value of these investments. Since deferred tax assets have been reported with respect also to losses in these companies, and due to the uncertainty as to which deductions can be realized in the future, no additional deferred tax assets are reported.

Tax loss carryforwards

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

At December 31, 2005, these unutilized tax loss carryforwards amounted to SEK 28,034 million. The tax effect of these tax loss carryforwards are reported as assets.

The final years in which these loss carryforwards can be utilized are shown in the following table:

Year of expiration	2005
2006	499
2007	163
2008	32
2009	33
2010	49
2011 or later	27,258
Total	**28,034**

Tax effects reported directly to stockholders equity

Tax effects reported directly to stockholders equity amount to SEK 807 million (negative SEK 384 million for 2004 restated to IFRSs), the amount reported is related to hedge accounting.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C10 EARNINGS PER SHARE

	2005	2004
Net income attributable to stockholders of the parent company (SEK million)	**24,315**	17,539
Average number of shares, basic (millions)	**15,843**	15,829
Earnings per share, basic (SEK)	**1.53**	1.11
Net income attributable to stockholders of the parent company (SEK million)	**24,315**	17,539
Average number of shares after exercise of stock options (million)	**15,907**	15,895
Earnings per share, diluted (SEK)	**1.53**	1.11

C11 INTANGIBLE ASSETS

2005	Capitalized development costs, to be marketed	Capitalized acquired development costs, for internal use	Capitalized internal development costs, for internal use	Capitalized development costs, total	Goodwill	Licenses trademarks and similar rights	Patents and acquired research and development	Other intangible assets, total
Accumulated acquisition costs								
Opening balance	11,876	1,638	1,094	**14,608**	**5,766**	1,022	1,118	**2,140**
Acquisitions/capitalization	1,174			**1,174**	**512**	38	515	**553**
Balances regarding acquired and sold companies						11		**11**
Sales/disposals	-1,067			**-1,067**		-73	-276	**-349**
Translation difference for the year					**1,084**	67	16	**83**
Closing balance	**11,983**	**1,638**	**1,094**	**14,715**	**7,362**	**1,065**	**1,373**	**2,438**
Accumulated amortization								
Opening balance	-3,458	-1,424	-950	**-5,832**		-901	-477	**-1,378**
Amortization for the year[1)]	-2,801	-125	-83	**-3,009**		-8	-252	**-260**
Balances regarding acquired and sold companies						-7		**-7**
Sales/disposals	1,067			**1,067**		78	134	**212**
Translation difference for the year						-44	-8	**-52**

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Closing balance	**-5,192**	**-1,549**	**-1,033**	**-7,774**		**-882**	**-603**	**-1,485**
Accumulated write-downs								
Opening balance	-621	-38	-26	**-685**			-14	**-14**
Write-downs for the year	-95			**-95**				
Sales/disposals								
Translation difference for the year								
Closing balance	**-716**	**-38**	**-26**	**-780**			**-14**	**-14**
Net carrying value	**6,075**	**51**	**35**	**6,161**	**7,362**	**183**	**756**	**939**

1) No intangible assets other than goodwill have indefinite useful lives.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization and write-downs for capitalized development cost is reported as research and development and other technical expenses.

The goodwill is allocated to the business segment Systems, representing one cash-generating unit. The estimates used for measuring the recoverable amounts for goodwill per cash-generating unit include mainly assumptions for growth, profit development and capital expenditure requirements, including working capital.

The assumptions we have made are based on available industry sources that provide estimates of the number of mobile subscribers. The number of global subscribers will grow from 2 billion to 3 billion within five years. The minutes of usage per user will also continue to increase. Our impairment testing is based on the premise that changes for the main assumptions are in line with the development for the global subscriber growth, with a slight decrease for the periods greater than three years. The impairment test for goodwill has not resulted in any need for write-down. A number of tests of sensivity have been made, for example the effect of growth of just one percent. None of these tests indicate requirement of impairment write-down. A discount rate of 12 percent has been applied for the discounting of projected cash flows.

2004	**Capitalized development costs, to be marketed**	**Capitalized acquired development costs, for internal use**	**Capitalized internal development costs, for internal use**	**Capitalized development costs, total**	**Goodwill**	**Licenses trademarks and similar rights**	**Patents and acquired research and development**	**Other intangible assets, total**
Accumulated acquisition costs								
Opening balance	12,274	1,633	1,091	**14,998**	**5,739**	1,287	1,084	**2,371**
Acquisitions/capitalization	1,138	5	3	**1,146**	**387**	262	50	**312**
Balances regarding acquired and sold companies						122		**122**
Sales/disposals	-1,536			**-1,536**	**16**	-646	-14	**-660**
Translation difference for the year					**-376**	-3	-2	**-5**
Closing balance	**11,876**	**1,638**	**1,094**	**14,608**	**5,766**	**1,022**	**1,118**	**2,140**
Accumulated amortization								
Opening balance	-1,022	-1,208	-806	**-3,036**		-1,231	-438	**-1,669**
Amortization for the year	-3,779	-216	-144	**-4,139**		-271	-42	**-313**
Balances regarding acquired and sold companies						-37		**-37**
Sales/disposals	1,343			**1,343**		636	3	**639**
Translation difference for the year						2		**2**
Closing balance	**-3,458**	**-1,424**	**-950**	**-5,832**		**-901**	**-477**	**-1,378**

	February 2, 2008							February 3, 2007
Accumulated write-downs								
Opening balance	-706	-38	-26	**-770**			-15	**-15**
Write-downs for the year	-108			**-108**				
Balances regarding acquired and sold companies								
Sales/disposals	193			**193**				
Translation difference for the year							1	**1**
Closing balance	**-621**	**-38**	**-26**	**-685**			**-14**	**-14**
Net carrying value	**7,797**	**176**	**118**	**8,091**	**5,766**	**121**	**627**	**748**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C12 PROPERTY, PLANT AND EQUIPMENT

2005	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in process and advance payments	Total
Accumulated acquisition costs					
Opening balance	2,657	5,306	15,350	303	**23,616**
Additions	461	405	1,745	754	**3,365**
Balances regarding acquired and sold companies	14	-14	24		**24**
Sales/disposals	-196	-582	-2,001	-17	**-2,796**
Reclassifications	229	-121	659	-767	
Translation difference for the year	347	206	1,369	14	**1,936**
Closing balance	**3,512**	**5,200**	**17,146**	**287**	**26,145**
Accumulated depreciation					
Opening balance	-583	-4,374	-11,652		**-16,609**
Depreciation for the year	-366	-489	-1,949		**-2,804**
Balances regarding acquired and sold companies	-3	13	-21		**-11**
Sales/disposals	96	562	1,685		**2,343**
Reclassifications	-4	173	-169		
Translation difference for the year	-259	-170	-1,000		**1,429**
Closing balance	**-1,119**	**-4,285**	**-13,106**		**-18,510**
Accumulated write-downs, net					
Opening balance	-482	-148	-532		**-1,162**
Write-downs for the year		-14			**-14**
Reversals of write-downs	43		337		**380**
Balances regarding acquired and sold companies	-1				**-1**
Sales/disposals					
Translation difference for the year	81	17	30		**128**
Closing balance	**-359**	**-145**	**-165**		**-669**
Net carrying value	**2,034**	**770**	**3,875**	**287**	**6,966**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2005, amounted to SEK 1,448 million. The reversal of write-downs has been reported under Cost of Sales.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2004	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in process and advance payments	Total
Accumulated acquisition costs					
Opening balance	2,888	5,829	16,190	286	**25,193**
Additions	51	267	1,699	435	**2,452**
Balances regarding acquired and sold companies	-23	-625	293	-14	**-369**
Sales/disposals	-100	-332	-2,363	-142	**-2,937**
Reclassifications	-4	243	15	-254	
Translation difference for the year	-155	-76	-484	-8	**-723**
Closing balance	**2,657**	**5,306**	**15,350**	**303**	**23,616**
Accumulated depreciation					
Opening balance	-485	-4,590	-12,294		**-17,369**
Depreciation for the year	-226	-463	-1,745		**-2,434**
Balances regarding acquired and sold companies	16	467	-74		**409**
Sales/disposals	66	268	2,102		**2,436**
Reclassifications	7	-122	115		
Translation difference for the year	39	66	244		**349**
Closing balance	**-583**	**-4,374**	**-11,652**		**-16,609**
Accumulated write-downs, net					
Opening balance	-505	-229	-585		**-1,319**
Write-downs for the year	-10				**-10**
Balances regarding acquired and sold companies		81	28		**109**
Sales/disposals/reversals of write-downs			25		**25**
Translation difference for the year	33				**33**
Closing balance	**-482**	**-148**	**-532**		**-1,162**
Net carrying value	**1,592**	**784**	**3,166**	**303**	**5,845**

C13 FINANCIAL ASSETS

EQUITY IN JOINT VENTURES AND ASSOCIATED COMPANIES

	Joint ventures		Associated companies		Total	
	2005	2004	2005	2004	2005	2004
Opening balance	**3,092**	1,713	**1,063**	1,217	**4,155**	2,930
Share in earnings	**2,257**	2,143	**138**	180	**2,395**	2,323
Taxes	**-604**	-701	**-21**	-33	**-625**	-734

February 2, 2008							February 3, 2007
Translation difference for the year	**286**	-63	**92**	-52	**378**	-115	
Change in hedge reserve	**7**				**7**		
Dividends			**-32**	-97	**-32**	-97	
Capital contributions			**33**	7	**33**	7	
Reclassification			**2**	47	**2**	47	
Sales				-206		-206	
Closing balance	**5,038**	3,092	**1,275**	1,063	**6,313**	4,155	

Goodwill, net, amounts to SEK 21 million (SEK 19 million in 2004).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SHARE OF ASSETS, LIABILITIES AND INCOME IN JOINT VENTURE SONY ERICSSON MOBILE COMMUNICATIONS

Non-current assets	1,201
Current assets	13,619
Non-current liabilities	92
Current liabilities	9,690
Net assets	**5,038**
Net sales	**33,715**
Income after financial items	2,383
Income taxes for the year	-604
Net income	**1,653**
Minority interest[1)]	-126
Assets pledged as collateral	1
Contingent liabilities	58

1) Share in earnings is reported net of minority interest.

SHARE OF ASSETS, LIABILITIES AND INCOME IN ASSOCIATED COMPANY ERICSSON NIKOLA TESLA D.D.

Non-current assets	298
Current assets	918
Non-current liabilities	18
Current liabilities	267
Net assets	**931**
Net sales	**998**
Income after financial items	165
Income taxes for the year	-20
Net income	**145**
Minority interest	
Assets pledged as collateral	7
Contingent liabilities	143

Both these companies apply IFRSs in the reporting to Ericsson.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

OTHER FINANCIAL ASSETS

	Other investments in shares and participations 2005	2004	Customer financing, non-current 2005	2004	Derivatives hedging non-current liabilities with a positive value 2005	2004	Other financial assets, non-current 2005	2004
Accumulated acquisition costs								
Opening balance	**2,318**	2,308	**4,330**	7,950			**2,312**	2,138
Effect of changed accounting principle, IAS 39	**256**				**937**			
Additions	**26**	161	**689**	1,460			**2,606**[3)]	611
Sales/repayments/deductions	**-467**	-22	**-2,215**	-2,234			**-1,191**	-410
Reclassifications	**-2**	-52	**-697**	-2,478	**-401**			
Revaluation					**180**			
Translation difference for the year	**205**	-77	**265**	-368			**190**	-27
Closing balance	**2,336**	2,318	**2,372**	4,330	**716**		**3,917**	2,312
Accumulated write-downs/allowances								
Opening balance	**-1,775**	-1,875	**-2,180**	-4,923			**-1,076**	-796
Effect of changed accounting principle, IAS 39	**155**							
Write-downs/allowances for the year	**-1**	44	**-128**	-656			**12**	-293
Sales/repayments/deductions	**225**	3	**807**	1,115				
Reclassifications			**559**	2,221				
Translation difference for the year	**-135**	53	**-108**	63			**-55**	13
Closing balance	**-1,531**	-1,775	**-1,050**[1)]	-2,180[1)]			**-1,119**	-1,076
Net carrying value	**805**[2)]	543[2)]	**1,322**	2,150	**716**		**2,798**	1,236

1) Write-downs are included in Selling expenses due to the close relation to operations.
2) Market value per December 31, 2005, for listed shares was SEK 8 (234) million with a net carrying value of SEK 8 (80) million.
3) Additions include funded pension plans with net assets of SEK 1,170 million. For further information, see Note C18, Post-employment benefits .

C14 INVENTORIES

February 2, 2008	February 3 2007

	2005	2004
Raw materials, components and consumables	**4,699**	5,557
Manufacturing work in progress	**139**	232
Finished products and goods for resale	**2,770**	3,720
Contract work in progress	**12,753**	7,278
Less advances from customers	**-1,153**	-2,784
Inventories, net	**19,208**	14,003

Reported amounts are net of obsolescence allowances of SEK 2,519 million (SEK 3,146 million 2004).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MOVEMENTS IN OBSOLESCENCE ALLOWANCES

	2005	2004
Opening balance	**3,146**	3,658
Additions	**785**	533
Utilized	**-1,560**	-976
Translation difference for the year	**148**	-69
Closing balance	**2,519**	3,146

Contract work in progress includes amounts related to construction-type contracts as well as other contracts with ongoing work in progress.

The cost of inventories recognized as an expense and included in Cost of Sales is SEK 44,662 million.

	2005
For construction-type contracts in progress, as per December 31, 2005:	
Aggregate amounts of costs incurred	23,244[1)]
Aggregate amount of recognized profits (less recognized losses)	6,416[1)]
Gross amount due from customers[2)]	537
Gross amount due to customers[3)]	4,118[1)]

1) A significant part of these amounts relate to defense contracts.
2) For all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings.
3) For all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

C15 ACCOUNTS RECEIVABLE TRADE

	2005	2004
Trade receivables excluding associated companies	**42,198**	33,906
Allowances for impairment of receivables	**-1,382**	-1,782
Trade receivables, net	**40,816**	32,124
Trade receivables related to associated companies and joint ventures	**426**	520
Total	**41,242**	32,644

Days sales outstanding were 81 in December, 2005 (75 in December, 2004).

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Retention receivables recognized as revenues were SEK 3,940 million as of December, 2005 (SEK 3,749 million as of December, 2004).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT OF RECEIVABLES

	2005	2004
Opening balance	**1,782**	2,051
Additions	**916**	1,073
Utilized	**-1,185**	-951
Reversal of excess amounts	**-185**	-566
Reclassification	**-60**	17
Translation difference for the year	**114**	158
Closing balance	**1,382**	1,782

C16 OTHER CURRENT RECEIVABLES

	2005	2004
Receivables from associated companies and joint ventures		115
Prepaid expenses	**1,997**	1,072
Accrued revenues	**1,998**	1,349
Advance payments to suppliers	**517**	393
Derivatives with a positive value	**1,347**	2,615
Other	**6,715**	6,695
Total	**12,574**	12,239

The major items within Other are value added tax and withholding tax.

C17 STOCKHOLDERS EQUITY

CAPITAL STOCK 2005

The capital stock of the Company is divided into two classes: Class A shares (par value SEK 1.00) and Class B shares (par value SEK 1.00 being the same as the quota value). Both classes have the same rights of participation in the net assets and earnings of the Company. Class A shares, however, are entitled to one vote per share while Class B shares are entitled to one tenth of one vote per share.

The total number of treasury shares at December 31, 2005, is 268,065,241 (299,715,117 in 2004) Class B shares. The decrease in the number of treasury shares is due to delivery and sale of shares in relation to the Stock Purchase Plans and the Stock Option Plans.

Dividend proposal

February 2, 2008	February 3 2007

The Board of Directors will propose to the Annual General Meeting a dividend of SEK 0.45 per share.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CHANGES IN STOCKHOLDERS EQUITY

	Capital stock	Additional paid in capital	Hedge reserve	Revaluation of other investments in shares and participations	Cumulative translation adjustments	Total other reserves	Retained earnings	Total
2005								
January 1, 2005	**16,132**	**24,731**			**-6,530**	**-6,530**	**46,112**	**80,445**
Effect of changed accounting principle, IAS 39, net			1,155	155		1,310	179	**1,489**
Adjusted opening balance	**16,132**	**24,731**	**1,155**	**155**	**-6,530**	**-5,220**	**46,291**	**81,934**
Changes in hedge reserve, net			-1,859			-1,859		**-1,859**
Revaluation of other investments in shares and participations, net				-150[1])		-150		**-150**
Changes in cumulative translation adjustments					4,037[2])	4,037		**4,037**
Net income 2005							24,315	**24,315**
Total income and expenses for the period			**-1,859**	**-150**	**4,037**	**2,028**	**24,315**	**26,343**
Sale of own shares							117	**117**
Stock purchase and stock options plans							242	**242**
Dividends paid							-3,959	**-3,959**
Total transactions with owners							**-3,600**	**-3,600**
December 31, 2005	**16,132**	**24,731**	**-704**	**5**	**-2,493**	**-3,192**	**67,006**	**104,677**
2004								
January 1, 2004	**16,132**	**24,729**			**-5,395**	**-5,395**	**28,354**	**63,820**
Changes in cumulative translation adjustments					-1,135	-1,135		**-1,135**
Net income 2004							17,539	**17,539**
Total income and expenses for the period					**-1,135**	**-1,135**	**17,539**	**16,404**
Sale of own shares							15	**15**
Stock purchase and stock options plans							204	**204**
Adjustment of cost for stock issue 2002		2						**2**

February 2, 2008									February 3, 2007
	Total transactions with owners		**2**				**219**	**221**	
	December 31, 2004	**16,132**	**24,731**	**-6,530**	**-6,530**		**46,112**	**80,445**	

1) Due to sale, SEK 147 million is realized in Income statement.
2) Changes in cumulative translation adjustments include changes regarding revaluation of goodwill in local currency of SEK 1,084 million (SEK-376 million in 2004), net gain/loss (-) from hedging of investments in foreign subsidiary companies of SEK-142 million (SEK-167 million in 2004) and SEK 127 million (SEK 47 million in 2004) of realized gains/losses (-), net from sold/liquidated companies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C18 POST-EMPLOYMENT BENEFITS

In summary, during 2005 the funded status, the relation between the defined benefit obligation (DBO) and plan assets has improved significantly due to the establishment of a Swedish pension trust and the value of the DBO has increased due to a change from 5 percent to 3.5 percent for the discount rate in Sweden.

The Ericsson Group participates in local pension plans in countries in which we operate. There are principally two types of pension plans:

- Defined contribution plans, where the Company s only obligation is to pay fixed pension premiums into a separate entity (a fund or insurance company) on behalf of the employee. Under this type of plan, no provision for pensions is recognized in the Company s balance sheet.

- Defined benefit plans, where the Company s undertaking is to provide pension benefits that the employees will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Defined benefit plans may be funded or unfunded and can therefore be managed in two ways:

  - by setting up a trust with assets to manage the company s contributions to the plan, in which case the liability recognized on the balance sheet is the net of the benefit obligation and the fair value of plan assets. Plans with net assets are recognized as financial assets in the balance sheet,

  - the total benefit obligation is recognized as a liability on the balance sheet with no assigned plan assets.

Costs for post-employment benefits within Ericsson are evenly distributed between defined contribution plans and defined benefit plans, with a slight overweight towards defined contribution plans. For companies with defined benefit plans, almost all companies with material plans have trust funds which are fully or partly funded and recognize the net of defined benefit obligations and plan assets as either provisions or financial assets. The present value of the defined benefit obligation for current and former employees is calculated using the Projected Unit Credit Method (PUC). The calculations are based upon actuarial assumptions and are prepared annually, as a minimum.

In Sweden, the total pension plans are a mixed solution, with some parts being defined contribution plans and others defined benefit plans. All plans for blue-collar workers are defined contribution plans. Salaried employees plans are comprised of the defined benefit plan, ITP, supplementary pension plan for salaried employees in manufacturing industries and trade, (retirement pension and collective family pension), which are complemented by a defined contribution plan, ITPK, supplementary retirement benefits. Some parts of early-retirement plans are also arranged as defined contribution plans. The collective family pension within the ITP plan is financed via an insurance at the insurance company Alecta. The Swedish Financial Accounting Standards Council s interpretations committee has defined this plan as a multi-employer defined benefit plan. For Ericsson, however, information was not available from Alecta that would have made it possible to report the collective family pension part as a defined benefit plan. Therefore, the plan has been reported as a defined contribution plan. Fees during 2005 for the collective family pension amount to SEK 350 million. The collective consolidation level at Alecta amounted to 128.5 percent at year-end 2005 (128.0 percent 2004). Ericsson has established a Swedish pension trust for the purpose of funding benefit obligations in

February 2, 2008	**February 3 2007**

Sweden. SEK 8,338 million were transferred into the trust in January 2005. The capital injection turned the level of funding from an unfunded position at the end of 2004 to a substantial funded status at the end of 2005. The total value of Ericsson shares in the Swedish pension trust amounted to SEK 13 million at year-end.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the total pension cost for the Group:

TOTAL ANNUAL PENSION COST

	Sweden	UK	US	Other	Total
2005					
Pension cost for defined benefit plans	417	71	57	307	**852**
Pension cost for post- employment medical benefits			44		**44**
Pension cost for defined contributions plans	929		83	257	**1,269**
Total	**1,346**	**71**	**184**	**564**	**2,165**
2004					
Pension cost for defined benefit plans	686	71	-93	153	**817**
Pension cost for post- employment medical benefits			46		**46**
Pension cost for defined contributions plans	1,014		-97	183	**1,100**
Total	**1,700**	**71**	**-144**	**336**	**1,963**

ANNUAL PENSION COST FOR DEFINED BENEFIT PLANS

	Sweden	UK	US	Other	Total
2005					
Service cost	275	62	78	281	**696**
Interest cost	407	169	48	154	**878**
Expected return on plan assets	-267	-160	-128	-156	**-711**
Amortization of unrecognized past service cost				7	**7**
Amortization of actuarial gains and losses	2		3	7	**12**
Curtailment cost					
Settlement cost				14	**14**
Net pension cost for the period	**417**	**71**	**101**	**307**	**896**
2004					
Service cost	306	53	82	170	**611**
Interest cost	380	152	153	118	**803**
Expected return on plan assets		-134	-108	-128	**-370**
Amortization of unrecognized past service cost				6	**6**
Amortization of actuarial gains and losses					
Curtailment cost			-173	-14	**-187**

February 2, 2008	February 3 2007

Net pension cost for the period	**686**	**71**	**-46**	**152**	**863**

The tables below and on the next page present information about defined benefit plans for Ericsson and summarize changes in the benefit obligation, the plan assets and the funded status of defined benefit plans and the amount recognized in the balance sheet as well as key assumptions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CHANGE IN DEFINED BENEFIT OBLIGATION, DBO[1)]

	Sweden	UK	US	Other	Total
2005					
DBO, beginning of the year	8,190	3,018	2,362	3,250	**16,820**
Service cost	275	62	78	281	**696**
Interest cost	407	169	148	154	**878**
Employee contributions		30	22	12	**64**
Pension payments	-71	-74	-161	-100	**-406**
Actuarial gain/loss (-/+)[2)]	2,830	346	-148	272	**3,300**
Settlement cost				-49	**-49**
Curtailment cost					
Balances regarding acquired and sold companies				65	**65**
Reclassifications				-127	**-127**
Other	1		91	-37	**55**
Translation difference for the year		244	471	303	**1,018**
DBO, end of the year	**11,632**	**3,795**	**2,863**	**4,024**	**22,314**
2004					
DBO, beginning of the year	6,921	2,794	2,511	2,256	**14,482**
Service cost	306	53	82	170	**611**
Interest cost	380	152	153	118	**803**
Employee contributions		28		10	**38**
Pension payments	-71	-45	-189	-60	**-365**
Actuarial gain/loss (-/+)[2)]	654	87	186	157	**1,084**
Settlement cost				-35	**-35**
Curtailment cost			-173	-14	**-187**
Balances regarding acquired and sold companies					
Reclassifications				712	**712**
Other			22	23	**45**
Translation difference for the year		-51	-230	-87	**-368**
DBO, end of the year	**8,190**	**3,018**	**2,362**	**3,250**	**16,820**

1) The Group participates in a number of post-employment medical benefit schemes. The method of accounting, the assumptions and the frequency of valuations are similar to those used for defined benefit schemes. Post-employment medical benefit schemes are therefore included in the figures above.
2) Actuarial gains and losses for each plan are reported when the accumulated amount exceeds the corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CHANGE IN PLAN ASSETS

	Sweden	UK	US	Other	Total
2005					
Fair value of Plan Assets beginning of the year		2,014	1,417	2,333	**5,764**
Actual return on plan assets	471	267	124	555	**1,417**
Employer contributions	8,338	352	43	212	**8,945**
Employee contributions		30	22	12	**64**
Pension payments by fund/insurance company		-74	-126	-65	**-265**
Settlement cost				-63	**-63**
Balances regarding acquired and sold companies				38	**38**
Other			108	-5	**103**
Translation difference for the year		165	292	324	**781**
Fair value of Plan Assets, end of year	**8,809**	**2,754**	**1,880**	**3,341**	**16,784**
2004					
Fair value of Plan Assets beginning of the year		1,846	1,361	2,059	**5,266**
Actual return on plan assets		164	125	227	**516**
Employer contributions		57	203	158	**418**
Employee contributions		28		10	**38**
Pension payments by fund/insurance company		-45	-132	-53	**-230**
Settlement cost				-32	**-32**
Balances regarding acquired and sold companies					
Other				50	**50**
Translation difference for the year		-36	-140	-86	**-262**
Fair value of Plan Assets, end of year		**2,014**	**1,417**	**2,333**	**5,764**

ACCRUED/PREPAID PENSION COST

	Sweden	UK	US	Other	Total
2005					
Fair value of plan assets	8,809	2,754	1,880	3,341	**16,784**
DBO	11,632	3,795	2,863	4,024	**22,314**
Funded status of the plan	-2,823	-1,041	-983	-683	**-5,530**
Unrecognized actuarial gain/loss (-/+)	3,278	301	37	-133	**3,483**
Unrecognized past service cost				92	**92**
Accrued/Prepaid pension cost (-/+)	**455**	**-740**	**-946**	**-724**	**-1,955**
2004					

February 2, 2008							February 3, 2007
	Fair value of plan assets		2,014	1,417	2,333	**5,764**	
	DBO	8,190	3,018	2,362	3,250	**16,820**	
	Funded status of the plan	-8,190	-1,004	-945	-917	**-11,056**	
	Unrecognized actuarial gain/loss (-/+)	654	55	174	16	**899**	
	Unrecognized past service cost				70	**70**	
	Accrued/Prepaid pension cost (-/+)	**-7,536**	**-949**	**-771**	**-831**	**-10,087**	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET, 2005

	Sweden	UK	US	Other	Total
2005					
Accrued/Prepaid pension cost (-/+) beginning of the year	-7,536	-949	-771	-831	**-10,087**
Annual pension cost	-417	-71	-101	-307	**-896**
Benefits paid by company, net	71		35	36	**142**
Employer contributions	8,338	352	43	212	**8,945**
Balances regarding acquired and sold companies				-46	**-46**
Reclassification				127	**127**
Other	-1		3	42	**44**
Translation difference for the year		-72	-155	43	**-184**
Accrued/Prepaid pension cost (-/+), end of year	**455**	**-740**	**-946**	**-724**	**-1,955**

Total accrued/prepaid pension cost, SEK -1,955 (-10,087) million are reported gross by plan in the balance sheet. Plans with net assets are reported as Other financial assets, non-current, total SEK 1,170 (0) million and plans with net liabilities are reported as Post-employment benefits, total SEK 3,125 (10,087) million.

AMOUNT RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET, 2004

	Sweden	UK	US	Other	Total
2004					
Accrued/Prepaid pension cost (-/+) beginning of the year	-6,921	-949	-1,151	-115	**-9,136**
Annual pension cost	-686	-71	47	-153	**-863**
Benefits paid directly by company	71		78	7	**156**
Employer contributions		57	203	158	**418**
Balances regarding acquired and sold companies					
Reclassification				-712	**-712**
Other			-22	-9	**-31**
Translation difference for the year		14	74	-7	**81**
Accrued/Prepaid pension cost (-/+), end of year	**-7,536**	**-949**	**-771**	**-831**	**-10,087**

The principal actuarial assumptions used were as follows:

	Sweden	UK	US	Other
2005				
Discount rate	3.5%	4.7%	5.5%	5.5%

February 2, 2008						February 3 2007
	Expected return on plan assets	3.2%	7.0%	8.0%	6.7%	
	Future salary increases	3.0%	4.0%	4.5%	4.2%	
	Health care cost inflation, current year	n/a	n/a	10.0%	n/a	
	2004					
	Discount rate	5.0%	5.3%	6.0%	6.0%	
	Expected return on plan assets	n/a	7.0%	8.0%	6.2%	
	Future salary increases	3.0%	4.0%	4.5%	4.4%	
	Health care cost inflation, current year	n/a	n/a	10.0%	n/a	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The developments of medium and long-term interest rates have been closely monitored during the year. Consequently we have adjusted the discount rate downwards in order to reflect the applicable interest rate for our benefit obligations at the balance sheet day.

C19 OTHER PROVISIONS

	Warranty commitments	Restructuring	Customer financing	Other	Total other provisions[1)]
2005					
Opening balance	**6,424**	**3,598**	**271**	**14,485**	**24,778**
Additions	2,858	1,323		5,564	**9,745**
Costs incurred	-3,181	-1,983	19	-6,913	**-12,058**
Reversal of excess amounts	-1,390	-480	-315	-2,608	**-4,793**
Balances regarding acquired and sold companies	6				**6**
Reclassification	3	-322		224	**-95**
Translation difference for the year	101	178	55	751	**1,085**
Closing balance	**4,821**	**2,314**	**30**	**11,503**	**18,668**
2004					
Opening balance	**4,736**	**9,115**	**296**	**13,454**	**27,601**
Additions	4,202	661	228	7,971	**13,062**
Costs incurred	-2,656	-5,651	-62	-5,012	**-13,381**
Reversal of excess amounts		-274	-191	-1,867	**-2,332**
Reclassification	172	-238		341	**275**
Translation difference for the year	-30	-15		-402	**-447**
Closing balance	**6,424**	**3,598**	**271**	**14,485**	**24,778**

1) Both current and non-current provisions.

WARRANTY COMMITMENTS

Warranty provisions are based on quality statistics and are calculated considering sales, contractual warranty periods and historical quality data of products sold. The actual warranty costs have been lower than anticipated therefore parts of the provisions have been reversed. The actual utilization for 2005 was SEK 3.2 billion, compared to the expected SEK 2.5 billion. The expected utilization of warranty provisions during year 2006 is SEK 2.9 billion.

RESTRUCTURING

Restructuring provisions amounting to SEK 2.0 billion were utilized during 2005 compared to the expected SEK 2.0 billion.

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Due to a more favourable outcome, parts of the provisions have been reversed. However, the reversals were largely offset by additions to provisions made in previous years.

Remaining restructuring provisions are mostly related to unutilized leased real estate. The majority of these leases will expire in between one and five years, and the last one in year 2028. The value of the real estate commitments are calculated based on the net present value of the future lease payments minus the forcasted sublease revenues. The expected utilization of restructuring provisions during 2006 is SEK 1.5 billion.

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CUSTOMER FINANCING

Total provisions for off-balance sheet customer financing is the sum of all individual provisions for each risk. The individual provisions are based on a specific evaluation of each risk exposure.

OTHER

Other provisions include estimated obligations related to patent and other litigations, contractual discounts and penalties of uncertain timing or amount, supplier or subcontractor claims and/or dispute, as well as provisions for unresolved income tax and value added tax, issues and estimated losses on customer contracts. The actual utilization for 2005 was SEK 6.9 billion, compared to the estimated SEK 8.0 billion. Reversals amount to SEK 2.6 billion due to a more favourable outcome. These reversals are partly offset by increases to provisions made in previous years reported under additions.

The expected utilization in 2006 is SEK 7.0 billion.

C20 INTEREST-BEARING PROVISIONS AND LIABILITIES

Ericsson s outstanding interest-bearing provisions and liabilities were SEK 28.1 billion as of December 31, 2005 (33.6).

INTEREST-BEARING PROVISIONS AND LIABILITIES

	2005	**2004**
Borrowings, current[1)]	**10,784**	1,719
Total current borrowings	**10,784**	1,719
Borrowings, non-current	**14,185**	21,837
Post-employment benefits	**3,125**	10,087
Total non-current interest-bearing provisions and liabilities	**17,310**	31,924
Total interest-bearing provisions and liabilities	**28,094**	33,643

1) Including note and bond loans of SEK 9,614 million 2005 and SEK 651 million 2004.

NOTES AND BOND LOANS

Issued-mature	Nominal	Coupon	Currency	Book value (SEK m.)	Maturity

February 2, 2008							February 3, 2007
						date (YY-MM-DD)	
	1999-2009	483	6.500%	USD	3,187	09-05-20	
	2001-2006	15	FRN	USD	119	06-03-15	
	2001-2006	1,000[1])	6.375%	EUR	9,496	06-05-31	
	2001-2008	226[1)]	7.375%	GBP	3,167	08-06-05	
	2003-2010	471[2)]	6.750%	EUR	4,671	10-11-28	
	2004-2012	450	FRN	SEK	450	12-12-07	
	Total				21,890		

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1) The EUR 1,000 million and GBP 226 million bonds have interest rates linked to the Company s credit rating. The interest will increase/decrease 0.25 percent per annum for each rating notch change per rating agency (Moody s and Standard & Poor s). The interest rate applicable to these bonds cannot be less than the initial interest rates in the loan agreements.
2) The EUR 471 million bond is callable after 2007; the fair value of the embedded derivative is included in the book value of the bond.

All outstanding notes and bond loans are issued by the Parent Company under its Euro Medium Term Note program. Bonds issued at a fixed interest rate are swapped to a floating interest rate using interest rate swaps, resulting in a weighted average interest rate of 5.12 percent at December 31, 2005. These bonds are revalued based on changes in benchmark interest rates according to the Fair Value hedge methodology stipulated in IAS 39.

No notes or bond loans have been redeemed or cancelled in 2005.

LIABILITIES TO FINANCIAL INSTITUTIONS, INTEREST RATE BY CURRENCY

	Maturing >1<5 years		Maturing >5 years	
	Book value (SEK m.)	Interest rate (%)	Book value (SEK m.)	Interest rate (%)
EUR	226	3.9%	128	1.9%
SEK	192	2.2%	141	2.0%
USD	39	9.2%	1,181	7.7%
Other currencies	40	1.0%	14	0%
Total	**497**		**1,464**	

Current liabilities to financial institutions are mainly denominated in INR, JPY and USD and have a weighted average maturity of 0.3 years. Current maturities of non-current debt (excl. current maturities of notes and bond loans) are mainly denominated in CAD and EUR and have a weighted average maturity of 0.1 year.

C21 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

Ericsson s financial risk management is governed by a policy approved by the Board of Directors. The Finance Committee of the Board of Directors is responsible for approving certain matters regarding investments, loans, guarantees and customer financing commitments and is continuously monitoring the exposure to financial risks.

The Board of Directors has established risk limits for defined exposures to foreign exchange and interest rate risks.

Ericsson has a treasury function with the principal role to ensure that appropriate financing is in place through loans and committed credit facilities, to actively manage the Group s liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures in a manner consistent with underlying business risks and financial policies. Hedging activities and cash management are largely centralized to the treasury function in Stockholm.

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Ericsson also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to Ericsson. To the extent customer loans are not provided directly by banks, the Parent Company provides or guarantees vendor credits. The customer finance function monitors the exposure from outstanding vendor credits and credit commitments.

Ericsson classifies financial risks as:

- foreign exchange risk
- interest rate risk
- credit risk
- liquidity and refinancing risk
- market price risk in own and other listed equity instruments.

Foreign exchange risk

Ericsson has significant revenues, costs, assets and liabilities in currencies other than SEK, which result in a substantial foreign exchange rate exposure in the income statement, balance sheet and cash flows. When managing foreign exchange risk, Ericsson distinguishes between two types of exposure: transaction and translation exposure.

Transaction exposure

An analysis of Ericsson s transaction exposures for 2005 shows the following net exposures by currency:

ESTIMATED NET EXPOSURES BY CERTAIN MAJOR CURRENCIES

(SEK billion)	2005
USD and related currencies	33
EUR	8
JPY	2

A change in the exchange rate of +/-10 percent between SEK and USD, and related currencies, would have an annualized impact on the operating income by SEK 3.3 billion before tax and hedging effects.

February 2, 2008	February 3 2007

Foreign exchange risk is as far as possible borne by Swedish group companies. Sales to foreign subsidiary companies are normally invoiced in the functional currency of the receiving entity. In order to limit the exposure toward exchange fluctuations on future revenue or expenditure, committed and forecasted net exposure by period of future sales and purchases in major currencies were hedged, on average, for the coming 6-9 months in 2005. Trade receivables and payables in foreign currencies are generally fully hedged.

Currency forward contracts are primarily used for hedging future revenues and expenditures on company level. External forward contracts are designated as cash flow hedges of the net exposure for the main currencies and companies of the Group.

Other foreign exchange exposures in balance sheet items are hedged through offsetting balances or derivatives.

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As of December 31, 2005, outstanding foreign exchange derivatives, hedging transaction exposures, had a negative net market value of SEK 2.6 (positive 4.0) billion. The negative market value is partly deferred in hedge reserve to offset the gains on hedged future sales in foreign currency. The remaining balance corresponds to appreciation of Accounts Receivable balances being originated at higher rates compared to the exchange rates prevailing when the commitments and forecasts were made.

SEK million unless otherwise stated		2005			2004		
Interest rate Derivatives	**Transaction currency**	**Nominal amount in transaction currency**	**Fair value**	**Book value**	**Nominal amount in transaction currency**	**Fair value**	**Book value**
Basis Swap	**EUR**	**-383**	**131**	**131**			
Basis Swap	**SEK**	**3,855**	**-267**	**-267**			
Basis Swap	**USD**	**-47**	**46**	**46**			
Interest Rate Swap	**EUR**	**2,733**	**475**	**475**	1,471	909	325
Interest Rate Swap	**GBP**	**226**	**188**	**188**	226	169	108
Interest Rate Swap	**SEK**	**11,885**	**270**	**270**	515	19	10
Interest Rate Swap	**USD**	**583**	**215**	**215**	483	394	118
Interest Rate Forwards	**SEK**	**-2,105**	**-2**	**-2**	-2,010	-18	-18
Foward Rate Agreement	**SEK**	**25,500**	**-6**	**-6**	22,000	4	4
Swaption	**EUR**	**471**	**-45**	**-45**	471	7	
Other			**3**	**3**		-1	-1
Total Interest rate Derivatives			**1,008**	**1,008**		**1,483**	**546**
Foreign Exchange Derivatives							
Foreign Exchange Forwards	**USD**	**-5,537**	**-2,082**	**-2,082**	-4,272	3,131	1,734
Foreign Exchange Forwards	**EUR**	**-3,679**	**-42**	**-42**	-4,093	193	232
Foreign Exchange Forwards	**SAR**	**-1,845**	**-224**	**-224**	-1,603	460	225
Foreign Exchange Forwards	**Other**		**-204**	**-204**		240	229
Total Foreign Exchange Derivatives			**-2,552**	**-2,552**		**4,024**	**2,420**
Derivatives Total			**-1,544**	**-1,544**		**5,507**	**2,966**

All derivatives are short term except for the Interest Rate Swaps and Swaptions hedging Longterm Borrowing and derivatives embedded therein

HEDGE RESERVE

(SEK billion pre-tax)	
January 1, 2005	1.6

February 2, 2008		February 3, 2007

Revaluation of derivatives	-4.0
Released to profit and loss	1.4
December 31, 2005	-1.0

Translation exposure

Ericsson has many subsidiary companies operating outside Sweden. The net results in foreign subsidiary companies and the value of such foreign investments are exposed to exchange rate fluctuations, which affect the consolidated income statement and balance sheet when translated to SEK.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Translation exposure in foreign subsidiary companies is hedged according to the following policy established by the Board of Directors:

Equity in companies is translated using the current method, for which translation effects are reported directly in stockholders equity, and is hedged up to 20 percent in selected companies. The translation differences reported in equity during 2005 were positive, SEK 4.0 billion, including hedging losses of SEK 142 million.

Interest Rate Risk

Ericsson is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest expenses and revenues. The net cash position was SEK 53.4 (42.9) billion at the end of 2005, consisting of cash and bank, and short-term cash investments of SEK 81.5 (76.6) billion and interest-bearing provisions and liabilities of SEK 28.1 (33.6) billion. Outstanding customer financing credits, net of provisions, were SEK 4.9 (3.6) billion.

Ericsson seeks to avoid risk in the form of (i) a mismatch between fixed and floating interest rates in interest-bearing balance sheet items and (ii) significant fixed interest rate exposure in Ericsson s net cash position. As of December 31, 2005, 94 (94) percent of Ericsson s interest-bearing provisions and liabilities and 99 (99) percent of Ericsson s interest-bearing assets had floating interest rates, i.e. interest periods of less than 12 months.

When managing the interest rate exposure Ericsson uses derivative instruments, such as interest rate swaps.

Ericsson s interest net and cash flows are exposed to interest rate fluctuations. A sustained change in interest rates of +/-0.25 percentage points would, with the current net cash position, have an annual impact on the interest net of SEK +/-135 million.

Credit Risk

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk.

Credit risk in trade receivables

Trade receivables amounted to SEK 41.2 (32.6) billion as of December 31, 2005. Provisions for expected losses are regularly assessed and amounted to SEK 1.4 (1.8) billion as of December 31, 2005. Ericsson s nominal credit losses have, however, historically been low. The amounts of trade receivables follow closely the distribution of Ericsson s sales and do not include any major concentrations of credit risk by customer or by geography.

Customer finance risk

All major customer finance commitments are subject to approval by the Finance Committee of the Board of Directors according to the credit approval procedures.

As of December 31, 2005, Ericsson s total outstanding exposure relating to customer finance credits was SEK 7.0 (8.9) billion. As of that date, Ericsson also had unutilized credit commitments of SEK 3.6 (2.2) billion. The outstanding customer loans and financial guarantees relate to infrastructure projects in different geographic

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markets and to a large number of customers. As of December 31, 2005, there was a total of 76 customer loans originated by or guaranteed by Ericsson. The five largest customer finance arrangements represented 60 percent of the total credit exposure. Security arrangements for customer credits normally include pledges of equipment, pledges of certain of the borrowers assets and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests.

The table below summarizes Ericsson s outstanding customer finance credits as of December 31, 2004-2005.

OUTSTANDING CUSTOMER FINANCE CREDITS

(SEK billion)	2005	2004
On-balance sheet credits	**7.0**	8.4
Off-balance sheet credits	**0.1**	0.6
Total credits	**7.1**	9.0
Accrued interest	**0.1**	0.2
Less third-party risk coverage	**-0.2**	-0.3
Ericsson s risk exposure	**7.0**	8.9
On-balance sheet credits, net value	**5.0**	3.7
Reclassifications[1)]	**-0.1**	-0.1
On-balance sheet credits, net book value	**4.9**	3.6
Credit commitments for customer financing	**3.6**	2.2

1) Reclassification due to consolidation in accordance with SIC 12.

Of Ericsson s total outstanding customer finance credit exposure as of December 31, 2005, 58 percent related to Latin America, 14 percent to Western Europe, 23 percent to Central and Eastern Europe, Middle East & Africa, 1 percent to North America and 4 percent to Asia Pacific.

The net effect of risk provisions for customer financing affecting operating expenses, amounted to a positive impact of SEK 1.0 billion in 2005, compared to a negative impact of SEK 0.2 billion in 2004. In 2005 and 2004, Ericsson incurred credit losses of SEK 0.4 billion and SEK 1.8 billion.

Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. This exposure arises in the investments of cash and cash equivalents and from derivative positions with positive unrealized result against banks and other counterparties.

Ericsson mitigates these risks by investing cash primarily in well rated commercial papers, treasury bills and floating rate notes with short-term ratings of at least A-2/P-2 and long-term ratings of at least A-/A3 and in liquidity funds with a rating of at least A. Separate credit limits are assigned to each counterpart in order to minimize risk concentration. All

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derivative transactions are covered by ISDA netting agreements to reduce the credit risk. No credit losses were incurred during 2005, neither on external investments nor on derivative positions.

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Liquidity Risk

Liquidity risk is that Ericsson is unable to meet its short-term payment obligations due to insufficient or illiquid cash reserves.

Ericsson maintains sufficient liquidity through centralized cash management, investments in highly liquid interest-bearing securities, and by having sufficient committed credit lines in place to meet potential funding needs. The current cash position is deemed to satisfy all short-term liquidity requirements.

During 2005, cash and bank, and short-term cash investments increased by SEK 4.9 billion to SEK 81.5 billion mainly due to positive cash flow, which was partly offset by repayment of non-current debt and payment to the pension trust.

CASH AND SHORT-TERM CASH INVESTMENTS

	Remaining time to maturity					
(SEK billion)	<3 months	< 1 year	1-5 years	>5 years	2005	2004
Total Group	53.1	15.2	12.2	1.0	**81.5**	76.6

Re-financing risk

Re-financing risk is the risk that Ericsson is unable to refinance outstanding debt at reasonable terms and conditions, or at all, at a given point in time.

REPAYMENT SCHEDULE OF LONG-TERM BORROWINGS

(SEK billion)	Current maturities of long-term debt	Notes and bonds (non-current)	Liabilities to financial institutions (non-current)	Total
2006	9.8			**9.8**
2007			0.1	**0.1**
2008		3.1	0.1	**3.2**
2009		3.8	0.1	**3.9**
2010		4.4	0.1	**4.5**
2011		0.5	1.5	**2.0**
Total	**9.8**	**11.8**	**1.9**	**23.5**

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Debt financing is mainly carried out through borrowing in the Swedish and international debt capital markets.

Bank financing is used for certain subsidiary funding and to obtain committed credit facilities.

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FUNDING PROGRAMS

	Amount	Utilized	Unutilized
Euro Medium Term Note program (USD m.)	5,000	2,303	2,967
Euro Commercial Paper program (USD m.)[1)]	1,500		1,500
Swedish Commercial Paper program (SEK m.)	5,000		5,000
Long-term Committed Credit facility (USD m.)	1,000		1,000
Short-term Committed Credit facilities (SEK m.)	353		353

1) Currently unavailable due to low short-term rating.

The USD 1 billion committed credit facility has interest rates linked to our credit rating.

In April 2005, Moody s upgraded Ericsson s long-term credit rating to Baa3 with a positive outlook. In February 2005, Standard & Poor s upgraded Ericsson s long-term credit rating to BBB with a positive outlook. Subsequent to the Marconi announcement in October 2005, Standard & Poor s changed the outlook to stable. Ericsson s current ratings are investment grade.

Financial Instruments Carried at other than Fair Value

In the following tables, carrying amounts and fair values of financial instruments that are carried in the financial statements at other than fair values are presented. For valuation principles, please see Note C1, Significant accounting policies .

FINANCIAL INSTRUMENTS CARRIED AT OTHER THAN FAIR VALUE

	Carrying amount		Fair value	
(SEK billion)	**2005**	**2004**	**2005**	**2004**
Cash and Bank, and Term Deposits	**81.5**	76.6	**81.5**	76.6
	81.5	76.6	**81.5**	76.6
Current maturities of non-current borrowings	**9.6**	0.8	**9.7**	0.8
Notes and bonds	**12.3**	19.8	**13.0**	21.6
	21.9	20.6	**22.7**	22.4

Financial instruments excluded from the tables, such as trade receivables and payables are carried at amortized cost which is deemed to be equal to fair value. When a market price is not readily available and there is insignificant interest rate exposure affecting the value, the carrying value is considered to represent a reasonable estimate of a fair value.

Market Price Risk in Own Shares and Other Listed Equity Investments

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Risk related to our own share price

Ericsson is exposed to the development of its own share price through stock option and stock purchase plans for employees. The obligation to deliver shares under these plans is covered by holding Ericsson Class B shares as treasury stock and warrants for issuance of new Ericsson Class B shares. An increase in the share price will

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result in social security charges, which represents a risk to both income and cash flow. The cash flow exposure is fully hedged through the holding of Ericsson Class B shares in treasury to be sold to generate funds to cover also social security payments, and through the purchase of call options on Ericsson Class B shares.

Risk related to the prices of listed equity investments

Through investments in equity of listed companies Ericsson is exposed to market value fluctuations of such instruments. Such investments, however, constitute a very limited part of Ericsson s financial assets.

C22 OTHER CURRENT LIABILITIES

	2005	2004
Income tax liabilities	**1,260**	1,686
Advances from customers	**4,059**	3,390
Liabilities to associated companies	**34**	7
Accrued interest	**770**	846
Accrued expenses, of which	**20,379**	18,292
employee related	***7,983***	*6,224*
other accrued expenses	***12,396***	*12,068*
Deferred revenues	**3,558**	2,929
Derivatives with a negative value	**3,607**	316
Other current liabilities	**7,158**	5,532
Total	**40,825**	32,998

C23 ACCOUNTS AND NOTES PAYABLE TRADE

	2005	2004
Accounts and notes payable excluding associated companies and joint ventures	**12,233**	10,935
Payables to associated companies and joint ventures	**351**	53
Total	**12,584**	10,988

C24 ASSETS PLEDGED AS COLLATERAL

	2005	2004
Real estate mortgages	**10**	
Chattel mortgages	**166**	7,209
Bank deposits	**373**	776

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Total	**549**	7,985	

The decrease of chattel mortages is attributable to the funding of the Swedish pension trust. Bank deposits are collaterals related to legal disputes which have been cleared in 2005 (SEK 373 million in 2004) and collateral for subsidiary financing SEK 151 million in 2005 (SEK 180 million in 2004).

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C25 CONTINGENT LIABILITIES

	2005	2004
Guarantees for customer financing	**67**	348
Other contingent liabilities	**1,641**	666
Total	**1,708**	1,014

Guarantees for customer financing relate to arrangements where Ericsson is the guarantor for customers payment obligations under credit facilities. A lender under these credit facilities is normally a bank, which thus is the beneficiary of the Ericsson guarantee, covering the entire or part of the outstanding principal amount and accrued interest. The guarantees for customer finance are shown above at their net value (i.e. after provisions).

Other contingent liabilities assumed by Ericsson include guarantees of loans to other companies of SEK 186 million in 2005. Ericsson has SEK 760 million in 2005 issued to guarantee the performance of a third party.

C26 STATEMENT OF CASH FLOWS

Interest paid in 2005 was SEK 2,577 million (SEK 3,492 million in 2004) and interest received was SEK 2,142 million (SEK 3,662 million in 2004). Income taxes paid were SEK 865 million (SEK 2,944 million in 2004).

For more information regarding the disposition of cash and cash equivalents and unutilized credit commitments, see Note C21 Financial Risk Management and Financial Instruments .

Cash restricted due to currency restrictions or other legal restrictions in certain countries amounts to SEK 3,773 million (SEK 2,156 million in 2004).

ACQUISITIONS/SALES OF SHARES AND OTHER INVESTMENTS

	2005	2004
Purchase price for acquired subsidiary companies	**-578**	-39
Other acquisitions/capital contributions	**-691**	-1,739
Sales	**312**	229
Acquisitions/sales, net	**-957**	-1,549

The purchase consideration in cash or cash equivalents for other acquisition was SEK -691 million (SEK -1,739 million in 2004), a considerable amount is related to Ericsson s increased ownership in the Italian subsidiary company.

Of the consideration received for disposals SEK 312 million (SEK 229 million in 2004) were in the form of cash or cash equivalents. The cash or cash equivalents in the balance sheets of sold subsidiary companies were SEK 27 million (SEK

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10 million in 2004).

Further, the cash and cash equivalents in the balance sheets of acquired subsidiary companies were SEK 16 million (SEK 33 million in 2004).

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	Acquired subsidiary companies	Sold subsidiary companies
Property, plant and equipment	15	3
Other non-current assets	526	3
Current assets	58	46
Cash	16	27
Total assets	615	79
Other provisions and Post-employment benefits	135	8
Non-current liabilities	14	
Current liabilities	41	30
Total liabilities	190	38

Acquisitions made by Ericsson in 2005 were:

NetSpira Networks, S.L., a Spanish software company. The company s technology will be integrated into Ericsson s offering for mobile data allowing operators to provide easily understandable charging for services such as Java downloads, web access and MMS.

Axxessit AsA, a Norwegian based advanced technology company that develops, produces and markets integrated access devices and multi-service provisioning platforms for next generation access and metro networks.

Ericsson has also increased its ownership in the Italian subsidiary company Ericsson S.p.A., which gives Ericsson a total ownership as of December 31, 2005, of 99 percent.

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ADJUSTMENTS TO RECONCILE NET INCOME TO CASH

	2005	2004
Property, plant and equipment		
Depreciation	**2,804**	2,434
Write-downs/reversal of write-downs	**-366**	10
Total	**2,438**	2,444
Intangible assets		
Amortization		
Capitalized development costs	**3,009**	4,139
Other	**260**	313
Total amortization	**3,269**	4,452
Write-downs		
Capitalized development costs	**95**	108
Other		
Total write-downs	**95**	108
Total	**3,364**	4,560
Total depreciation, amortization and write-downs on property, plant and equipment and intangible assets	**5,802**	7,004
Taxes	**5,518**	4,483
Write-downs on other investments in shares and participations and capital gains (-)/losses on sale of fixed assets, excluding customer financing, net	**35**	-121
Other non-cash items	**-510**	-876
Total adjustments to reconcile net income to cash	**10,845**	10,490

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C27 LEASING

LEASING WITH THE COMPANY AS LESSEE

Assets under finance leases, recorded as property, plant and equipment, consist of:

FINANCE LEASES

	2005	2004
Acquisition costs		
Real estate	**1,948**	1,459
Machinery		
Other equipment	**5**	3
	1,953	1,462
Accumulated depreciation		
Real estate	**-502**	-148
Machinery		
Other equipment	**-1**	-1
	-503	-149
Accumulated write-downs		
Real estate	**-417**	-413
Machinery		
Other equipment		
	-417	-413
Net carrying value	**1,033**	900

As of December 31, 2005, future minimum lease payment obligations for leases were distributed as follows:

	Finance leases	Operating leases
2006	199	2,134
2007	186	1,762
2008	203	1,559
2009	169	1,294
2010	155	1,115

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2011 and later	1,785	2,943	
Total	**2,697**	10,807	
Future finance charges[1)]	-1,130	n/a	
Present value of finance lease liabilities	**1,567**	10,807	

1) Average effective interest rate on lease payables is 7.43 percent.

Expenses in 2005 for leasing of assets were SEK 2,686 million (SEK 2,961 million in 2004), of which variable expenses were SEK 11 million (SEK 6 million in 2004). The leasing contracts vary in length from 1 to 23 years.

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Most of the Company s lease agreements contain no contingent rents. In the few cases they occur it relates to charges for heating, linked to the oil price index. Most of the leases of real estate contain terms of renewal giving the right to prolong the agreement in question for a predefined period of time. All of the financial leases of facilities contain purchase options. Only a very limited number of the Company s lease agreements contain restrictions on stockholders equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders equity of at least SEK 25 billion.

LEASES WITH THE COMPANY AS LESSOR

Leasing income mainly relates to income from sublease of real estate. These leasing contracts vary in length from 1 to 6 years.

At December 31, 2005, future minimum payment receivables were distributed as follows:

	Finance leases	Operating leases
2006		57
2007		43
2008		30
2009		19
2010		1
2011 and later		1
Total		151
Unearned financial income		n/a
Uncollectible lease payments		n/a
Net investments in financial leases		n/a

Leasing income in 2005 was SEK 114 million (SEK 237 million in 2004).

C28 TAX ASSESSMENT VALUES IN SWEDEN

	2005	2004
Land and land improvements	**60**	60
Buildings	**235**	235
Total	**295**	295

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C29 INFORMATION REGARDING EMPLOYEES, MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT

AVERAGE NUMBER OF EMPLOYEES

	2005			2004		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Western Europe[1] [2]	**25,188**	**8,516**	**33,704**	24,511	7,860	32,371
Central and Eastern Europe Middle East and Africa[2]	**3,258**	**898**	**4,156**	2,544	851	3,395
North America	**3,129**	**992**	**4,121**	3,406	1,116	4,522
Latin America	**2,549**	**568**	**3,117**	2,015	469	2,484
Asia Pacific	**6,544**	**2,553**	**9,097**	6,624	2,346	8,970
Total	**40,668**	**13,527**	**54,195**	39,100	12,642	51,742

[1] Of which Sweden	**15,378**	**5,120**	**20,498**	15,048	5,384	20,432
[2] Of which EU	**25,712**	**8,687**	**34,399**	25,039	8,118	33,157

Within the group of the 150 most senior executives the distribution between distribution between females and males is 14 percent and 86 percent respectively.

NUMBER OF EMPLOYEES

Employees by region	As per December 31, 2005	2004
Western Europe[1] [2]	**35,679**	32,826
Central and Eastern Europe, Middle East and Africa[2]	**4,360**	3,527
North America	**3,911**	4,139
Latin America	**3,382**	2,549
Asia Pacific	**8,723**	7,493
Total	**56,055**	50,534

[1] Of which Sweden	**21,178**	21,296
[2] Of which EU	**36,482**	33,625

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Employees per segment	As per December 31, 2005	2004
Systems	**50,107**	45,500
Other operations	**5,948**	5,034
Total	**56,055**	50,534

UNION REPRESENTATION

We respect the rights of our employees to form unions and collective bargaining. We operate according to local legislative requirements and other local standards and circumstances for each individual workplace.

The majority of our employees in Sweden belong to the following trade unions: Sif (the Swedish Union of Salaried Employees), the Swedish Association of Graduate Engineers, the Swedish Union of Industrial Supervisors and the Swedish Metal Worker s Union. Many of our employees located outside Sweden, in particular those located in other European countries, also belong to trade unions.

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REMUNERATION

WAGES AND SALARIES AND SOCIAL SECURITY EXPENSES

	2005	2004
Wages and salaries	**25,567**	23,858
Social security expenses	**8,891**	8,498
Of which pension costs	**2,165**	1,963

WAGES AND SALARIES PER GEOGRAPHICAL AREA

	2005	2004
Western Europe[1) 2)]	**17,706**	16,030
Central and Eastern Europe, Middle East and Africa[2)]	**1,301**	1,055
North America[3)]	**3,184**	3,158
Latin America	**1,007**	784
Asia Pacific	**2,369**	2,831
Total	**25,567**	23,858

[1)] Of which Sweden	**10,721**	9,923
[2)] Of which EU	**17,779**	16,095
[3)] Of which United States	**1,823**	1,926

Remuneration in foreign currency has been translated to SEK at average exchange rates for the year.

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COMPENSATION POLICIES AND REMUNERATION TO THE BOARD OF DIRECTORS, THE PRESIDENT AND CEO AND THE GROUP MANAGEMENT

The following information covers the remuneration for the Board of Directors, the President and CEO and the Group Management as required by applicable laws, rules and recommendations.

Members of the Board of Directors

SEK	Gender	Board member fee	Committee fee	Employee representative	Total
Board member					
Michael Treschow	male	3,000,000	250,000		**3,250,000**
Arne Mårtensson	male	600,000	125,000		**725,000**
Marcus Wallenberg	male	600,000	125,000		**725,000**
Nancy McKinstry	female	600,000	125,000		**725,000**
Peter L. Bonfield	male	600,000	250,000		**850,000**
Sverker Martin-Löf	male	600,000	350,000		**950,000**
Eckhard Pfeiffer	male	600,000	250,000		**850,000**
Ulf J. Johansson	male	600,000	125,000		**725,000**
Carl-Henric Svanberg	male				
Monica Bergström	female			12,000	**12,000**
Anna Guldstrand	female			11,000	**11,000**
Jan Hedlund	male		800	12,000	**12,800**
Per Lindh	male		800	12,000	**12,800**
Arne Löfving	male			12,000	**12,000**
Torbjörn Nyman	male		1,300	12,000	**13,300**
Total		**7,200,000**	**1,602,900**	**71,000**	**8,873,900**
Social security fees					**2,880,468**
Total					**11,754,368**

Comments to the table

The Chairman of the Board received a Board fee of SEK 3,000,000. The Chairman also received SEK 125,000 for each Board committee he was serving on.

The other Directors appointed by the Annual General Meeting received a fee of SEK 600,000 each. In addition, each Director serving on a Board committee has received a fee of SEK 125,000 for each

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committee. However, the Chairman of the Audit Committee received a fee of SEK 350,000 and the other two members of the Audit Committee received a fee of SEK 250,000 each.

Members of the Board, who are not employees of the Company, have not received any compensation other than the fees paid for Board duties.

Members and Deputy Members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees. However, a fee of SEK 1,000 per attended meeting was paid to each employee representative on the Board. Further, employee representatives being also members of a committee of the Board received a fee of SEK 100 for each committee meeting.

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The President and CEO and the Group Management

Salary and benefits, SEK	The President	The Group Management	Total
Salary	14,572,219	41,172,958	**55,745,177**
Variable pay earned 2004 and paid 2005	7,560,000	18,071,501	**25,631,501**
Other benefits	35,427	5,109,883	**5,145,310**
Total received	**22,167,646**	**64,354,342**	**86,521,988**

Comments to the table

The Group Management included the following persons: Karl-Hen-rik Sundström, Carl Olof Blomqvist, Marita Hellberg, Torbjörn Nilsson, Bert Nordberg, Henry Sténson, Joakim Westh, Håkan Eriksson, Kurt Jofs, Björn Olsson and Hans Vestberg. During the year, the Group Management also included Mats Granryd (until July 17, 2005), who is included in the table above.

Other benefits include the value of stock options exercised during 2005 and the value of matching shares received during 2005 under the Stock Purchase Plan 2001. Based on the share price at excercise respectively at matching, the value for the Group Management was SEK 2,141,997 for stock options excercised and SEK 473,612 for matched shares. The number of options exercised is 110,000 and the number of matched shares corresponds to 17,876 Ericsson B shares. The President and CEO did not participate in any option plan or in the Stock Purchase Plan 2001.

Total costs, SEK	The President	The Group Management	Total
Salary	14,572,219	41,172,958	**55,745,177**
Provisions for variable pay earned 2005 to be paid 2006	8,700,000	22,801,575	**31,501,575**
Other benefits	1,663,080	6,879,058	**8,542,138**
Pension premiums	6,935,475	17,819,936	**24,755,411**
Social security fees	9,907,708	27,962,846	**37,870,554**
Total	**41,778,482**	**116,636,373**	**158,414,855**

Comments to the table

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Other benefits include the compensation cost during 2005 for share based programs. For the President and CEO the cost was SEK 1,627,653 and for the Group Management SEK 4,384,784, which represent their part of total compensation costs as disclosed under Shares for all Long Term Incentive Plans .

Stock option and stock purchase programs are a part of the total remuneration package as a compensation for the services rendered by employees. Ericsson shall recognize the value of services received as compensation costs in the income statement at consumption of the services.

For the President and CEO, the above pension premium includes a fee of SEK 6,404,358 corresponding to 35 percent of his pensionable salary above 20 base amounts (1 base amount 2005 was SEK 43,300), for a premium based old age pension and a fee of SEK 454,317 for the ITP plan.

Included in the above pension premiums are changes of commitments made to the President and CEO and the Group Management for benefit based temporary disability and survival s pensions until retirement age. The Company s commitments per December 31, 2005, under IAS 19 amounted to SEK 4,108,800 for the President and CEO and SEK 21,687,900 for the Group Management.

Social security fees include payroll tax on pension premiums.

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Outstanding stock options and matching rights as per December 31, 2005

Number of B shares	The President	The Group Management
1999 Stock Option Plan		13,816
Millenium Stock Option Plan		1,238,240
Stock Option Plan 2001 May Grant		625,000
Stock Option Plan 2002		690,000
Stock Purchase Plan 2003, LTI 2004 and LTI 2005	361,020	888,648

Comments to the tables

For the definition of matching rights, see description under Long-Term Incentive Plans.

The number of options presumes full exercise under applicable plans.

For strike prices for option plans, see Long-Term Incentive Plans.

The number of matching rights presumes maximum performance matching under LTI 2004 and LTI 2005. The matching under the Performance Matching Programs will start in 2007.

COMPENSATION OVERVIEW

The Remuneration Committee monitors pay trends within and outside Sweden to find competitive and performance driven remuneration packages for the top executives.

Fixed salary is set to be competitive. Its absolute level is determined by the size and complexity of the job and year-on-year performance of the individual job holder.

Performance is specifically reflected in the variable components -both in an annual incentive and in a long-term incentive portion. Although this may vary over time to take account of pay trends, currently the target level of the annual component for Swedish top executives is around 20% of the total compensation (fixed salary, annual incentive and long-term incentive). The long-term component is also set to achieve a target of around 20% of total compensation. In both cases the incentive pay is measured against the achievement of specific business objectives.

Together, the incentive component is set to a target of around 40% of total compensation and the remaining part of 60% for the fixed salary, reflecting the judgment of the Board of Directors as to the right balance between fixed and variable pay and the market practice for compensation of executives.

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The annual short-term incentive is a cash program based on specific business targets derived from the annual business plan approved by the Board of Directors. The exact nature of the targets will vary depending on the specific job but may include financial targets at either corporate level or at a specific business unit level, operational targets, employee motivation targets and customer satisfaction targets.

Share-based long-term incentive plans are submitted each year for approval by the shareholders at the Annual General Meeting. The value for the receivers is determined by three specific variables, the individuals own investment in shares, a long-term financial target at corporate level, and the share price development.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

PENSION

Ericsson s policy regarding pension is to follow the competitive practice in the home country.

For the President and CEO and the Group Management a premium based plan is applied. The pensionable salary consists of the annual fixed salary and the target level of the variable pay.

For old age pensions, the company pays on salary portions in excess of 20 base amounts a percentage of the executive s pensionable salary, between 10 and 35 percent per year. For the Group Management, the pension age is normally 60 years and premiums are paid up to the retirement age. From 65 years, the old age pension includes the ITP plan.

The President and CEO is included in the ITP plan. According to the premium based plan, Ericsson pays for the President and CEO an annual pension contribution of 35 percent of the pensionable salary above 20 base amounts. The President and CEO has the right to retire at 60 years of age.

NOTICE AND SEVERANCE PAY

For the President and CEO and the Group Management the following applies:

The mutual notice period is 6 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 occurred 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. The severance pay is reduced by 50 percent of the salary or corresponding compensation which the employee would be entitled to from another employer or from own or other business during the period severance is paid from Ericsson.

BENEFITS

As with pensions, Ericsson follows the competitive practice of the home country with respect to benefits. Plan designs vary widely around the world according to the taxation and legal framework in different countries.

LONG-TERM INCENTIVE PLANS

The Stock Purchase Plan

The Stock Purchase plan is designed to offer an incentive for all employees to participate in the Company, which is consistent with our industry and with our ways of working. Under the plans, employees can save up to 7.5 percent of the gross salary, for purchase of class B shares at the Stockholm Stock Exchange or ADRs at NASDAQ (contribution shares). If the contribution shares are retained by the employee for three years after the investment and the employment with the Ericsson Group continues during that time, the employee s shares will be matched with a corresponding number of class B shares or ADRs free of consideration. Employees in 86 countries participate in the plan.

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The below table shows the periods for employees purchase of shares (contribution period) and participation details.

Plan	Contribution period	Number of participants at launch	Take-up rate % of all employees
Stock Purchase Plan 2001	February 2002 October 2002	27,000	36%
Stock Purchase plan 2003 1st year	August 2003 July 2004	11,000	22%
Stock Purchase plan 2003 2nd year	August 2004 July 2005	15,000	30%
Stock Purchase plan 2005	August 2005 July 2006	16,000	29%

The Key Contributor Program

The Key Contributor Program is designed to give recognition as a method of retention to key employees. Under the program, about 10 percent of the employees (2004: up to 4,500 and 2005: up to 5,000) have been selected to obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The first program was introduced in August 2004 and the second in August 2005.

The Performance Matching Program for executives

The Performance Matching Program is designed to focus the management on driving earnings and provide competitive compensation based on Swedish practice. Under the program, executives (2004: up to 200 executives and 2005: up to 220 executives) have been selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The performance matching is subject to the fulfillment of a performance target. Several possible measures have been evaluated but earnings per share (EPS) growth during a three-year period has been found to best suit the company. The first program was introduced in August 2004 and the second in August 2005.

The performance target for the first program is annual average EPS growth between five (0 performance matching shares) and 25 percent (maximum performance matching shares). The performance target for the second program is annual average EPS growth between three (0 performance matching shares) and 15 percent (maximum performance matching shares). The Board may reduce the number of performance matching shares to be matched if deemed appropriate by the Board considering the company s financial results and position, conditions on the stock market and other circumstances at the time of matching.

It is the Board of Directors intention to repeat the Stock Purchase Plan, including the Key Contributor Program and the Performance Matching Program for next year.

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STOCK OPTION PLANS

Plan	Grant/Expiry date	Strike price (SEK)	Vesting period from Grant date	Number of participants at grant	Number of participants end 2005
1999 Stock Option Plan	1 March 00/28 Feb 07	128.00	30% after 3 years, 40% after 4 years, 30% after 5 years	1,800	1,070
Millennium Stock Option Plan	17 Jan 00/17 Jan 07	93.80	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	8,000	2,892
Stock Option Plan 2001 May Grant	14 May 01/14 May 08	30.50	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	15,000	8,526
Stock Option Plan 2001 November Grant[1)]	19 Nov 01/19 Nov 08	25.70	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	900	609
Stock Option Plan 2002[1)]	11 Nov 02/11 Nov 09	7.80	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	12,800	9,120

1) For stock options exercised during 2005, the weighted average share price was SEK 25.37.

Shares for all Long-Term Incentive Plans

All plans, except the Millennium Option Plan, are funded with treasury stock. Sale of shares is recognized directly in equity. The Millennium Stock Option Plan is based on warrants, i.e. options entitling the holders to subscribe for Class B shares. The warrants are held by subsidiary companies to Telefonaktiebolaget L M Ericsson, which have granted options to their employees. Treasury stock for the 1999 Option Plan was repurchased in year 2000 on the Stockholm Stock Exchange. Treasury stock for all remaining plans was issued in a directed cash issue of Class C shares at a nominal amount of SEK 1, and purchased under a public offering at SEK 1 per share plus a premium corresponding to the subscribers financing costs and then converted to Class B shares.

For all plans, additional shares and warrants have been allocated for financing of social security expenses. For the Millennium Stock Option Plan, the warrants designated for social security have been exchanged for a call option issued

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by a bank in order to hedge also equity against potential social security payments. For all other plans, treasury stock is sold on the Stockholm Stock Exchange to cover the social security payments when arising due to exercise of options or matching of shares. During 2005, 4,429,987 shares were sold at an average price of SEK 25.9.

If all options outstanding as of December 31, 2005, were exercised, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 38 million Class B shares would be issued and approximately 153 million Class B shares, held as treasury stock, would be transferred. The total, approximately 191 million Class B shares, corresponds to 1.2 percent of the total number of shares outstanding, 15,864 million.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2005

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The below table shows the number of shares allocated for each plan (options and matching rights) and changes during 2005.

Plan 2005 (million shares)	Originally designated[1)]	Outstanding beginning of 2005	Granted during 2005	Exercised/ matched during 2005	Forfeited during 2005	Expired during 2005	Outstanding end of 2005	Number of options exercisable 2005	Compensation costs charged during 2005
1999 Stock Option Plan	1.4	0.9			0.1		0.8	0.8	
Millennium Stock Option Plan	71.6	34.2			3.1		31.2	31.2	
Stock Option Plan 2001 - May Grant	44.9	27.9			2.0		25.9	25.9	
Stock Option Plan 2001 - Nov Grant	2.6	1.6		0.1	0.0		1.5	1.5	
Stock Option Plan 2002	53.9	41.4		7.1	1.0		33.3	33.3	14
Stock Purchase Plan 2001	28.0	19.7		19.4	0.3		0		41[3)]
Stock Purchase Plan 2003 and LTI 2004	151.7	16.5	18.2	0.6	0.8		33.3[2)]		1783)
LTI 2005	31.5		5.9	0.0	0.0		5.9[2)]		5[3)]

1) Adjusted for split, bonus issue and rights offering when applicable.
2) Presuming maximum performance matching under the Performance Matching Program.
3) Fair value is calculated as the share price on the investment date reduced by the net present value of the dividend expectations during the three year vesting period. Net present value calculations are based on data from external party. For shares under the performance matching programs, the Company assesses the probability of meeting the performance targets when calculating the compensation costs. Fair value of Class B share at each investment date during 2005 was: February 15 SEK 19.59, May 16 SEK 21.13, August 15 SEK 26.09 and November 15 SEK 25.28.

C30 RELATED PARTY TRANSACTIONS

During 2005, various transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm s length basis.

SONY ERICSSON MOBILE COMMUNICATIONS AB (SEMC)

In October 2001, SEMC was organized as a joint venture between Sony Corporation and Ericsson, and a substantial portion of Ericsson s handset operations was sold to SEMC. As part of the formation of the joint venture, contracts were

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entered into between Ericsson and SEMC.

Major transactions are as follows:

Sales. Ericsson reports sales regarding mobile phone platform design.

Royalty. Both owners of SEMC, Sony Corporation and Ericsson, receive royalties for SEMC s usage of trademarks and intellectual property rights.

Purchases. Ericsson purchases mobile phones from SEMC to support contracts with a number of customers for mobile systems which also include limited quantities of phones.

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	2005	2004
Related party transactions		
Sales	**1,742**	1,532
Royalty	**654**	611
Purchases	**827**	547
Shareholder contribution		
Related party balances		
Receivables	**197**	142
Liabilities	**33**	16
Contingent liabilities		

ERICSSON NIKOLA TESLA D.D.

Ericsson Nikola Tesla d.d. is a joint stock company for manufacturing of telecommunications systems and equipment and an associated member of the Ericsson Group. Ericsson holds 49.07 percent of the shares.

Major transactions are as follows:

Sales. Ericsson Nikola Tesla d.d. purchases telecommunication equipment from Ericsson.

Royalty. Ericsson receives royalties for Ericsson Nikola Tesla d.d. s usage of trademarks and intellectual property rights.

Purchases. Ericsson is purchasing development resources from Ericsson Nikola Tesla d.d.

	2005	2004
Related party transactions		
Sales	**880**	725
Royalty	**9**	7
Purchases	**364**	254
Related party balances		
Receivables	**132**	130
Liabilities	**50**	29

OTHER RELATED PARTIES

Ericsson continued cooperation with Ericsson s owners Investor AB and AB Industrivärden in the venture capital vehicle Ericsson Venture Partners.

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C31 FEES TO AUDITORS

	Price-waterhouse-Coopers	KPMG	Others	Total
2005				
Audit fees	58	6	3	**67**
Audit related fees	24			**24**
Tax services fees	43	1	1	**45**
Other fees		1		**1**
	125	**8**	**4**	**137**
2004				
Audit fees	57	6	1	**64**
Audit related fees	10	6		**16**
Tax services fees	31	2		**33**
Other fees				
	98	**14**	**1**	**113**
2003				
Audit fees	50	6	1	**57**
Audit related fees	1	4		**5**
Tax services fees	46	2		**48**
Other fees	4		1	**5**
	101	**12**	**2**	**115**

During the period 2003-2005 PricewaterhouseCoopers and KPMG provided the Company with certain audit related services and tax services in addition to audit services. The audit related services provided during the period include consultation on financial accounting, consultation in connection with conversion to International Financial Reporting Standards (IFRS), services related to acquisitions and assessments of internal control. The tax services include general expatriate services, VAT refund services and Corporate tax compliance work.

Audit fees to other auditors consist of local statutory audits for minor companies.

C32 RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

As a reporting company with the US Securities and Exchange Commission, the Company is required to reconcile certain financial information to accounting principles generally accepted in the United States (US GAAP). For additional information required by foreign registrants, please refer to our annual report form 20-F, filed with the US Securities and Exchange Commission.

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The principal differences between IFRSs and US GAAP that affect our net income, as well as our stockholders equity, relate to the treatment of pensions, hedge accounting, restructuring, sale-lease back, reversals of impairment losses, goodwill and capitalization of development expenses.

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SIGNIFICANT DIFFERENCES BETWEEN IFRSs AND US GAAP

For a full description of the adoption of IFRSs, see note C3.

Capitalization of development costs

According to IFRSs development costs are capitalized after the products have reached a certain degree of technological feasibility. Capitalization ceases and amortization begins when the product is ready for its intended use. The Company has adopted an amortization period for capitalized development cost of three to five years. Under US GAAP, The Company applies US GAAP SFAS 86 Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed and SOP 98-1, Accounting for the costs of Computer Software Developed or Obtained for Internal use . According to SFAS 86, software development costs are capitalized after the product involved has reached a certain degree of technological feasibility similarly to IFRSs. However, under US GAAP non-software related development costs may not be capitalized as per IFRSs, and is therefore expensed under US GAAP.

Restructuring costs

Under IFRSs a provision for severance pay is recognized when a constructive obligation to restructure arises which requires that a detailed formal plan has been communicated to those affected by it. Its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. Under US GAAP provisions for severance pay is recognized on the remaining service period when a company has a detailed formal plan which has been communicated to those affected.

If an entity under IFRSs has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision. Under US GAAP, costs to terminate a contract before the end of its term should be recognized as a liability and measured at fair value when the entity terminates the contract in accordance with the contract terms. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognized and measured at its fair value when the entity ceases to use the right conveyed by the contract.

Ericsson has identified a difference between US GAAP and IFRSs of SEK 112 million related to leasehold property that has not yet been vacated and thus not qualified as provisions in accordance with US GAAP, and SEK 95 million related to severance pay not recognized per US GAAP.

Pensions

Ericsson adopted IAS 19, Employee Benefits in January 1, 2004. At adoption of IAS 19, actuarial gains and losses were recognized in the opening balance.

For US GAAP, the Company adopted SFAS 87, Employer s Accounting for Pensions in 1989. The different transition dates for accounting of defined benefit plans between US GAAP and IFRSs impact the balances of unrecognized actuarial gains and losses, which impact reported pension liabilities and costs. US GAAP requires recognition of the unfunded accumulated pension benefit obligation on the balance sheet. The minimum liability is the amount by which the plan is unfunded on a basis that does not take future salary increases into consideration. Different transition dates and additional minimum pension liability according to US GAAP are the main differences for Ericsson between IFRSs and US GAAP for accounting of defined benefit plans.

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Sale-leaseback of real estate

During 2000 and 2001, the Company sold real estate assets, which was leased back to subsidiary companies and reported as an operating lease. Under IFRSs the gain on sale of property is credited to income, if the rent to be paid is in par with market price. In accordance with US GAAP the part of the gain exceeding present value of future lease payments is credited to income when incurred. The remaining part is recognized on a straight line basis during the lease period.

Financial instruments

Derivatives:

Ericsson adopted IAS 39 Financial Instruments; Recognition and Measurement January 1, 2005. According to IAS 39, all derivatives should be recognized at fair value on the balance sheet

Under US GAAP, the Company adopted SFAS 133, Accounting for Derivative Instruments and Hedging Activities , as amended, on January 1, 2001, for calculating income and equity. SFAS 133 requires recognition of all derivatives as either assets or liabilities measured at fair value similarly to IAS 39.

As a result of different opening balances in the Hedge Reserve relating to cash flow hedging, the effect in the income statement differ between IFRSs and US GAAP. The closing balances 2005 of the Hedge Reserve were the same as cash flow hedge accounting and applied to the same extent under US GAAP and IFRSs.

In the end of 2005 fair value hedge accounting was applied to the same extent under both standards. Under SFAS 133 the shortcut method is used, as critical terms of the hedging instruments and hedged items are the same. Hereby all hedge relationships are assumed to be 100-percent effective and no ineffectiveness is recognized. Under IAS 39 a detailed hedge effectiveness testing is performed and actual ineffectiveness is identified and reported in the income statement.

Unrealized gains and losses on securities available-for-sale

In accordance with IAS 39 available-for-sale investments that can be reliably determined are measured at fair value. The unrealized movements in fair value are recognized in equity until disposal or sale, at which time, those unrealized movements from prior periods are recognized in profit or loss. For losses other than temporary, that reduce the carrying amount below acquisition cost should be recognized in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured may be measured at cost.

Under US GAAP, the Company s listed marketable securities are classified as available-for-sale and measured at fair value in accordance with SFAS 115 Accounting for Certain Investments in Debt and Equity Securities . Investments in equity instruments not publicly traded are carried at cost. Unrealized gains and temporary losses are reported as a separate component of stockholders equity included in other comprehensive income. Other than temporary unrealized losses are charged to income.

Goodwill

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Ericsson adopted IFRS 3 Business Combinations January 1, 2004. Under IFRS 3, goodwill is not subject to amortization, but requires an impairment review at least annually. Under US GAAP, the Company applies SFAS 142. According to SFAS 142 goodwill is not subject to amortization subsequent to the date of adoption, but instead tested for impairment at least annually similarly to IFRS 3. No need for impairment was identified in 2005 in either of the two standards. The presented difference pertains to different transition dates for IFRS 3 and SFAS 142.

Reversals of impairment losses

IFRSs requires reversal of impairment losses when there has been a change in economic conditions or in the expected use of an asset. Under IFRSs Ericsson has reversed impairment losses for test plants. This is prohibited under US GAAP which reduces the US GAAP net income.

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OTHER

Capitalization of interest expenses

Under IFRSs, an entity can choose to capitalize the borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. The Company has chosen to expense the interest costs incurred. Such costs should be capitalized in accordance with US GAAP, and depreciated as the assets concerned are used. As amortization exceed the capitalization during the year, the net income is reduced by SEK 28 million (2004: reduced by SEK 58 million) according to US GAAP.

Provision for social security cost on stock based compensation

Under IFRSs, the Company accrues social security costs on stock based compensation during the vesting period. Provisions are adjusted for movements in share price. Under US GAAP, no social security cost is recorded until the options are exercised or matching of shares takes place, which increases net income by SEK 52 million (2004: an increase by SEK 76 million).

FIN 45

In accordance with IFRSs, a liability should be recognized to the extent a company expects a loss and economic outflow of resources as a result of the guarantee commitment.

Under US GAAP, FIN 45 requires a liability to be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements. The provisions for initial recognition and measurement of guarantee agreements are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002.

Three main areas; product warranties, inventory guarantees and performance guarantees, fall within FIN 45 for Ericsson. For performance guarantees, the maximum potential amount of future payments under the guarantees calculated at fair value per December 31, 2005 was SEK 759 million. Historically such guarantees have only been drawn in rare cases, and there is no indication of changes in the future.

The application of FIN 45 did not have a material effect on the Company s earnings and financial position under US GAAP during 2005.

FIN 46R

FIN 46R addresses the consolidation of entities for which control is achieved through means other than through voting rights or agreements (variable interest entities or VIE) by clarifying the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

FIN 46R provides guidance on how to determine when and which business enterprise (the primary beneficiary) should consolidate the VIE. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The application of FIN 46R during 2005 did not have

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a material effect on the Company s consolidated financial statements under US GAAP.

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Deferred tax effect related to intercompany profits in inventory

According to IFRSs, deferred tax effect related to intercompany profits in inventory is recognized at the buyer s tax rate, whereas under US GAAP the seller s tax rate is used. The effect of this difference decreased net income according to US GAAP in 2005 by SEK 35 million (2004: a decrease by SEK 45 million).

Deferred income taxes

Deferred tax is calculated on US GAAP adjustments, and the US GAAP balance sheet reflects the gross recognition of deferred tax assets and liabilities.

Adjustment of net income, comprehensive income, equity and balance sheet items

Application of US GAAP as described above would have had the following effects on consolidated net income. In arriving at the individual items increasing or decreasing reported net income, consideration has been given to the effect of minority interests.

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Adjustment of Net Income

	2005	2004
Net income attributable to stockholders of the parent company per IFRSs	**24,315**	17,539
US GAAP adjustments before taxes:		
Pensions	**-64**	-245
Sale-leaseback	**191**	352
Hedging	**408**	-2,915
Capitalization of development costs	**-78**	-76
Restructuring costs	**120**	-1,354
Unrealized gains and losses on available-for-sale securities		-82
Reversals of impairment losses	**-380**	
Other	**56**	82
Tax effect of US GAAP adjustments	**-73**	1,085
Net income in accordance with US GAAP	**24,495**	14,386
Earnings per share in accordance with US GAAP		
Earnings per share per US GAAP, basic	**1,55**	0.91
Earnings per share per US GAAP, diluted	**1,54**	0.91
Average number of shares, basic per US GAAP (million)	**15,843**	15,829
Average number of shares, diluted per US GAAP (million)	**15,907**	15,855

Comprehensive Income

Comprehensive income includes net income and other changes in equity, except those resulting from transactions with owners.

	2005	2004
Net income in accordance with US GAAP	**24,495**	14,386
Other comprehensive income		
Translation adjustments	**4,052**	-1,015
Translation adjustments for sold/ liquidated companies	**127**	47
Net gain on cash flow hedges	**-2,991**	1,010
Hedging for investments	**-197**	-232
Unrealized gains and losses on securities available-for-sale	**-208**	202
Pensions	**-3,344**	-329
Deferred income taxes	**1,936**	160
Total other comprehensive income	**-625**	-157

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Comprehensive income in accordance with US GAAP		**23,870**	14,229	

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Adjustment of Stockholders Equity

	2005	2004
Equity attributable to stockholders of the parent company per IFRSs	**104,677**	80,445
US GAAP adjustments before taxes:		
Pensions	**-2,458**	949
Goodwill	**2,705**	2,705
Sale-leaseback	**-837**	-1,028
Derivatives		1,604
Capitalization of development costs	**-154**	-76
Restructuring costs	**208**	88
Unrealized gains and losses on available-for-sale securities		411
Reversals of impairment losses	**-380**	
Other	**246**	190
Deferred tax effect of US GAAP adjustments	**631**	-919
Stockholders equity in accordance with US GAAP	**104,638**	84,369

Balance Sheet

Balance sheet items according to IFRSs and US GAAP:

	IFRSs		US GAAP	
	Dec. 31 2005	Dec. 31 2004	Dec. 31 2005	Dec. 31 2004
Non-current assets	**50,676**	49,300	**52,889**	53,435
Current assets	**158,153**	136,886	**158,153**	139,428
Total assets	**208,829**	186,186	**211,042**	192,863
Stockholders equity attributable to stockholders of the parent company	**104,677**	80,445	**104,638**	84,369
Minority interests	**850**	1,057	**850**	1,057
Non-current liabilities	**21,345**	35,347	**22,680**	36,880
Current liabilities	**81,957**	69,337	**82,874**	70,557
Total stockholders equity and liabilities	**208,829**	186,186	**211,042**	192,863

Share Based Compensation

Stock Option Plan

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Ericsson adopted IFRS 2 Share-based Payments in January 1, 2004 with the optional exception to apply IFRS 2 only to equity instruments granted after November 7, 2002. For one employee option program, granted after this date, and not yet vested by January 1, 2005, Ericsson recognized a charge to income representing the fair value at grant date of the outstanding employee options. The impact on the operating profit was a charge of SEK 45 million in 2004 and SEK 14 million in 2005.

Up until 2003, the Company, as permitted under SFAS 123 Accounting for Stock Based Compensation , applied Accounting Principles Board Opinion 25 (APB 25) and related interpretations in accounting for its stock option plans under US GAAP. No compensation expense was reflected in the consolidated income statement as no compensation expense arose when the strike price of the employee s stock options equaled the market value of the underlying stock at grant date, as in the case of all options granted to Ericsson s employees.

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Ericsson adopted during 2003 SFAS 148 Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123 . The adoption method chosen was the Prospective method . This method states that the recognition provisions shall be applied to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions are first applied. As the Company has had no changes to it s current stock option plans nor any new stock option plans started after implementing SFAS 148 there has been no effect to the income according to US GAAP.

If the Company had chosen to adopt the optional recognition provisions of SFAS 123 for its stock option plans, net income (loss) and earnings (loss) per share in accordance with US GAAP would have been changed to the amounts indicated below:

Consolidated	**2005**	**2004**
Net income		
Net income per US GAAP	**24,495**	14,386
Adjustment for recognitions of provisions per SFAS123	**-15**	-80
Net income, adjusted, per US GAAP	**24,480**	14,306
Earnings per share, diluted		
Earnings per share per US GAAP	**1.54**	0.91
Earnings per share, adjusted, per US GAAP	**1.54**	0.90

Stock Purchase Plans

For the stock purchase plans, Ericsson has applied SFAS 123 according to US GAAP and IFRS 2 according to IFRSs. The stock purchase plans have been expensed in the income statement according to both IFRSs and US GAAP. The costs are based on the fair value at investment date and charged against equity and accordingly we have not identified any differences between IFRS and US GAAP.

C33 SUBSEQUENT EVENTS (unaudited)

Change in accounting principles for pensions 2006

Effective January 2006, Ericsson will adopt the new option in IAS 19, Employee benefits, on how to recognize actuarial gains and losses. The currently used method to recognize actuarial gains and losses to the extent that they fall outside the 10 percent corridor is that they are amortized over the average remaining service time of plan participants. Instead, all actuarial gains and losses will effective January 1, 2006, be recognized directly to equity, net of deferred tax, in the period they occur. Earlier reporting-periods will be restated accordingly. The adoption of the new option will increase provision for post-employment benefits with approximately SEK 3.5 billion, accruals for social security with SEK 0.8 billion and will affect equity by approximately SEK 3.1 billion net of tax as per January 1, 2006.

Marconi acquisition

On October 25, 2005, Ericsson announced the intention to acquire key assets of Marconi s telecommunications operations for SEK 16.8 billion in cash. The acquisition strengthens Ericsson s position in the accelerating transmission

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segment and expands Ericsson s platform for leadership in next generation converging networks. As fixed and mobile services converge, Ericsson s customers will benefit from the acquisition.

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

Marconi shareholder and relevant regulatory approvals have been obtained in 2005 and closing took place in January 2006, with the exception of a few smaller subsidiaries. The acquired operations are consolidated into Ericsson s accounts as from the first quarter of 2006.

The integration process has started with the Marconi products and solutions planned to be fully integrated into Ericsson s portfolio. Under the transaction approximately 6,660 employees have been transferred to Ericsson in January 2006.

eMobile agreement

On March 13, 2006, eMobile, a new 3G mobile operator in Japan, named Ericsson as the prime supplier for their nationwide 3G network. The agreement involves WCDMA 1.7GHz radio network deployments in the most populated areas of Japan, such as Tokyo, Nagoya and Osaka, and the establishment of a complete nationwide core network. eMobile has not yet launched commercial services.

Board member changes

At the Annual General Meeting of Shareholders (AGM), April 10, 2006, the AGM resolved to approve the proposals by the Nomination Committee; Michael Treshow was re-elected Chairman of the Board and Marcus Wallenberg Deputy Chairman, Sverker Martin-Löf was elected Deputy Chairman and Sir Peter L. Bonfield, Ulf J. Johansson, Nancy McKinstry and Carl-Henric Svanberg were re-elected. Börje Ekholm, Katherine Hudson and Anders Nyrén were elected new members of the Board of Directors.

Börje Ekholm

President and Chief Executive Officer of Investor AB since September 2005. Member of the Boards of Directors of AB Chalmersinvest, Biotage AB, Greenway Medical Techn., Inc., Tessera Techn., Inc. and WM-data AB. Master of Science in Electrical Engineering from the Royal Institute of Technology, Sweden, and Master of Business Administration from Insead, France. From 1999 to 2005, responsible for New Investments for Investor Growth Capital, Inc. Member of the management group of Investor AB since 1997. Börje Ekholm was President of Novare Kapital AB (1995-1997). Earlier positions include positions with Investor (1992-1995) and McKinsey & Co Inc. (1988-1992).

Katherine Hudson

Non-Executive Chairman and Member of the Board of Directors of CNH Case New Holland Global NV. Member of the Board of Directors of Charming Shoppes, Inc. Holds a Bachelor of Science degree in Management from Indiana University. During 1994-2003, Katherine Hudson was the President and CEO of Brady Corporation, Prior to this, Ms. Hudson was employed by Eastman Kodak Company for 24 years, during 1988-1993 as the Chief Information Officer and later Vice President and General Manager for Professional Printing & Publishing Imaging.

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Anders Nyrén

President and Chief Executive Officer of AB Industrivärden since 2001. Vice Chairman of the Board of Directors of Svenska Handelsbanken. Member of the Boards of Directors of SCA AB, AB Industrivärden, Sand-vik AB, Skanska, SSAB, Ernströmgruppen, SNS and the Swedish Industry and Commerce Stock Exchange Committee. Chairman of the Association of Exchange Listed Companies and the Association for Generally Accepted Principles in the Securities Market. Araduate from Stockholm School of Economics and holds a MBA from Andersson School of Management, UCLA. Anders Nyrén was the Chief Financial Officer and Vice Executive President of Skanska AB during 1997-2001. Prior to this, he was a member of the group management of Nord-banken and responsible for Investment Banking and Capital Markets (1996-1997). Anders Nyrén has also been the Chief Financial Officer and Vice Executive President of Securum AB (1992-1996) and the Managing Director of OM International AB (1987-1992).

Board Committee members

The Board appointed members of its committees from among its members.

Current members of the Finance committee are: Marcus Wallenberg, Chairman of the Committee, Anders Nyrén, Michael Treschow and Torbjörn Nyman.

Current members of the Remuneration committee are: Michael Treschow, Chairman of the Committee, Nancy McKinstry, Börje Ekholm and Monica Bergström.

Current members of the Audit Committee are: Sverker Martin-Löf (Chairman of the Committee), Sir Peter L. Bonfield, Jan Hedlund and Ulf J. Johansson.

The Board of Directors has determined that each of Sverker Martin-Löf, Sir Peter L. Bonfield and Ulf J. Johansson satisfy the requirements of audit committee financial expert. Each of them is also independent.

Long-term incentive, LTI 2006.

LTI 2006 was approved by the Annual General Meeting, April 10, 2006. LTI 2006 includes a Stock Purchase Plan for all employees, a Key Contributor Program for upto 6,040 key contributors and a performance Matching program for upto 220 managers and is based mainly on the same conditions as the ongoing LTI 2005. The LTI 2006 includes 38.4 million B shares.

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INFORMATION ON THE COMPANY

GENERAL

Telefonaktiebolaget LM Ericsson (publ) is a limited liability company organized under the Swedish Companies Act. The terms Ericsson , the Company , the Group , us , we , our all refer to Telefonaktiebolaget LM Ericsson, the Parent Company and its subsidiaries. The company was incorporated on August 18, 1918, as a result of a merger between AB LM Ericsson & Co. and Stockholms Allmänna Telefon AB. Our Class A and B shares are traded on Stockholmsbösen (the Stockholm Stock Exchange, OMXS). Our Class B shares are also traded on the London Stock Exchange (LSE). In the United States, our American Depository Shares (ADS), each representing 10 underlying Class B shares, are traded on NASDAQ.

Our registered address is Telefonaktiebolaget LM Ericsson, SE-164 83 Stockholm, Sweden; our headquarters are located at Torshamnsgatan 23, Kista, Sweden. Our telephone number in Sweden is +46 8 719 0000.

In the United States, our agent is Ericsson Inc., Vice President Legal Affairs, 6300 Legacy Drive, Plano, Texas 75024. Our telephone number in the U.S. is +1 972 583 0000.

Our web site is www.ericsson.com. Please note that information on our web site does not form part of this document.

DOCUMENTS ON DISPLAY

We file annual reports and other information (normally in Swedish only) for certain domestic legal entities with Bolagsverket (Swedish Companies Registration Office) pursuant to Swedish rules and regulations. You may order any of these reports from their web site at www.bolagsverket. se. If you access these reports, please be aware that the information included may not be indicative of our published results in all aspects. Only consolidated numbers for the group totals are included in our reports.

We also file annual reports and other information with the Securities and Exchange Commission (SEC) in the United States pursuant to the rules and regulations that apply to foreign private issuers. Electronic access to these documents may be obtained from the SEC s website at www.sec.gov/edgar/searchedgar/webusers.htm where they are stored in the EDGAR database. You may read and copy any of these reports at the SEC s Public Reference Branch at 100 F Street, N.E., Washington, D.C. 20549, or obtain them by mail upon payment of their prescribed rates. For further information, you can call the SEC at +1 800 732 0330.

HISTORY AND DEVELOPMENT

Our origins date back to 1876 when Lars Magnus Ericsson opened a small workshop in Stockholm to repair telegraph instruments. That same year in the United States, Alexander Graham Bell filed a patent application for the telephone. Lars Magnus Ericsson soon recognized the great potential of voice based telecommunications and realized that the technology could be improved. He started to develop and sell his own telephone equipment and within a few years reached an agreement to supply telephones and switchboards to Sweden s first telecom operator. Stockholm soon had the highest telephone density in the world.

Today, Ericsson is a leading provider of telecommunications equipment and related services to mobile and fixed network operators globally. Over 1,000 networks in more than 140 countries utilize our network equipment and we are one of the few companies worldwide that can offer end-to-end solutions for all major mobile communication standards.

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We invest heavily in R&D and actively promote standardization and open systems. As a result, we have a long history of innovation and the pioneering of next generation technologies for more efficient and better quality telecommunications.

Milestones

1878 Telegraph to telephone
1923 Manual switching to automatic switching
1968 Electro-mechanical to computer control
1978 Analog switching to digital switching
1981 Fixed communications to mobile communications
1991 1G analog to 2G digital mobile technology
1998 Integration of voice and data in mobile networks
1999 Narrowband circuit to broadband packet switching
1999 Introduction of fixed telephony softswitch
2001 2G narrowband to 3G wideband mobile technology
2003 Introduction of mobile softswitch
2004 Mass commercial launch of WCDMA (3G) networks in Western Europe
2005 Commercial launch of HSDPA mobile broadband networks in North America
Also reflecting our ongoing commitment to technology leadership, we have one of the industry s most comprehensive intellectual property portfolios containing over 20,000 patents.

Our vision how we see the world

Our vision is to be the Prime Driver in an all-communicating world.

Core values how we act

Professionalism, respect and perseverance are the cornerstones of the Ericsson culture, guiding us in our daily work, both in how we relate to people and how we conduct our business.

Results how we measure our performance

We measure three fundamental metrics: customer satisfaction, employee satisfaction and financial returns. We believe that highly satisfied customers, empowered employees and best-in-class operating margins help to assure an enduring capability for value creation and competitive advantage.

BUSINESS STRATEGY AND LONG-TERM GOALS

Our overall goal is to be the preferred business partner to our customers, especially to the world s leading network operators. In doing so, we strive to be the market and technology leader by offering superior end-to-end solutions mainly related to network infrastructure, network management and other service offerings.

We are a major supplier to most of the world s leading mobile network operators and many of the world s leading fixed-line operators. We believe that our ability to offer end-to-end solutions systems, applications, services and core handset technology together with our in-depth knowledge of consumer requirements, make us well positioned to assist

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network operators with their network development and operations. We are already a market leader in network systems integration and managed services. Through increased activities in professional services and service layer products, we aim for increased sales in these growing segments.

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Our strategy is to:

- Lead market development through innovation and technological leadership;
- Leverage our economies of scale to develop superior products and services and thereby offer our customers competitive advantages;
- Utilize operational excellence as a basis for sustainable and best-in-class operating margins.

Innovation is an important element of our corporate culture and is key to our competitiveness and future success. We have a long tradition of developing innovative communication technologies, including technologies that help to establish industry standards. For example, we helped pioneer the development of industry-wide wireless technologies such as GSM, GPRS, EDGE, CDMA, WCDMA, HSDPA and Bluetooth.

We work closely with our customers to understand their businesses and technology needs and provide tailored solutions to help them fulfill their business objectives.

We will continue to devote significant resources to developing end-to-end communications solutions that will stimulate network deployments for geographic coverage as well as traffic capacity and thereby drive demand for our products and services.

Our expertise and experience in all major telecommunication standards along with our proven track record for quality and innovation have allowed us to develop our business on a global basis. We have significant sales in all of the largest geographic markets for telecommunications, with no individual country accounting for more than 12 percent of sales.

We believe that our global presence and the economies of scale associated with market share leadership give us competitive advantages. Global presence is an important factor particularly when working as a business partner to operators working in multiple markets or globally. We are utilizing our strong international presence and core competence in mobile and fixed communications to expand into growth areas such as systems integration, service applications and managed services. We also use our global reach to develop alliances with suppliers and manufacturers in order to increase our combined effectiveness.

We will continue to improve our internal processes and support systems to drive operational excellence as a competitive advantage. In addition, we will continue to develop and maintain high levels of competence in our employees to secure our leading market position and to stay at the forefront of technological development.

BUSINESS OVERVIEW

Primary business offerings

We supply the network equipment and services that enable telecommunications. We offer end-to-end solutions for all major mobile communication standards. We also provide our customers with services for network operations and revenue generation. Through our Sony Ericsson Mobile Communications joint venture we offer a range of mobile handsets and other mobile devices, including those supporting multimedia applications and other personal communication services. In addition, the Company has products for special applications within microwave (defense)

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systems, enterprise systems, network technologies (cables), mobile platforms and power modules.

For more Information on product offerings, see Business Segments

Customers

We are supplying equipment and services to almost all major network operators globally. However, we derive most of our sales from large, multi-year network build-out agreements with a limited number of

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significant customers. Out of a customer base of more than 425 network operators, the ten largest customers account for approximately 50 percent of our net sales, while the 20 largest customers account for approximately 64 percent of our net sales. Our largest customer accounted for approximately 9 percent of sales during 2005.

For more information, see Risk Factors Risks Associated with the Industry and Market Conditions .

Competitors

In our Systems segment, we compete mainly with large and well-established communication equipment suppliers. Although competition varies depending on the products, services and geographical regions, our most significant competitors in wireless communication include Alcatel, Lucent, Motorola, Nokia, Nortel and Siemens/NEC. With respect to wireline communications equipment, the competition is also highly concentrated and includes, among others, Alcatel, Cisco, Lucent, Nortel and Siemens. We also compete with numerous local and regional manufacturers and providers of communication equipment and services. We believe the most important competitive factors in this industry include existing customer relationships, the ability to cost-effectively upgrade or migrate an installed base, technological innovation, product design, compatibility of products with industry standards, and the capability for end-to-end systems integration.

Competition in professional services not only includes many of our traditional systems competitors but also a number of large companies from other industry sectors, such as IS/IT, including IBM, EDS, Accenture and electronics manufacturing services companies such as Flextronics, as well as a number of smaller but specialized companies operating on a local or regional basis. As this segment grows, we expect to see additional competitors emerge, possibly including some network operators attempting to expand into new segments.

In our Other Operations segment, our competitors vary widely depending on the product or service being offered. We face significant competition with regard to substantially all of these products and services.

Within the Phones segment, the primary competitors include Nokia, Motorola, Samsung, Siemens (BenQ) plus a number of other companies such as LG Electronics, NEC and Sharp. Competition is intensifying with consumer electronic companies, especially those based in Asia, making significant market share gains. We believe that our mobile phone joint venture with Japan s SONY Corporation creates a distinctive competitive advantage.

For more information, see Risk Factors Risks Associated with the Industry and Market Conditions .

Suppliers

We manufacture and assemble a large portion of our products in-house. Most of our node production, i.e., assembly, integration and testing of modular subsystems into complete system nodes such as radio base stations, mobile switching centers etc., is done in-house. About half of our module production, i.e., production of subsystems such as circuit boards, radio frequency (RF) modules, antennas etc., is outsourced to a group of electronics manufacturing services companies including Elcoteq, Flextronics, Sanmina-SCI and Solectron, of which the vast majority in low-cost countries. We also purchase customized and standardized equipment, components and services from several global providers as well as from numerous local and regional suppliers. A number of our suppliers design and manufacture highly specialized and customized components for our end-to-end solutions as well as individual nodes. We generally attempt to negotiate global supply agreements with our primary suppliers. While we are not dependent on any one supplier for the provision of standardized equipment or components and seek to avoid single source supply situations, a need to swith to an alternative supplier may require us to allocate additional resources to ensure that our technical standards and other requirements are met. This process could take some time to complete. Accordingly, a need to switch to an alternative supplier could potentially have an adverse effect on our operations in the short term.

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For more information, see Risk Factors Risks Associated with the Industry and Market Conditions .

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Seasonality

Our quarterly sales, income and cash flows from operations are seasonal in nature and generally lower in the first and third quarters of the year and highest in the fourth quarter. This is mainly a result of the seasonal purchase patterns of network operators. Although demonstrating a strong seasonal pattern historically, our seasonal sales variances have not conformed to the longer-term pattern during the market downturn starting in 2001 and subsequent recovery during 2004. The table below illustrates the long-term average seasonal effect on sales for the period 1991 through 2005.

15-YEAR AVERAGE SEASONALITY

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential Change	-27%	17%	-5%	37%
Share of annual sales	21%	24%	23%	32%

Compared to the 15-year historical pattern, the seasonality over the last three years has generally been less pronounced with a more equal distribution of sales between quarters. The table below illustrates the average seasonal effect on sales for the years 2003, 2004 and 2005.

MOST RECENT 3-YEAR AVERAGE SEASONALITY

	First quarter	Second quarter	Third quarter	Fourth quarter
Sequential Change	-24%	15%	-2%	26%
Share of annual sales	21%	25%	24%	30%

BUSINESS SEGMENTS

Ericsson is a telecommunications company developing and selling a variety of products aimed largely at customers in the telecommunications industry. When determining our operating segments, we have looked at which market and to what type of customers our products are aimed, and through what distribution channels they are sold as well as to commonality regarding technology, research and development. To best reflect our business focus and to facilitate comparability with our peers, we consolidate the results of our operations into three business segments:

1. Systems, consisting of a three-pronged business approach: Mobile Networks, Fixed Networks and Professional Services;

2. Phones, carried out through the 50/50 joint venture with SONY Corporation;

3. Other Operations, which comprise a number of smaller businesses including Microwave Systems (Defense), Enterprise Systems, Network Technologies (Cables), Mobile Platforms and Power Modules.

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We group sales into five large geographical segments as shown below:

2005 SALES BY REGION AND SEGMENT

SEK billion	Systems	Other Operations	Total
Western Europe	35.7	6.2	**41.9**
CEMA[1)]	38.8	1.2	**39.9**
Asia Pacific	29.9	1.5	**31.4**
North America	18.8	0.7	**19.4**
Latin America	18.8	0.3	**19.1**
Total	**142.0**	**9.8**	**151.8**
percent share	94%	6%	**100%**

1) Central and Eastern Europe, Middle East and Africa.
Note: due to rounding, all rows and columns may not add up exactly to the totals.
Please also see Notes to the Consolidated Financial Statements Note C4, Segment Information.

Segment Systems

Mobile Networks

We provide mobile systems solutions to network operators that enable reliable, efficient and cost effective wireless networking. Our systems offerings include radio base stations, base station and radio network controllers, mobile switching centers and service application nodes. We are the market leader with approximately 30 percent global share of the addressable market, i.e. open non-proprietary standards. Our claim of market leadership in mobile systems is based on our reported sales and how they relate to the publicly reported and estimated mobile system sales of our main competitors. Statements from industry and financial analysts also support our estimates. We have an even higher share within the GSM/EDGE/WCDMA or GSM family. Our installed base of GSM radio base stations represents more than one-third of all GSM radio base stations in service globally.

Each generation of wireless technology is associated with a group of international standards for wireless communications networks. Transitioning from one generation to the next, such as from 2G to 3G, requires network operators, equipment suppliers and mobile handset manufacturers to adopt new and emerging technology standards. We believe that the migration from voice services and basic mobile multimedia services to mobile broadband is the primary technological shift facing wireless network operators today. Our end-to-end solutions offer operators a smooth network migration to 3G.

Our expertise in all 2G standards and our role in developing 3G standards allow us to offer mobile telecommunications systems that incorporate any of the major 2G (GSM, TDMA, CDMA), 2.5G (GPRS) and 3G (EDGE, WCDMA, HSDPA, CDMA2000, TD-SCDMA) mobile technology standards. As a result, we are able to offer tailored solutions to a network operator, regardless of the existing network standard used.

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We offer a complete portfolio of radio base stations ranging from small pico cells (i.e. small cells in a mobile network that boost capacity and coverage within buildings) to high-capacity macro cell applications. Radio base stations provide access and interconnection between mobile handsets and the mobile network. A central feature of our 2G GSM radio base stations and base station controllers is their ability to be upgraded on a cost-effective basis to enable 2.5G/GPRS and 3G/EDGE transmissions. Similarly, our WCDMA base stations can be upgraded to HSDPA.

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Other important elements of radio access networks are the controllers for radio base stations and radio access network, which manage the traffic between the radio base stations and core networks. In 2G, base station controllers in conjunction with mobile switching centers, effect call handovers between radio base stations as subscribers move between cell sites while engaged in a voice call or data transmission. Similarly, in 3G networks, a radio network controller effects call handover in conjunction with mobility server nodes within the service layer.

The core network nodes interconnect radio access networks with other parts of the network. Many of our core network switching systems, controllers for base stations and radio networks are built upon common platforms. Like our radio base station products, our mobile switching products have industry-leading scalability and capacity.

Mobile network equipment and associated network rollout services account for approximately three-quarters of our sales.

Fixed Networks

We are a supplier of broadband multi-service communications equipment and services mainly to fixed network operators in Latin America and Europe. We have a long history in fixed-line networking with an installed base of access and transit lines equivalent to 180 million lines or approximately 10 percent global market share of the installed base. By successfully addressing three key operator needs: modernization and expansion of the fixed telephony networks; introduction of IP-based revenue generating services; and cost-efficient rollout of high capacity broadband networks with service differentiation, we have been able to secure a strong position in voice over packet, soft switching and public Ethernet access.

Fixed network operators are moving from single-service networks toward broadband packet-switched multi-service networks that have the ability to simultaneously handle multiple services, such as voice, data and images. Migration to an all-IP-based packet-switched network is a necessary step in order to combine broadband Internet, voice and image traffic into one multi-service network.

Our solution for such multi-service networks utilizes a layered soft-switch service and control architecture, combined with broadband access and core network routing and transmission elements. Organizing a network into layers isolates the different functions, i.e., access, core network and services and facilitates easier migration to an all-IP environment. Due to our leadership in next generation mobile networks, we are able to leverage our IP-based multimedia subsystem (IMS) developed for 3G networks for next generation fixed network applications. IMS is an open service layer platform that hosts IP based services such as Voice over IP (VoIP), push-to-talk etc. Since our IMS solution is common for both fixed and mobile networks, converged services can be transparently provided independent of the type of access.

Similar to our mobile network offering, we offer a suite of network services and applications that enable network operators to provide a range of services such as free-phone, virtual private network and other applications as well as billing.

Professional Services

As part of our Global Services business, our professional services portfolio includes expertise in consulting, education, systems integration, managed services, network deployment and optimization and technical support services.

Network operators are reducing operating expenses by optimizing the operation and maintenance of their networks. As a result, many network operators are increasingly outsourcing network design, operations and

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maintenance activities. This trend also gives rise to new business models such as managed capacity, where an operator buys coverage, capacity and network performance, or hosted services, where companies like Ericsson provide the network and/or service capability according to agreed service levels. Under such business models, operators gain flexibility in capital employed, resources and time to market all with an assured quality of service.

We offer some of the most comprehensive managed services capabilities within the telecom industry. Our offerings cover management of day-to-day operations of a customer s network, including a managed capacity service for an efficient network build out and on-demand capacity, as well as hosting of applications and content management. Ericsson s Internet Payment eXchange (IPX) service, which is the global payment and messaging delivery solution for SMS, MMS, Web and WAP that facilitates payment and distribution of content by interconnecting content providers, media companies, governments and consumer brands with operators.

The combination of our local expertise, global technology leadership, business understanding, strong delivery capabilities and extensive experience in managing multi-vendor networks makes Ericsson a leading provider of services to network operators.

With over 19,000 dedicated Global Services professionals represented in 140 countries, our services sales (including network rollout) account for almost one-third of our Systems segment net sales. Sales of network rollout services represent approximately 11 percent of our Systems segment net sales and are consolidated within either Mobile Networks or Fixed Networks depending on which type of operator is involved.

Segment Phones

Phones

Sony Ericsson Mobile Communications (Sony Ericsson) delivers innovative and feature-rich mobile phones, accessories, PC-cards and M2M (machine to machine) solutions, which allow us to provide end-to-end solutions to our customers. The 50/50 joint venture, formed in October 2001, combines the mobile communications expertise of Ericsson with the consumer electronic devices and content expertise of SONY Corporation and forms an essential part of our end-to-end capability for mobile multimedia services.

Sony Ericsson is responsible for product design and development, as well as marketing, sales, distribution and customer services. About one-third of Sony Ericsson s handsets are produced at their factory in China. The remaining two-thirds of production is more or less equally split between contract manufacturers (EMS) and other device manufacturers (ODM) at locations in several countries in Asia, Latin America and Europe. Sony Ericsson s global management is based in London and R&D centers are located in Sweden, Japan, China, the U.S. and the U.K.

Sony Ericsson has expanded their in-house production with the acquisition of a controlling stake in Beijing Suohong Electronics Co, Ltd (BSE).

Sales for Sony Ericsson are not included in our reported sales, as their operating results are reported according to the equity method under Share in earnings of joint ventures and associated companies in the income statement.

Segment Other Operations

In addition to the areas previously described, Ericsson provide several other business offerings. Although important, these business units are relatively small compared to those consolidated within Systems. Sales of these units are consolidated within Other Operations and in total amount to 6 percent of net sales, with no single unit representing more

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than 2 percent.

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Ericsson Microwave Systems

Microwave Systems provide national security and public safety solutions to defense, government and security agencies in Sweden and to more than 20 countries around the world. The unit supplies advanced airborne, terrestrial and marine radar systems, that are integrated with command, control and communication functionality. Manufacturing is centralized in Sweden (Gothenburg).

Ericsson Enterprise

Enterprise provides communications systems and services that enable businesses, public entities and educational institutions to have seamless access to applications and services across multiple locations. We address a wide variety of enterprise needs through segmented offerings for both small and large enterprises. We focus on providing solutions for Voice over IP (VoIP) based private branch exchanges (PBX), Wireless Local Area Networks (WLAN), and Mobile Intranet solutions. With Mobile Enterprise, users on the move are able to access a range of business-critical communications and information applications from a variety of devices over private or public, fixed or wireless networks. Ericsson Enterprise operates mainly from Sweden but has a global presence through the market units and other partners/distributors. Manufacturing is outsourced.

Ericsson Network Technologies

Our Network Technologies unit (Cables) provides a full range of cable related solutions for telecom and power networks. Ericsson is a leading player in the passive fiber access network field and our expertise includes integration of copper, fiber optic and wireless technologies. A large portion of net sales from our Network Technologies group is attributable to intersegment sales. Manufacturing is carried out in Sweden (Hudiksvall and Falun) and in China, India and Malaysia.

Ericsson Mobile Platforms

Ericsson Mobile Platforms is a leading platform supplier for GSM/GPRS, EDGE and WCDMA platforms used in devices such as mobile handsets and PC cards. Through Ericsson Mobile Platforms, Ericsson was one of the first companies in the world to license open-standard end-to-end interoperability tested GSM/GPRS, EDGE and WCDMA technology platforms. The product offerings are based on our comprehensive intellectual property portfolio and include: reference designs, platform software, ASIC (application specific integrated circuit) designs and development boards, development and test tools, training, support and documentation. By licensing our technology and platforms, mobile phone manufacturers will be able to launch new products faster, with limited R&D investments and lower technology risks, allowing them to focus on product differentiation in areas such as applications, industrial design, manufacturing, distribution and branding getting advanced and attractive products with short time to market. Ericsson Mobile Platforms has operations at seven global locations, with main operations in Sweden (Lund).

During the year, Ericsson Mobile Platforms successfully verified seamless handover between EDGE and WCDMA in live commercial networks, demonstrating key 3G capabilities of both packet data and voice calls.

As per December 2005, more than 15 million WCDMA (3G) handsets in the market were based on Ericsson Mobile Platforms technology.

Ericsson Power Modules

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Ericsson Power Modules is a leading supplier of direct current DC/DC converters and DC/DC regulators, mainly to the communications industry, for advanced applications such as multiplexors, switches, routers and radio base stations. In addition, the levels of technology, ruggedness and reliability of Ericsson Power Modules products mean that they often provide excellent solutions for other demanding applications in medical, avionics, computing, military, space, and industrial market sectors. Manufacturing is centralized to Shanghai in China.

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ORGANIZATION

Our operational organization is built around a structure of business units responsible for the development and delivery of products and services to market units that are responsible for local sales and customer support. A number of group functions responsible for establishing of strategies, policies and directives and managing resource allocation, coordination of operations, mergers and acquisitions and perform tasks pertaining to certain group-wide matters that are not naturally suitable for a specific operational unit.

Governance

A significant amount of authority and responsibility is assigned to the management of our various operating units for tasks pertaining to daily operations. Governance of our operating units is carried out through steering boards whose members are representatives of the Group Management Team, the Extended Management Team and the management of the particular operating unit.

For more information regarding our corporate governance, please see Corporate Governance or visit our web site http://www.ericsson. com/ericsson/corpinfo/corp_governance/index.shtml. Information on our web site does not form part of this document.

Changes in organization and management

Some organizational changes were made during 2005, where synergies were found to promote a simpler structure with more efficient operations and fewer organizational layers. The changes include:

- A new Market Unit called Greater China was established. Taiwan, previously part of Market Unit North East Asia, was grouped with mainland China, Hong Kong and Macau, which previously made up Market Unit China.

- Austria was moved from the Market Area Western Europe to the Market Area Central & Eastern Europe, Middle East and Africa (CEMA).

- As per January 2006, Pakistan will be moved from the Market Area Asia Pacific to the Market Area Central & Eastern Europe, Middle East and Africa (CEMA).

- Business Unit (BU) Mobile Systems CDMA was streamlined to improve efficiency. As a result, the head office in San Diego was closed and operations moved to other Ericsson sites.

- The Radio Network Development unit within R&D was split and transferred into BU Systems and BU Access respectively.

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As per January 2006, three development units, IP Networks, Core Network Evolution and Service Layer Development, will be transferred to BU Systems and BU Access to bring development closer to the business, improving time to market and ensuring that Ericsson s products and solutions meet user needs.

As per January 2006, certain assets and staff of Marconi will be acquired and integrated within BU Transmission and Transport Networks, BU Global Services and BU Systems.

During 2005, the following changes in the Group Management Team were made:

Mats Granryd, previously head of BU Mobile Systems CDMA, took up the position as market unit head of India and Sri Lanka.

Hans Vestberg, head of business unit Global Services, was appointed executive vice president.

As per January 2006, Sivert Bergman, head of business unit Transmission and Transport, is appointed integration manager for the Marconi acquisition and included in the Group Management Team.

For more information about management, please see Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management .

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Business units within the Systems segment

Access

Our Access business unit s main role is to continuously strengthen our global leadership in 2G & 3G radio access networks by offering innovative and cost-effective products and solutions that provide best-in-class performance. Business unit Access responsibility covers a wide spectrum of activities, from product development to production and supply. Business unit Access is our largest business unit and has manufacturing in Sweden (Stockholm, Kumla and Gavle), Brazil, China and India.

Systems

Business unit Systems is a leading supplier of end-to-end telecom grade network systems and multimedia services. The system offerings include tailored mobile core and fixed network solutions and service layer products. As a key player in the evolution to all-IP networks, we are a leader in the convergence of fixed and mobile networks and services. Business unit Systems has manufacturing in Sweden (Katrineholm), Brazil, China and India.

Transmission and Transport Networks

The Transmission and Transport Networks business unit offers one of the world s most widely deployed microwave radio system (MINI-LINK) together with metro optical networks in customized and managed transport solutions. The products are essential elements of Ericsson s end-to-end solutions but are also often chosen by operators utilizing other vendors network equipment. The unit s operations include one of the largest microwave production plant in the world in Borås, Sweden, as well as a customer distribution center for all transmission and transport products. The transmission and transport business unit operates in Sweden, Norway and Italy.

Global Services

Our Global Services business unit includes both network rollout and professional services. We enable operators to strengthen their competitiveness by offering a complete range of advisory, systems integration, managed, hosting and support services as well as network rollout services that address a major part of their network operations. The business unit is represented in 140 countries with 19,000 employees mainly based within the local Market Units.

Sales and Marketing

We use our own sales organization to market and sell our systems and services to customers in over 140 countries via a worldwide sales and support network consisting of 24 market units. Each market unit represents either a single country or a group of countries, depending on the extent of our business activities in that region. The majority of these market units operate through local subsidiaries that are present in each country. We use our local presence to help our customers achieve greater efficiencies and gain access to recognized world-class support resources wherever they operate.

The market units utilize the product expertise of the central business units within the Systems segment in tailoring and integrating our products for delivery to customers. The market units are also responsible for after-sales support and rely in particular on the Global Services business unit in fulfilling this function.

Our customers have different needs in interacting with Ericsson as a supplier, ranging from support in identifying and capturing business opportunities to do-it-yourself fulfillment. We use three different sales approaches that acknowledge

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these different needs; Project Sales (interactive relationship selling with high

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involvement of the customer to identify and capture business opportunities, where the solution is not known at the point of sales), System Sales (interactive relationship selling of solutions configured for specific customer needs) and Product Sales (the outcome of relationship sales and frame agreements where customers may call of well-defined products and services electronically). System Sales has historically been our most common sales approach to best meet our customers needs, however, as their needs evolve the two other sales approaches will grow in importance.

Business units within the segment Other Operations

This segment principally consists of a number of operations deemed too small to be reported as separate segments. Other Operations include Microwave Systems (defense), Enterprise, Network Technologies (cables), Mobile Platforms, Power Modules and a few very small units.

For more information please see Business Segments .

Businesses in our Other Operations segment market their products and services through their own specialized direct and indirect sales channels. On occasion, these specialized sales and marketing teams work with our market units in certain markets or when dealing with large customers with whom we have a relationship.

Ericsson Group Functions

A number of Group Functions perform tasks pertaining to certain group-wide matters that are not naturally referable to a specific operational unit: Communications, Finance, Human Resources and Organization, Legal Affairs, Operational Excellence, Research & Development, Sales & Marketing and Strategy & Product Management.

Their responsibilities include the formulation of the Group s strategy, issuing of policies and directives, business control, resource allocation and risk management. In addition, Group Functions are responsible for the consolidation and reporting of financial performance, financing and cash management, legal issues, communication with various stakeholders including employees, investors, press and media as well as coordination and administration of a number of Group-wide issues. Other important Group-wide matters, such as Corporate Responsibility, are managed by Group Functions in conjunction with a network of experts from various parts of the Company.

RESEARCH & DEVELOPMENT

A robust R&D program is key to our competitiveness and future success. We spent SEK 24.5 billion on R&D and other technical expenses during 2005, which represents over 16 percent of sales. The vast majority of our R&D is invested in product development of which the majority in mobile communications network infrastructure. We have continued to invest in strategically important areas of broadband access, core networking and service layer.

Our R&D organization develops world-class products and performs world-leading research on behalf of the business units. About 16,500 (16,000) employees in 17 (16) countries worldwide are working with R&D in an organization consisting of group functions, development units and the Ericsson Research unit.

Ericsson Research conducts applied research in various strategic areas to provide Ericsson with system concepts, technology, and methodology to help secure our long-term, strategic position. World-class innovations are achieved through cooperation within Ericsson and with a variety of partners including customers, universities and research institutes.

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For more information regarding product and technology development, please see Risk Factors Strategic and Operational Risks and Board of Directors Report Research and Development .

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INTELLECTUAL PROPERTY AND LICENSING

Through many years of involvement in the development of new technologies, we have built up a considerable portfolio of intellectual property rights relating to telecommunications technologies, especially mobile communications. As of December 31, 2005, we held over 20,000 (16,000) patents worldwide, including a substantial number of patents essential to the 2G/2.5G standards of GSM, GPRS and CDMA, as well as numerous patents essential to 3G standards, including EDGE, WCD-MA, HSDPA, TD-SCDMA, CDMA2000 and OFDM. We also hold important patents for many other areas, e.g. Voice over IP (VoIP), ATM, WAP, WLAN, mobile platforms and Bluetooth.

Our intellectual property rights are valuable business assets. We license these rights to many other companies including equipment suppliers, handset manufacturers and wireless applications developers, in return for royalty payments and/or access to additional intellectual property rights. In addition, we acquire rights via licenses to utilize intellectual property rights of third parties. We believe that we have access to all related patents that are material to our business in part or in whole.

For more information, see Risk Factors Strategic and Operational Risks .

PROPERTY, PLANT AND EQUIPMENT

In 2000 and 2001, we disposed of the majority of the real estate properties that we owned. We believe the properties we now occupy are suitable for our present needs in most locations. As of December 31, 2005, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

MANUFACTURING AND ASSEMBLY

Our Systems manufacturing consists of two basic production activities, module and node. Module production is production of subsystems such as circuit boards, radio frequency (RF) modules, antennas etc. However we outsource about half of our systems module production to several electronic manufacturing service (EMS) companies. Most of our node production, i.e., assembly, integration and testing of modular subsystems into complete system nodes such as radio base stations, mobile switching centers etc., is done in-house. We have 14 significant manufacturing and assembly locations worldwide with a total of approximately 290,000 square meters of floor space. We lease all of these facilities except one in China and one in Brazil.

The Systems segment consumes more than two-thirds of the total floor space, with cables and power modules consuming most of the rest. In Sweden, the majority of the floor space within our production facilities is used for module production with the balance mostly used for Systems node assembly and testing. Including the EMS production, approximately 35-40 (40-45) percent of Systems module production and 75-80 (75-80) percent of Systems node production is performed in Sweden.

We intend to continue to outsource module production where adequate manufacturing capacity and expertise are available on favorable terms. Such outsourcing of the major part of module manufacturing provides us greater flexibility to adapt to economic and market changes. However, the timing and level of outsourcing is a balance between short-term demand and longer-term flexibility. Therefore, we generally plan to use our own production capabilities to absorb temporary changes in volumes.

We manage our own production capacity on a global basis by allocating production to sites where capacity is available and costs are competitive. At year-end 2005, our overall utilization was close to 100 percent as we continuously adjust our production capacity to meet expected demand.

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The table below summarizes our major manufacturing and assembly facilities as well as the total square meters of floor space at year-end.

PRIMARY MANUFACTURING AND ASSEMBLY FACILITIES

		2005		2004		2003
	Sites	Sq Meters	Sites	Sq Meters	Sites	Sq Meters
Sweden	**9**	**256,615**	10	277,415	10	310,000
Brazil	**1**	**15,840**	1	15,840	1	22,100
China	**3**	**15,200**	3	15,200	3	9,500
India	**1**	**5,364**	0	0	0	0
Total	**14**	**293,019**	**14**	**308,455**	**14**	**341,600**

During 2005, a new 5,400 square meter facility in Jaipur, India, was started for systems node assembly.

During 2005, an approximately 20,000 square meter production facility in Nynäshamn, Sweden, was closed. The production was absorbed by other Swedish sites.

Sources and availability of materials

We purchase raw materials, electronic components, ready-made products and services from a significant number of domestic and foreign suppliers. Variations in market prices for copper, aluminum, steel, silicon, precious metals, plastics and other raw materials have a very limited effect on our total cost of goods sold. Our purchases mainly consist of electronic components as well as ready-made products and services. To a limited extent, we are involved in the production of certain components such as power modules and cables, which are used in our systems products as well as sold externally to other equipment manufacturers.

Based on our most recent sourcing agreements, the increase in oil and copper prices during 2005 did not have a material impact on our costs or affect the availability of the electronic components or ready-made products and services that we require. To the extent possible, we rely on alternative supply sources for the purchased elements of our products to avoid sole source situations and to secure sufficient supply at competitive prices. Assuming there will only be a moderate increase in market demand, we do not foresee any supply constraints to meet our expected production requirements during 2006.

HUMAN RESOURCES

We believe that every employee should be treated with respect and dignity. We value the rich diversity and creative potential of people with differing backgrounds and abilities. A culture of equal opportunities in which personal success depends on personal merit and performance is encouraged throughout our operations.

We have three core values: Professionalism, Respect and Perseverance. These values form the foundation of how we operate our business. Our core values define how we treat each other, our customers and our business partners and therefore how they define our culture. Characteristics of our culture are exhibited by a passion to win; employee diversity, honesty, trust and support for each other; integrity and high ethical standards; and leadership by example at all levels. We believe the best way to further develop our business is to remain accountable to ourselves and to our

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customers.

Every year we conduct an employee satisfaction survey to assess our Human Capital Index and employee Empowerment Index.

We maintain an open management style that involves our employees in both daily decisions that affect them as well as longer-term matters. We are fully committed to keeping all employees informed about the implications

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of major business changes and other relevant matters. Key business priorities are communicated throughout the organization and form part of the basis for employee compensation and incentive plans. Details of these plans appear in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management . We also have constructive relationships with a variety of trade unions including formal recognition and active dialogue where appropriate.

EMPLOYEES BY GENDER AND AGE AT YEAR END 2005

	Female	Male	Percent of total
Under 25 years old	469	1,652	4%
26-40 years old	8,489	26,443	62%
41-55 years old	3,675	12,871	30%
Over 55 years old	576	1,880	4%
Percent of total	24%	76%	100%

EMPLOYEES RELATED TO COST OF SALES AND OPERATING EXPENSES

	2005	2004	2003	2002
Cost of Sales	**22,477**	19,234	15,414	18,606
Operating Expenses	**33,578**	31,300	36,169	46,015
Total	**56,055**	50,534	51,583	64,621

CORPORATE RESPONSIBILITY

Ericsson manages its CR activities through a cross-functional competence network from relevant parts of the organization. This enables us to secure a focus for expertise globally as well as to facilitate cooperation across Ericsson. The work of this network is guided by the CR Steering Committee, which was established in 2005. The Chairman of the steering committee reports to the CEO.

Ericsson s approach in the area of CR is two-pronged:

- we strive to have the necessary controls in place in order to minimize risk

- we see an opportunity to link our products and services to an overall business goal of sustainable, profitable growth

Ericsson supports the UN Global Compact and its ten principles. We continue with our Supplier Code of Conduct program, in close cooperation with local Ericsson companies. A cross-functional committee oversees our activities in

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this area.

Ericsson is a committed and responsible member of the global society, and as such is committed to supporting the needs of local communities. We have a number of local CR projects that are run by the Ericsson Market Units. Ericsson Response is a global initiative to rapidly provide specialists and communications equipment anywhere in the world in response to human suffering caused by disasters. Ericsson Response assists the disaster relief operations of the United Nations World Food Programme (WFP), the UN Office for the Coordination of Humanitarian Affairs (OCHA) and the International Federation of Red Cross and Red Crescent Societies (IFRC).

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. It is our policy to comply with

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environmental requirements and to provide workplaces for employees that are safe, environmentally sound, and that will not adversely affect the health or environment of communities in which we operate. We believe that we are in compliance with environmental, health safety laws and regulations required by our operations and business activities.

According to our environmental policy, Ericsson shall meet or exceed legal and other requirements to protect the environment. In order to fulfil this statement Ericsson has extensive coverage and follow-up of global environmental legislation.

We will be compliant to the EU Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS) as of the required timeline of July 1, 2006.

From August 13, 2005, Ericsson complies with the EU WEEE directive on waste of electrical and electronic equipment in all member countries that have implemented the WEEE.

A Sustainability Report is published during the second quarter of each year. Please see our web site at www.ericsson.com/about/responsibility.shtml for more information. Information on our web site does not form part of this document.

PARENT COMPANY OPERATIONS

The business of the Parent company, Telefonaktiebolaget LM Ericsson, consists mainly of corporate management, holding company functions and internal banking activities. Parent company operations also include customer credit management activities performed by Ericsson Credit AB.

SUBSIDIARIES AND ASSOCIATED COMPANIES

For a listing of our significant subsidiaries, please see Supplemental Information, Investments .

In addition to our joint venture with SONY Corporation, we are engaged in a number of other minor joint ventures, cooperative arrangements and venture capital initiatives.

For more information regarding risks associated with joint ventures, strategic alliances and third party agreements, please see Risk Factors Strategic and Operational Risks .

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FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements about future market conditions, operations and results. Expressions such as believe , expect , anticipate , intend , may , could , plan and similar words are intended to hel forward-looking statements. Forward-looking statements may be found throughout this document, but in particular in the sections captioned Operational Review , Board of Directors Report and Information on the Company and include statements regarding:

- our goals, strategies and performance expectations;
- the markets we currently or soon intend to address;
- our liquidity, capital resources, capital expenditures and our credit ratings;
- the expected demand for our existing as well as new products and services;
- our joint venture and strategic cooperation activities;
- technology and industry trends including competition and our customer structure, and
- our plans for new products and services including research and development expenditures.

Although we believe that the expectations reflected in such statements are reasonable, we cannot assure you that these expectations will materialize. Because forward-looking statements are based on assumptions and estimates, and are subject to risks and uncertainties, actual results could differ materially from those described or implied herein. Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to:

- our ability to respond to changes in the telecommunications market and general market conditions in a cost effective and timely manner;
- developments in political, economic and regulatory fields in the markets in which we operate, including allegations of health risks from electromagnetic fields and cost of radio licenses for our customers;

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effectiveness of our strategies and their execution including partnerships, acquisitions and divestitures;

financial risks, including foreign exchange rate changes, interest rate changes, changes in tax liabilities, credit risks in relation to counterparties, customer defaults under significant customer financing arrangements and risks of confiscation of assets in foreign countries;

reduction in the number of customers due to e.g. mergers, and the negative business consequences of a loss of, or significant decline in, our business with a major customer;

impact of changes in product demand, price erosion, competition from existing or new competitors or new technology and the risk that our products and services may not sell at the rates or levels we anticipate;

our ability to develop commercially viable products, systems and services, to acquire licenses of necessary technology, to protect our intellectual property rights through patents and trademarks and to defend them against infringement, and results of patent litigation;

supply constraints, including component or production capacity shortages, suppliers abilities to cost effectively deliver quality products on time and in sufficient volumes, and risks related to concentration of proprietary or outsourced production in a single facility or sole source situations with a single vendor; and

our ability to recruit and retain qualified management and other key employees.

Certain of these risks and uncertainties are described further in Risk Factors. We undertake no obligation to publicly update or revise any forward-looking statements included in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

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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 factors discussed elsewhere in this report, could have a material negative effect on our business, operational results, financial condition, liquidity and/ or our share price. Furthermore, our operational results may have a greater variability than in the past and we may have more difficulty in accurately predicting future developments.

RISK ASSOCIATED WITH THE INDUSTRY AND MARKET CONDITIONS

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 and region. In particular, we are affected by market conditions within the telecommunications industry.

We are subject to political, economic and regulatory changes in the various countries in which we operate.

We conduct business in more than 140 countries, with a significant proportion of our sales originating from emerging markets in Asia Pacific, Latin America, Eastern Europe, the Middle East and Africa. We expect that sales to such emerging markets will be 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 in which we conduct 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.

We are subject to the market conditions affecting the capital-and operating expenditures of our customers, making demand for our products and services highly unpredictable.

Adverse economic conditions could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position, which could result in significantly reduced capital expenditures for network infrastructure. Although the historical compounded annual growth rate (CAGR) for telecommunications network investments is 2-3 times the growth rate of global GDP, operator spending for network equipment and associated rollout services declined substantially during the years 2001-2003, before returning to growth in 2004. During this period, our business, operating results and share price suffered. We have reduced costs and improved efficiency to restore profitability and establish better flexibility to cost effectively accommodate fluctuations in demand. However, if demand were to fall, or were to be significantly weaker than expected, we may experience further material adverse effects and may incur operating losses in the future.

Our business essentially depends upon the continued growth of mobile communications.

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 of our network systems by customers. In particular, we are dependent on operators in highly penetrated markets to successfully introduce services that cause a substantial increase in usage for both voice and data. In emerging markets, we are, to a certain extent, dependent on the availability of lower-cost handsets in addition to affordable tariffs by operators to support a continued increase of

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mobile subscribers. 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.

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Changes in the regulatory environment for telecommunications systems and services could negatively impact our business.

Telecommunications is a regulated industry and regulatory changes affect both our customers and us. For example, changes in regulations that impose more stringent, time-consuming or costly planning, zoning requirements or building approvals regarding the construction of base stations and other network infrastructure could adversely affect the timing and costs of new network construction or expansion and the commercial launch and ultimate commercial success of these networks. Similarly, tariff regulations that affect the pricing of new services offered by operators could also affect their ability to invest in network infrastructure, which in turn could affect the sales of our systems and services.

License fees, environmental, health and safety, privacy and other regulation changes may increase costs and restrict operations of network operators and service providers. The indirect impact of such changes could affect our business adversely even though the specific regulations may not directly apply to our products or us.

Consolidation among network operators may increase our dependence on a limited number of key customers.

The market for mobile network equipment is highly concentrated, with the 10 largest operators representing more than 40 percent of the total market. Network operators have undergone significant consolidation, especially among companies operating in different countries. This trend is expected to continue, while also infra-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, due to the increased size of these companies, may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, less network equipment and associated services may be required. Another possible consequence of customer consolidation is that it could cause a delay in their network investments while they negotiate merger/acquisition agreements, secure necessary approvals, or are constrained by efforts to integrate the businesses.

Consolidation among equipment and services suppliers may lead to increased competition and a different competitive landscape.

Industry 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, including technical and engineering resources, than we have. This could have a material adverse effect on our business, operating results, and financial condition.

We operate in a highly competitive industry, which is subject to competitive pricing and rapid technological change.

The markets for our products are highly competitive in terms of pricing, functionality and service quality, the timing of development and introduction of new products and services and terms of financing. We face intense competition from significant competitors. Our competitors may implement new technologies before we do, allowing them to offer more attractively priced or enhanced products, services or solutions than we 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 alternative telecommunications platforms. Our operating results significantly depend on our ability to compete in this market environment, in particular on our ability to adapt to political, economic or regulatory changes, to introduce new products to the market and to continuously enhance the functionality while reducing the cost of new and existing products.

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Liability claims related to and public perception of the potential health risks associated with electromagnetic fields could negatively affect our business.

We are subject to claims that mobile handsets and other telecommunications 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 effect 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. Although Ericsson s products are designed to comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot assure you that we will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business. See also Legal and Tax proceedings in the Board of Directors Report.

Our current and historical operations are subject to a wide range of 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 environmental, health and safety laws and regulations related to our products, operations and business activities. 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 environmental, health and safety laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, including potential liabilities due to a number of factors especially the lengthy time intervals often involved in resolving them.

STRATEGIC AND OPERATIONAL RISKS

Our business is subject to a wide variety of factors that impact our strategies and operating results. Any of these factors could have a material adverse impact on our operating results. Furthermore, results of operations for any period may not necessarily be indicative of results to be expected in future periods. Consequently, our operating results may fluctuate significantly from period to period which may lead us to revise our estimates and/or strategies.

Most of our business is derived from a limited number of customers.

We derive most of our business from large, multi-year network build-out agreements with a limited number of significant customers. Although no single customer currently represents more than 10 percent of sales, the loss of, or a reduced role with, a key customer for any reason could have a significant adverse impact on sales, profit and market share for an extended period.

Some long-term frame agreements expose us to risks related to agreed future price reductions or penalties.

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 gross margin even with lower prices, we continuously strive to reduce the costs of our products through design improvements and other changes in costs related to e.g. component prices, productivity in production, etc. We can not assure you that our cost reduction actions will be sufficient to maintain our gross margin.

Frame agreements often also provide for penalties and termination rights in the event of our failure to deliver ordered products on time or if our products do not perform as promised, which may affect our results negatively.

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We expend significant resources on product and technology R&D which may not be successful in the market.

Developing new products or updating existing products and solutions requires significant levels of financial and other commitments to research and development, which may not always result in success. We are also actively engaged in the development of technology standards that we are incorporating into our products and solutions. In order to be successful, those standards must be accepted by relevant standardization bodies and by the industry as a whole. Our sales and earnings may suffer if we invest in development of technologies and technology standards that do not function as expected, are not adopted in the industry or are not accepted in the marketplace within the timeframe we expect, or at all.

Please also see section Research and Development in the Board of Directors Report and in Information on the Company.

We enter into joint ventures, strategic alliances and third party agreements to offer complementary products and services.

If our partnering arrangements fail to perform as expected, whether as a result of having incorrectly assessed our needs or the capabilities of our strategic partners, our ability to work with these partners or otherwise, our ability to 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, joint ventures may adversely affect our financial position or results of operations.

In the case of our joint venture with Sony Corporation, if the joint venture is unsuccessful for any reason, we may not be able to compete as successfully in the mobile systems market or at all in the mobile handset market.

Our solutions may also require us to license technologies from other companies and successfully integrate such technologies with our products. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses 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 our proprietary rights in our products.

We cannot be certain that we will be successful in integrating the recently acquired Marconi operations with our existing operations

Our success depends in part upon the successful integration of the Marconi operations that we recently acquired. Although we believe that the consummation of the Marconi acquisition will result in significant benefits and synergies, the integration of these operations will also present significant challenges, including:

- realizing economies of scale and eliminating duplicative overheads; and
- integrating internal communications networks, financial systems and operational systems.

We cannot assure you, with respect to our recent acquisition of the Marconi assets, that we will realize any anticipated benefits or will successfully integrate any of the acquired operations with our existing operations.

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The Marconi operations may not have the disclosure controls and procedures or internal controls over financial reporting that are as thorough or effective as those required by U.S security laws for public companies. While we intend to implement appropriate controls and procedures as we integrate the Marconi operations, we cannot provide assurance as to the effectiveness of their disclosure controls and procedures or internal controls over financial reporting until we have fully integrated them.

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Our products incorporate intellectual property rights (IPR) developed by us that may be difficult to protect or may be found to infringe on the rights of others.

While we have been issued a large number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated, or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to us.

The European Union recently 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 our intellectual property rights, if at all.

Many key aspects of telecommunications and data network technology are governed by industry-wide standards, which are usable by all market participants. As the number of market entrants as well as the complexity of the 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 against us alleging that we infringe 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, develop non-infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that any such licenses, if available at all, will be available to us on commercially reasonable terms.

Adverse resolution of litigation may harm our operating results or financial condition.

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

For additional information regarding certain of the lawsuits in which we are involved, see Legal and Tax Proceedings in the Board of Directors Report.

We rely on a limited number of suppliers for the majority of our components and electronic manufacturing services.

Our ability to deliver according to market demands depends in large part on obtaining timely and adequate supply of materials, components and production capacity on competitive terms. Failure by any of our suppliers could interrupt our product supply and could significantly limit our sales or increase our costs. If we fail to anticipate customer demand properly, an over/undersupply of components and production capacity could occur. In many cases, some of our competitors also utilize the same contract manufacturers, and we could be blocked from acquiring the needed components or increasing capacity if they have purchased capacity ahead of us. 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.

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We are dependent upon hiring and retaining highly qualified employees.

While we have been forced to lay off a number of highly skilled employees over the past few years, we believe that our future success depends in large part 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 compensation and benefit policies as well as other measures. However, we may not be as successful at attracting and retaining such highly skilled personnel in the future.

As a Swedish company operating globally, we have substantial foreign exchange exposures.

With the majority of our cost base being Swedish krona (SEK) denominated and a very large share of sales in currencies other than SEK, and many subsidiaries outside Sweden, our foreign exchange exposure is significant. Currency exchange rate fluctuations, affect our consolidated balance sheet, cash flows and income statement when foreign currencies are exchanged or translated to SEK. Our attempts to reduce the effect of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on our results.

A stronger SEK exchange rate would generally have a negative affect on our competitiveness compared to competitors with costs denominated in other currencies.

A significant interruption or other failure of our information technology (IT) operations or communications networks could have a material adverse affect on our operations and results.

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. Although we have experienced disruptions from computer viruses, security breaches, power outages and equipment failures in the past, our operations or results have not been materially affected to date. We will continue to expend significant resources to manage and try to mitigate these risks and we may incur additional costs to remedy damage caused by such disruptions, especially for computer viruses and security breaches.

RISKS ASSOCIATED WITH OWNING ERICSSON SHARES

Our share price has been and may continue to be volatile.

Our share price has been volatile due in part to the high volatility in the securities markets generally, and for telecommunications and technology companies in particular, as well as developments from quarter to quarter which impact our financial results. Factors other than our financial results that may affect our share price include but are not limited to variations between our actual financial results and expectations of financial analysts and investors as well as a result of announcements by our customers, competitors or ourselves regarding capital spending plans of network operators, financial difficulties for network operators for whom we have provided financing or with whom we have entered into material contracts, awards of large supply agreements or contracts for network roll-out. Additional factors include but are not limited to: speculation in the press or investment community about the level of business activity or perceived growth in the market for mobile communications services and equipment; technical problems, in particular those relating to the introduction and viability of new network systems like 3G; potential litigation involving ourselves or the markets in which we operate. Even though we may not be directly involved, announcements concerning bankruptcy or other similar reorganization proceedings involving, or any investigations into the accounting practices of,

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other telecommunications companies may materially adversely affect our share price.

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Currency fluctuations may adversely affect the trading prices of our Class B shares and ADSs and the value of any distributions we make thereon.

Because our shares are quoted in Swedish kronor (SEK) on the Stockholm Stock Exchange (our primary stock exchange) but on NASDAQ and the London Stock Exchange in local currencies, i.e. USD and GBP, fluctuations in exchange rates between SEK and these currencies in which our Class B shares or ADSs are quoted 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, in the case of ADSs, call for distributions to you in currencies other than SEK.

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SHAREHOLDER INFORMATION

The Annual General Meeting of Shareholders took place at the Globe Arena, entrance from Globentorget, Stockholm, at 3.00 p.m. on Monday, April 10, 2006.

Only those shareholders, who were entered into the transcription of the share register kept by VPC AB (the Swedish Securities Register Centre) as of April 4, 2006, were entitled to participate in the Meeting, provided notice of attendance has been given to the Company.

Shareholders, whose shares are registered in the name of a nominee, had to be entered temporarily into the share register no later than April 4, 2006, in order to be entitled to participate in the Meeting. The shareholder was requested to inform the nominee well before April 4, 2006, when such registration had to have been affected. Please observe that this procedure may also be applicable for shareholders who are using a custody account with a bank and/or trading via the Internet. The personal data that Ericsson receives with the notice of attendance was computer processed for the purpose of the general meeting of shareholders 2006 only.

NOTICE OF ATTENDANCE IN THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

In addition to the requirements listed above, shareholders had to give notice of attendance no later than at 4 p.m. April 4, 2006, at the Company s web site www.ericsson.com/investors, at telephone no.: +46 8 775 01 99 between 10 a.m. and 4 p.m., at fax no.: +46 8 775 80 18, or by post to:

Telefonaktiebolaget LM Ericsson

Group Function Legal Affairs

Box 47021

SE-100 74 Stockholm

Sweden

PROXY

Shareholders who were represented by proxy had to issue a power of attorney for the representative. To a power of attorney issued by a legal entity, a copy of the certificate of registration of the legal entity had to be attached. The documents could not be older than one year. In order to facilitate the registration at the Meeting, powers of attorney in its original, certificates of registration and other documents of authority should have been sent to the Company at the address above so as to be available by Friday, April 7, 2006.

DIVIDEND

The Board of Directors has decided to propose the Annual General Meeting of Shareholders to resolve on a dividend of SEK 0.45 per share for the year 2005 and April 13, 2006 as record day for dividend. The Annual General Meeting of Shareholders approved the resolution.

FINANCIAL INFORMATION FROM ERICSSON

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Interim report January March 2006: April 21, 2006

Interim report January June 2006: July 21, 2006

Interim report January September 2006: October 19, 2006

Full year report January December 2006: January/February, 2007

Annual report and Form 20-F for the US market 2006: March, 2007

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ERICSSON ANNUAL REPORT ON FORM 20-F 2005

Annual reports and financial reports can be downloaded or ordered on our web site: www.ericsson.com/investors or ordered via e-mail or mail.

For printed publications, contact:

Stromberg Distribution i HuddingeAB

SE- 120 88 STOCKHOLM

Sweden

Phone: +46 8 449 89 57

E-mail: ericsson@strd.se

In the United States, Ericsson Transfer Agent Citibank:

Citibank Shareholder Services

Registered holders: +1 877 881 5969

Interested investors: +1 800 808 8010

E-mail: ericsson@shareholders-online.com

www.citibank.com/adr

Ordering a hard copy of the Annual Report:

http://www.sccorp.com/annualreport/ericsson.htm

Phone toll free:+1 866 216 0460

Contact information:

Investor Relations for Europe, Middle East, Africa and AsiaPacific:

Telefonaktiebolaget LM Ericsson

SE-164 83 Stockholm

Sweden

Telephone: +46 8 719 00 00

E-mail: investor.relations.se@ericsson.com

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Investor Relations for the Americas:

Ericsson

The Grace Building

1114 Ave of the Americas, Suite #3410

New York, NY 10036

USA

Telephone: +1 212 685 4030

E-mail: investor.relations@ericsson.com

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CORPORATE GOVERNANCE REPORT 2005

INTRODUCTION

We are committed to meeting high standards of corporate governance within the legal and regulatory frameworks that we are subject to. Our internal rules for ethical behavior and other important rules for business conduct have long since been established for all directors and employees through our group steering policies and directives. We believe our management controls and procedures are generally in line with best practices, although we continuously seek ways to make our corporate governance even more effective and reliable.

We need the support and commitment of all our employees in order to continue to adhere to high standards of corporate governance and to maintain Ericsson s reputation for integrity and good corporate citizenship. Professionalism, respect and perseverance are our core values, which define how we treat each other, our customers and our business partners. Our core values are the cornerstones of our ways of working and prerequisites for true market leadership.

Our Code of Business Ethics and Conduct summarizes the policies and directives which we expect all directors and employees of the Ericsson group to follow. The fundamental purpose of the Code of Business Ethics and Conduct is to reaffirm our commitment to a high level of integrity in the conduct of business. As part of our commitment to meeting high corporate governance standards, we hold corporate governance workshops for executives.

The Code of Business Ethics and Conduct, which has been translated into more than twenty languages and communicated to all employees around the globe, has contributed to a higher awareness of the importance of high ethical standards.

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All employees are required to periodically review the Code of Business Ethics and Conduct and must acknowledge that they have understood and agree to comply with the principles outlined therein. Our Code of Business Ethics and Conduct satisfies the applicable requirements of the Sarbanes-Oxley Act of 2002 and NASDAQ. The Code can be found at:

www.ericsson.com/ericsson/corpinfo/doc/code_business_ethics.pdf. Information on our website does not form part of this document.

We comply with the listing requirements of the stock exchanges we are listed on, that is Stockholm Stock Exchange, the London Stock Exchange and NASDAQ. We also satisfy the applicable NASDAQ corporate governance requirements, subject to a few exemptions principally reflecting mandatory Swedish legal requirements. These exemptions have been granted by NASDAQ and are explained under NASDAQ Corporate Governance Exemptions below. We also comply with the applicable requirements of the Sarbanes-Oxley Act; including the certification of our Annual Report on the SEC s Form 20-F by the Chief Executive Officer and Chief Financial Officer.

The Swedish Code of Corporate Governance

Further, Ericsson applies the Swedish Code of Corporate Governance, which is part of the Stockholm Stock Exchange s listing requirements. To ensure Ericsson s compliance with the Code, our group steering documents and procedures have been evaluated and adapted to reflect also the requirements of the Code.

The Board of Directors has issued an Internal Control Report. In accordance with a statement from the Swedish Corporate Governance Board dated 15 December 2005, the 2005 Internal Control Report has not been examined by the auditors and the report has been limited to describing how the internal controls are organized. Consequently, the report does not include a statement as to the effectiveness of the internal controls regarding the financial reporting. The Company is in the process of implementation of detailed controls, documentation and testing procedures based on the COSO framework for internal control, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), to ensure compliance with the Sarbanes-Oxley Act, Section 404 as from 2006, and when submitting the report for 2006 it will be possible to make an assessment on a consistent basis in accordance with an established framework.

The corporate governance, direction and management of Ericsson is described in this Corporate Governance Report, including information on how the Code of Corporate Governance has been applied and information on how the Board of Directors ensures the quality of the financial reports and communicates with the Company s auditors.

The auditors have not reviewed Ericsson s 2005 Corporate Governance Report.

MEETINGS WITH THE SHAREHOLDERS

In accordance with the Swedish Companies Act and Ericsson s Articles of Association, shareholders who exercise their voting rights at the Annual General Meeting determine the composition of the Board of Directors and all other issues voted on at General Meetings of Shareholders.

At General Meetings of Shareholders each Class A-share carries one vote, each Class B-share one tenth of one vote and each Class C-share one thousandth of one vote. For more information on the shares of Ericsson, please see Share Information .

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The Annual General Meeting shall be held within six months after the end of the financial year and is normally held at the end of March or beginning of April. In accordance with the Articles of Association, the General Meetings of Shareholders are held in Stockholm.

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A shareholder may attend and vote at the meeting in person or by proxy. Proxies are not valid for more than a year from the date of issuance. We publish notices to attend Annual and Extraordinary Meetings of Shareholders. In such notices we provide information about the agenda for the meeting as well as information on how to notify us of attendance. In accordance with our Articles of Association, such notices are published in Svenska Dagbladet, Dagens Nyheter and Postoch Inrikes Tidningar. Notices are also published at the Company s website.

Under the Swedish Companies Act, resolutions at General Meetings of Shareholders are normally passed by simple majority. However, the Act requires special quorums and majorities in certain cases.

The Annual General Meeting offers shareholders the opportunity to raise questions regarding the Company and the results of the year under review. The members of the Board of Directors, the executive management as well as the external auditors are normally all present to answer such questions.

Shareholders and other interested parties may communicate directly with the Board of Directors or executive management independent of the Annual General Meeting. All communications should be in writing directed to the Board of Directors Secretariat. The sender should indicate in the address whether the communication is intended for the entire Board of Directors, an individual director or any of the management team members. For contact details of the Board of Directors Secretariat, please see the Company s website: www.ericsson.com/ericsson/corpinfo/corp_governance/agm/index.shtml. Information on our website does not form part of this document.

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NOMINATION COMMITTEE

Members

The Nomination Committee, elected by the 2005 Annual General Meeting, consists of Björn Svedberg (Chairman of the Committee, Investor), Bengt Belfrage (Nordea Fonder), Christer Elmehagen (AMF Pension), Curt Källströmer (Handelsbankens Pensionsstiftelse, Pensionskassa and Personalstiftelse), and Michael Treschow (Chairman of the Board of Ericsson).

The tasks of the Nomination Committee

The main task of the Nomination Committee is to propose candidates for election to the Board of Directors including the Chairman and the Deputy Chairmen of the Board, and, where applicable, candidates for election of auditors. In addition, the Nomination Committee is to propose a candidate for election of Chairman of the General Meeting of Shareholders. The Nomination Committee also prepares proposals concerning directors fees to directors not employed by Ericsson, auditors fees and remuneration to the members of the Nomination Committee (if any), which fees are presented at the Annual General Meeting for resolution. The directors fees are presented in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management .

Recommendations to the Nomination Committee may be submitted to the Nomination Committee by e-mail or by postal mail to the addresses indicated at the Company s website: www.ericsson.com/ericsson/corpinfo/corp_governance/agm/index.shtml. Information on our website does not form part of this document.

The tasks of the Nomination Committee have been resolved by the Annual General Meeting of the shareholders. The 2005 Annual General Meeting resolved that the Company should reimburse fair costs reasonably related to the performance of the Nomination Committee s assignment and that the Nomination Committee should not receive any remuneration.

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It follows from the Swedish Code of Corporate Governance that, when nominating persons for election to the Board of Directors, the Nomination Committee is to determine whether, in its view, the persons nominated for election are considered to be independent of the company and its senior management as well as of major shareholders in the company.

BOARD OF DIRECTORS

General

According to Ericsson s Articles of Association, the Board of Directors shall consist of a minimum of five directors and a maximum of twelve directors, with no more than six deputies. The directors shall be elected each year at the Annual General Meeting for the period up to and including the following Annual General Meeting. A director may serve any number of consecutive terms but is elected for one year at a time.

In addition, under Swedish law, unions have a right to appoint three directors and their deputies to the Ericsson Board of Directors.

The Board of Directors is ultimately responsible for the organization of the Company and the management of the Company s operations. The President and CEO is charged with the day-to-day management of the Company in accordance with guidelines and instructions provided by the Board of Directors. The President and CEO shall ensure that the Board regularly receives reports regarding the development of the business of the Group, such as the development of the results, financial position and liquidity as well as information regarding events of importance to the Group.

According to the Swedish Companies Act, a member of the Board of Directors and the President and CEO may not participate in decisions regarding agreements between the individual concerned and the Company. Nor may a member of the Board of Directors or the President and CEO participate in decisions regarding agreements

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between the Company and third parties where the individual concerned has a material interest in the matter, which may conflict with the interests of the Company, or regarding agreements between the Company and a legal entity, which the individual concerned may represent, either individually or together with any other person. Further, the Audit Committee has implemented a procedure for the approval of related party transactions in accordance with NASDAQ s corporate governance rules.

The Annual General Meeting decides on compensation for the Directors of the Board elected by the Annual General Meeting who are not employees of the Company.

Work of the Board of Directors

The Board schedules at least six meetings each year and in 2005, twelve Board meetings were held. With very few exceptions, the Directors participate in all of the Board of Directors meetings and are, to the extent possible, also present at the General Meetings of Shareholders. The Directors attendance at Board of Directors meetings and Committee meetings during 2005 is reflected in the table Directors attendance.

Training sessions are scheduled on a revolving basis, normally twice a year, in order to enhance the Directors knowledge of the operations of the Group. In addition, specific training sessions are scheduled if and when appropriate and in particular for newly elected Directors. The training session in October 2005 mainly covered sales, processes and procedures including pricing.

Certain matters addressed by the Board during 2005 include:

- Continued focus on development of operational excellence.
- Resolution to enter into an agreement with Marconi Corporation plc to acquire strategic parts of Marconi s telecommunications business.
- Three Board Meetings have been dedicated to strategy discussions, including discussion on development of next generation converged networks.
- Resolution to acquire Axxessit AsA and Netspira Networks, S.L. to expand the product portfolio.
- Intellectual property strategy.
- Capital structure strategy.
- Enhancement of enterprise risk management model based on the COSO framework.

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Corporate governance, including adoption and implementation of various corporate governance rules applicable to the Company.

Optimization of production resources.

Large managed service contracts in Europe.

The Board and its Audit Committee meet with the external auditors on a regular basis. The Board normally meets with the auditors twice a year and at least once without the President and CEO or any other person from management being present. The Audit Committee meets with the auditors at the Audit Committee meetings. During 2005, the auditors were represented at all Audit Committee meetings, except for one meeting per capsulam regarding approval of a related party transaction. The auditors present their observations from the audit of the annual report as well as their reviews of interim reports and internal controls.

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DIRECTORS ATTENDANCE

			Audit		Finance		Remuneration	
	Board meetings		Committee meetings		Committee meetings		Committee meetings	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
Michael Treschow	12	12			13	13	8	8
Arne Mårtensson	12	12			13	13		
Marcus Wallenberg	12	12			13	13		
Peter L. Bonfield	12	12	8	8				
Sverker Martin-Löf	12	12	8	8				
Eckhard Pfeiffer	12	12	7	8				
Nancy McKinstry	11	12					7	8
Carl-Henric Svanberg	12	12						
Ulf J. Johansson	8	8					6	6
Lena Torell	4	4					2	2
Jan Hedlund	12	12	8	8				
Per Lindh	12	12					8	8
Torbjörn Nyman	12	12			13	13		
Monica Bergström	12	12						
Anna Guldstrand	11	12						
Arne Löfving	12	12						

Work Procedure

The Board of Directors has established its work procedure in accordance with the requirements of the Swedish Companies Act. Through the work procedure, the Board designates how various tasks will be distributed among the Board and its Committees as well as between the Board, its Committees and the President and CEO. The work procedure is reviewed, evaluated and adopted by the Board whenever necessary, but at least once a year. The work of the Committees is principally of a preparatory character, i.e. the Committees prepare matters for final resolution by the Board. However, the Board has authorized each Committee to decide on certain issues in limited areas and may also provide extended authorization to a Committee to decide on specific matters. The Board of Directors as well as each of the Committees have the right to engage external expertise in general or in respect of specific matters, if and to the extent required or deemed appropriate.

Committees of the Board

The Board of Directors has established three Committees, i.e. the Audit, the Finance and the Remuneration Committees. The Board appoints Committee members from among its members.

The Audit Committee

General

The Audit Committee assists the Board in monitoring the integrity of the financial statements, the compliance with legal and regulatory requirements, the qualification, independence and performance of our external auditors and the effectiveness of our systems of internal controls for financial reporting.

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The Audit Committee is primarily responsible for reviewing annual and interim financial reports, overseeing the external audit process, including audit fees and the internal audit function, and resolving matters arising during the course of reviews and audits. However, the Audit Committee itself does not perform audit work. The Company has an internal audit function, which reports to the Audit Committee and performs independent audits.

Pursuant to the Board s work procedure, the Audit Committee reviews the audited financial statements with management and the external auditors, including conformity with generally accepted accounting principles. The Audit Committee also reviews with management the reasonableness of significant estimates and judgments made

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in preparing the financial statements, as well as the quality of the disclosures in the financial statements. In addition, the Audit Committee reviews matters arising from reviews and audits performed. The Audit Committee has implemented approval procedures for audit and other services performed by the external auditors in order to safeguard the auditors independence from the management and the Company. Further details about these procedures are provided under Audit Committee Pre-approval Policies and Procedures.

In addition, the Audit Committee has implemented a pre-approval process for transactions with related parties and a procedure for the reporting of suspected violations, for example violations in relation to accounting, internal accounting controls and auditing matters; a so called whistle-blower procedure. Ericsson s Group Security and Risk Management function reviews and investigates reported suspected violations and, when necessary, the reported suspected violations are investigated together with the relevant Group Function. The Group Security and Risk Management function summarizes suspected violations in reports including information on the relevant matter, the measures taken with respect to the matter, the responsible Group Function and information on current status. The reports are presented at each regular Audit Committee meeting. The Audit Committee has appointed an external expert advisor, Mr. Peter Markborn, to assist and advise the Committee.

Members of the Audit Committee

The Audit Committee consists of four members appointed by the Board from among its members. Membership during 2005 included Sverker Martin-Löf (Chairman of the Committee), Sir Peter L. Bonfield, Jan Hedlund and Eckhard Pfeiffer.

Members of the Audit Committee must be independent from the operational management, financially literate and familiar with the accounting practices of an international company comparable to Ericsson. At least one member must be an audit committee financial expert. The Board of Directors has determined that each of Sverker Martin-Löf, Sir Peter L. Bonfield and Eckhard Pfeiffer satisfy these requirements.

The work of the Audit Committee

The Audit Committee held eight meetings during 2005 and the Directors attendance at the meetings is reflected in the table Directors attendance. The work of the Audit Committee during the year included review of financial reports, the scope and execution of audits performed, the independence of the external auditors, the internal audit function and audit fees as well as the progress of the recent conversion to IFRS reporting as from January 1, 2005. The Audit Committee together with the external auditors reviewed each interim report prior to publishing. The Committee has continuously followed the development of the rules and regulations of the Sarbanes-Oxley Act of 2002 and the Swedish Code of Corporate Governance and the Company s implementation of the said rules and regulations. Certain services other than audits have been approved by the Audit Committee under the pre-approval policies and procedures. Further, the Audit Committee has approved certain related-party transactions in accordance with the pre-approval process implemented by the Committee.

The Finance Committee

General

The Finance Committee is primarily responsible for handling matters regarding acquisitions and divestments, capital contributions to companies inside and outside the Ericsson group, raising of loans, issuances of guarantees and similar undertakings and approvals of financing support to customers, as well as continuously monitoring the group s financial risk exposure. The Finance Committee has been authorized by the Board of Directors to decide, with power to delegate power to decide, on certain matters of the Board including direct or indirect financing, provision of credits and the

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granting of security and guarantees and certain investments, divestments and financial commitments.

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Members of the Finance Committee

The Finance Committee consists of four members appointed by the Board from among its members. Membership during 2005 included Marcus Wallenberg (Chairman of the Committee), Arne Mårtensson, Torbjörn Nyman and Michael Treschow.

Work of the Finance Committee

The Finance Committee held thirteen meetings during the year and the Directors attendance at the meetings is reflected in the table Directors attendance. The Committee resolved issues regarding customer financing, guarantees, credit facility arrangements, conditional shareholders contributions, acquisitions and divestments. After authorization from the Board, the Committee resolved to appoint Hans Ragnemalm member of the Board of Trustees of the Company s Pension Trust. The Finance Committee also monitored the financial risk exposure and risk limits and reviewed the reporting to the Committee in this respect.

The Remuneration Committee

General

The Remuneration Committee is primarily responsible for reviewing and preparing for resolution by the Board of Directors proposals on salary and other remuneration, including retirement compensation, to the President and CEO. The Remuneration Committee has been given authority to approve proposals on salary and other remuneration, including retirement compensation for the Executive Vice Presidents and other managers reporting directly to the President and CEO.

In addition, the Committee is responsible for strategies and general guidelines with respect to employee compensation, including incentive plans and retirement compensation.

At the beginning of each year, the Committee approves any variable pay to be made from the previous year s plan and prepares for resolution by the Board any long-term incentive plan prior to being presented at a meeting of shareholders.

During the year, the Committee meets for a strategic compensation review with representatives of the Company. The Committee members consider trends in compensation, legislative changes, disclosure rules and the general global environment surrounding executive pay. The outcome is to agree on the direction Ericsson will follow so that program designs and pay policies all align with the business situation.

The Committee schedules a meeting during the fall of each year entirely dedicated to long-term incentive plans to be presented to the shareholders the following year.

At the end of the year, the Committee reviews salary survey data to approve any increase of base pay for the following year for executives. Increases, if any, are effective from the following January. The Remuneration Committee also prepares for resolution by the Board the targets for variable pay for the following year.

Members of the Remuneration Committee

The Remuneration Committee consists of four members appointed by the Board from among its members. Membership during 2005 included Michael Treschow (Chairman of the Committee), Nancy McKinstry, Per Lindh, Lena Torell and Ulf J. Johansson. Ulf J. Johansson has been a member since the Annual General Meeting 2005 when he replaced Lena

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Torell, who was a member of the Remuneration Committee until the Annual General Meeting 2005.

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Work of the Remuneration Committee

The Remuneration Committee held eight meetings during 2005 and the Directors attendance at the meetings is reflected in the table Directors attendance. The Committee reviewed and prepared for the Board a proposal for a long-term incentive plan, which was resolved by the 2005 Annual General Meeting. The Committee approved a structure for variable pay for the Group Management Team and the Extended Management Team. The Committee has assigned an independent remuneration expert, Mr. Gerrit Aronson, to help in obtaining an independent opinion and advice on remuneration issues, including the pension benefits of the President and CEO. The Committee also approved proposals for salaries and incentive pay for 2005. For further information on compensation, fixed and variable pay, please see Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

Remuneration of the Board

In accordance with the proposal of the Nomination Committee, the Annual General Meeting of shareholders resolved on April 6, 2005, that the directors fees should total SEK 8.8 million and that the directors fees should be distributed among the members of the Board elected by the Annual General Meeting who are not employees of the Company as follows:

- The Chairman SEK 3 million;
- The Deputy Chairmen and the other Directors SEK 600,000 each;
- The Chairman of the Audit Committee SEK 350,000 and the other Audit Committee members SEK 250,000 each;
- The members of the Finance Committee and the Remuneration Committee SEK 125,000 each.

Review/self-evaluation

The Chairman of the Board is responsible for annually initiating and leading a thorough evaluation of the Board work and the Board procedure. The evaluation process may include written questionnaires, as well as interviews and discussions. During 2005, the Chairman of the Board had individual discussions with each Member of the Board of Directors regarding the work procedure and the evaluation of the Board work. In addition, all Directors have answered a written questionnaire. The Chairman and the President and CEO are not present when their respective performance is evaluated.

MEMBERS OF THE BOARD

Our Board of Directors consists of nine Directors elected by the shareholders at the Annual General Meeting for the period until the close of the next Annual General Meeting, and three employee representatives, each with a deputy, appointed by the respective trade union. The Chairman of the Board is elected by the Annual General Meeting. The President and CEO of the Company may be elected director, as is the case at present. However, the Swedish Companies Act prohibits the President of a public company to be elected Chairman of the Board.

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Michael Treschow, Director (since 2002)

Chairman of the Board of Directors. Chairman of the Remuneration Committee and member of the Finance Committee and the Nomination Committee.

Chairman of the Confederation of Swedish Enterprise and Chairman of the Board of Directors of AB Electrolux. Member of the Board of Directors of ABB Ltd and B-Business Partners. Member of the Royal Academy of Engineering Sciences.

Master of Science degree from the Institute of Technology in Lund, Sweden.

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Prior to his position as Chairman of the Board of Directors, Michael Treschow was the President and CEO of the Electrolux Group, a position to which he was appointed in 1997. Before joining Electrolux, Michael Treschow was President and CEO of Atlas CopcoAB. Earlier positions mainly include positions with Atlas Copco.

Arne Mårtensson, Director (since 2003)

Deputy Chairman of the Board of Directors and member of the Finance Committee.

Chairman of the Advisory Board of Stockholm School of Economics and Chairman of the Board of Directors of Svenska Handelsbanken. Member of the Board of Directors of Holmen, Industrivärden, Sandvik, Skanska and V&S Vin & Sprit. Member of the International Business Council of the World Economic Forum.

Econ Dr. h c. Graduate from Stockholm School of Economics and PMD, Harvard Business School, USA.

Arne Mårtensson has previously been President and Group Chief Executive of Svenska Handelsbanken and Executive Vice President and head of Svenska Handelsbanken, Regional Unit Western Sweden. Earlier positions include positions with Handelsbanken.

Arne Mårtensson has declined re-election at the Annual General Meeting 2006.

Marcus Wallenberg, Director (since 1996)

Deputy Chairman of the Board of Directors and Chairman of the Finance Committee.

Chairman of the Board of Directors of Skandinaviska Enskilda Banken. Deputy Chairman of the Board of ICC (International Chamber of Commerce) and Saab. Member of the Board of Directors of AstraZeneca PLC, AB Electrolux, Stora Enso Oy and the Knut and Alice Wallenberg Foundation.

Bachelor of Science of Foreign Service degree from Georgetown University, Washington D.C., USA.

In 1993 Marcus Wallenberg was employed by Investor AB as Executive Vice President and he was the President and CEO of the company between 1999 and 2005. Before joining Investor AB, Marcus Wallenberg was a Director of Stora Feldmühle AG. Earlier positions include positions with Skandinaviska Enskilda Banken, Citicorp and Citibank.

Sir Peter L. Bonfield, CBE, FREng, Director (since 2002)

Member of the Audit Committee.

Vice Chairman of the Board of the British Quality Foundation. Member of the Board of Directors of AstraZeneca PLC, Mentor Graphics Inc., Sony Corporation and T.S.M.C. Member of the International Advisory Group of Citigroup and of the International Advisory Panel, University of London. Non-Executive Director of Actis Capital LLP and HMG Department for Constitutional Affairs. Senior Executive Advisor of Permira. Trustee of Cutty Sark Trust.

Honors degree in Engineering from Loughborough University, Leicestershire, UK.

From 1996 to 2002, Sir Peter L. Bonfield was CEO and Chairman of the Executive Committee of British Telecommunications plc. Before assuming this position, Sir Peter L. Bonfield was Chairman and CEO of ICL plc.

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Earlier positions include positions with STC plc and Texas Instruments Inc.

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Sverker Martin-Löf, Director (since 1993)

Chairman of the Audit Committee.

Chairman of the Board of Directors of Skanska, Svenska Cellulosa Aktiebolaget SCA and SSAB. Vice Chairman of the Board of Directors of Industrivärden. Member of the Board of Directors of the Confederation of Swedish Enterprise and Svenska Handelsbanken.

Doctor of Technology and Master of Engineering degree from the Royal Institute of Technology, Stockholm, Sweden. Honorary Doctor at Mid-Sweden University, Sweden.

Sverker Martin-Löf was employed by Svenska Cellulosa Aktiebolaget SCA from 1977 to 1983 and again from 1986 to 2002. From 1990 to 2002, Sverker Martin-Löf was the President and CEO of Svenska Cellulosa Aktiebolaget SCA. Earlier positions include positions with Sunds Defibrator and Mo och Domsjö AB.

Eckhard Pfeiffer, Director (since 2000)

Member of the Audit Committee.

Chairman of the Board of Directors of Accoona Corporation. Member of the Board of Directors of General Motors Corporation and Syntek Capital AG. Board Advisor to Hitachi Data Systems. Member of the Advisory Board of Deutsche Bank and the Advisory Council of University of Houston College of Natural Sciences and Mathematics.

Master of Business Administration (MBA) degree from Southern Methodist University, Dallas, Texas, USA. Honorary Doctor of Engineering degree from the Stevens Institute of Technology, New Jersey, USA.

Eckhard Pfeiffer was President and CEO of Compaq Computer Corporation from 1991 to 1999. Prior to this, Eckhard Pfeiffer held other management positions with Compaq. Before joining Compaq in 1983 he spent nineteen years with Texas Instruments.

BOARD OF DIRECTORS

Name	Member since	Age	Position	Number of Class A shares	Number of Class B shares[2)]	Options[3)]
Michael Treschow	2002	62	Chairman		820,000	
Arne Mårtensson[1)]	2003	54	Deputy Chairman		13,400	
Marcus Wallenberg	1996	49	Deputy Chairman		704,000	
Peter L. Bonfield	2002	61	Director			
Sverker Martin-Löf[1)]	1993	62	Director		52,000	
Eckhard Pfeiffer	2000	64	Director		30,400	
Nancy McKinstry	2004	46	Director			
Carl-Henric Svanberg	2003	53	Director & CEO		15,635,599	
Ulf J. Johansson	2005	60	Director		2,176	
Jan Hedlund	1994	59	Employee Representative		1,497	
Per Lindh	1995	48	Employee Representative		203	
Torbjörn Nyman	2004	44	Employee Representative		7,612	

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Monica Bergström	1998	44	Deputy Employee Representative	2,848	
Anna Guldstrand	2004	41	Deputy Employee Representative	3,986	900
Arne Löfving	2003	52	Deputy Employee Representative	6,031	

1) Arne Mårtensson and Sverker Martin-Löf are also Directors of Industrivärden. Industrivärden is one of Ericsson s largest shareholders, based on voting rights.
2) In accordance with the Code of Corporate Governance, the number of Class B shares includes holding by related natural and legal persons. Details available at www.fi.se.
3) Number of Class B shares assuming full exercise of options under applicable plan (including holding of options by related natural and legal persons in accordance with the Code of Corporate Governance).

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Nancy McKinstry, Director (since 2004)

Member of the Remuneration Committee.

CEO and Chairman of the Executive Board of Wolters Kluwer n.v. Member of the Board of Directors of MortgageIT, Inc. Member of the Advisory Council of ABN AMRO Holding n.v. and the Advisory Council of the University of Rhode Island. Member of the Board of Directors of the American Chamber of Commerce in the Netherlands and Tias Business School.

Master of Business Administration (MBA) degree in Finance and Marketing from Columbia University, New York, USA, and a bachelor s degree (BA) in Economics from the University of Rhode Island, Kingston, Rhode Island.

Currently Nancy McKinstry is CEO and Chairman of the Executive Board of Wolters Kluwer n.v. From 2000 to 2003, Nancy McKinstry was President and CEO of Legal, Tax and Business, North America, Wolters Kluwer n.v. and a member of the Executive Board. In 1999-2000 Nancy McKinstry was CEO and President of SCP Communications. Prior to this she was President and CEO of CCH Legal Information Services from 1996 to 1999. Earlier positions include positions with CCH Incorporated, Booz, Allen & Hamilton and New England Telephone Company.

Carl-Henric Svanberg, Director (since 2003)

President and CEO of Telefonaktiebolaget LM Ericsson and member of the Board of Directors.

Member of the Board of Directors of Assa Abloy, the Confederation of Swedish Enterprise and Hexagon.

Master of Science degree from Linköping Institute of Technology, Sweden, and Bachelor of Science degree in Business Administration from Uppsala University, Sweden.

Prior to assuming his position at Ericsson, Carl-Henric Svanberg was the President and CEO of the Assa Abloy Group.

Ulf J. Johansson, Director (since 2005)

Member of the Remuneration Committee.

Chairman of the Board of Directors of AcandoFrontec AB, Eurostep Group AB, Novo A/S and Novo Nordisk Foundation. Member of the Board of Directors of Trimble Navigation Ltd. Member of the Royal Swedish Academy of Engineering Sciences.

Doctor of Technology and Master of Science in Electrical Engineering from the Royal Institute of Technology, Stockholm, Sweden.

Ulf J. Johansson is a founder of Europolitan Vodafone AB where he was the Chairman of the Board between 1990 and 2005. Earlier positions include President and CEO of Spectra-Physics and Executive Vice President of Ericsson Radio System AB.

Jan Hedlund, Director (since 1994)

Member of the Audit Committee. Employee representative.

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Appointed by the union Svenska Metallindustriarbetareförbundet.

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Per Lindh, Director (since 1995)

Member of the Remuneration Committee. Employee representative.

Appointed by the union Sif.

Torbjörn Nyman, Director (since 2004)

Member of the Finance Committee. Employee representative.

Appointed by the union CF.

Monica Bergström, Deputy Director (since 1998)

Employee representative.

Appointed by the union Sif.

Anna Guldstrand, Deputy Director (since 2004)

Employee Representative

Appointed by the union CF.

Arne Löfving, Deputy Director (since 2003)

Employee representative.

Appointed by the union Svenska Metallindustriarbetareförbundet of which he is Deputy Chairman of the Gothenburg division. Arne Löfving is employee representative of the Board of Ericsson Microwave Systems.

At the Annual General Meeting on April 6, 2005, Ulf J. Johansson replaced Lena Torell as member of the Board. Lena Torell had been a member of the Board since 2002.

Carl-Henric Svanberg is the only Director who holds an operational management position at Ericsson. No Director has been elected pursuant to an arrangement or understanding with any major shareholder, customer, supplier or other person.

COMPANY MANAGEMENT

Operational Units

Our operations are carried out in three business segments; Systems, Phones and Other operations. The largest segment, Systems, is organized in business units that are responsible for the provision of products and services, and market units that are responsible for marketing, sales, and customer support. For more information regarding our business segments, please see Information on the Company . A significant amount of authority and responsibility for tasks pertaining to daily operations is assigned to the management of our various operating units. Governance of our operating units is

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carried out by steering committees, with members who are representatives of the Group Management Team, the Extended Management Team and the management of the particular operating unit.

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Group Functions

A number of Group Functions perform tasks pertaining to certain groupwide matters that are not naturally referable to a specific operational unit: Communications, Finance, Human Resources and Organization, Legal Affairs, Operational Excellence, Research & Development, Sales & Marketing and Strategy & Product Management.

Their responsibilities include the formulation of the Group s strategy, issuing of policies and directives, business control, resource allocation and risk management. In addition, Group Functions are responsible for the consolidation and reporting of financial performance, financing and cash management, legal issues, communication with various stakeholders including employees, investors, press and media as well as coordination and administration of a number of Group-wide issues. Other important Group-wide matters, such as Corporate Responsibility, are managed by Group Functions in conjunction with a network of experts from various parts of the Company.

The President and Chief Executive Officer Operational Management

The Board of Directors appoints the President and CEO and the Executive Vice Presidents. Management of day-to-day operations is the responsibility of the President and CEO and the Group Management Team consisting of, apart from the President and CEO, the Chief Financial Officer, the Chief Technology Officer and head of Research & Development, the heads of Group Functions and the heads of Business Units Access, Systems, Global Services and Transmission and Transport Networks.

Compensation policies, other terms of employment for senior management and outstanding incentive schemes for senior management are described in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management .

Carl-Henric Svanberg

President and CEO and member of the Board of Directors (since April 2003).

Member of the Board of Directors of Assa Abloy, the Confederation of Swedish Enterprise and Hexagon.

Master of Science degree from Linkoping Institute of Technology, Sweden, and Bachelor of Science degree in Business Administration from Uppsala University, Sweden.

Prior to assuming his position at Ericsson, Carl-Henric Svanberg was the President and CEO of the Assa Abloy Group.

Karl-Henrik Sundstrom

Executive Vice President and Chief Financial Officer and head of Group Function Finance (since April 2003).

Bachelor degree in Finance from Uppsala University, Sweden, and Advanced Management Program, Harvard Business School, USA.

Prior to assuming his position as above, Karl-Henrik Sundstrom was head of Business Unit Global Services.

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GROUP MANAGEMENT TEAM

Name	Appointed year	Age	Position	Number of Class A shares	Number of Class B shares
Carl-Henric Svanberg	2003	53	President & CEO		15,635,599[1)]
Karl-Henrik Sundstrom	2003	45	Executive Vice President & CFO and Head of Group Function Finance		20,472
Kurt Jofs	2004	47	Executive Vice President and Head of Business Unit Access		216,714
Bert Nordberg	2004	49	Executive Vice President and Head of Group Function Sales & Marketing		31,794
Bjorn Olsson	2004	49	Executive Vice President and Head of Business Unit Systems		24,298
Carl Olof Blomqvist	1999	54	General Counsel and Head of Group Function Legal Affairs	6,080	28,633
Joakim Westh	2004	44	Head of Group Function Operational Excellence		107,941
Marita Hellberg	2003	50	Head of Group Function Human Resources & Organization		35,755
Torbjorn Nilsson	1998	52	Head of Group Function Strategy & Product Management		62,127
Henry Stenson	2002	50	Head of Group Function Communications		19,533
Håkan Eriksson	2004	44	Chief Technology Officer and Head of Research & Development		11,313
Hans Vestberg	2005	40	Executive Vice President and Head of Business Unit Global Services		20,241
Sivert Bergman	2006	59	Head of Business Unit Transmission & Transport Networks		4,825

Options and matching rights are reported in Notes to the Consolidated Financial Statements Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

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1) In accordance with the Code of Corporate Governance, the number of Class B shares includes holding by related natural and legal persons. Details available at www.fi.se.

Kurt Jofs

Executive Vice President and head of Business Unit Access (since January 2004).

Board member of ATEA and Chairman of the Board of Peoples Travel Group.

Master of Science degree, Royal Institute of Technology in Stockholm, Sweden.

Prior to assuming his position as above, Kurt Jofs has held senior management positions in, among others, Linjebuss and ABB Ventilation Products.

Bert Nordberg

Executive Vice President and head of Group Function Sales & Marketing (since January 2004).

Bachelor degree in Electronic Engineering, Malmö, Sweden, and Engineer in the Marines, Berga, Sweden, and university courses in International Management, Marketing and Finance, Insead University, France.

Prior to assuming his position as above, Bert Nordberg was head of Business Unit Systems.

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Björn Olsson

Executive Vice President and head of Business Unit Systems (since January 2004).

Master of Science degree in Industrial Engineering and Management, Linköping Institute of Technology, Sweden.

Prior to assuming his position as above, Björn Olsson was Chief Information Officer.

Carl Olof Blomqvist

Senior Vice President, general counsel and head of Group Function Legal Affairs (since May 1999).

Master of Laws, LLM, University of Uppsala, Sweden.

Prior to assuming his position as above, Carl Olof Blomqvist was a partner of Mannheimer Swartling law firm.

Håkan Eriksson

Senior Vice President and Chief Technology Officer and head of Group Function Research & Development (since January 2004).

Master of Science degree in Electrical Engineering, Linköping Institute of Technology, Sweden.

Prior to assuming his position as above, Håkan Eriksson was Vice President and head of Research & Development.

Marita Hellberg

Senior Vice President and head of Group Function Human Resources & Organization (since September 2003).

Bachelor degree in Social Studies, University of Stockholm, Sweden, and Advanced Management Program, Cedep, France.

Prior to assuming her position as above, Marita Hellberg was Senior Vice President of Human Resources of NCC Group.

Torbjörn Nilsson

Senior Vice President (since October 1998) and head of Group Function Strategy & Product Management.

Master of Science degree, Lund s University, Sweden, and Master of Business Administration, University of Stockholm, Sweden.

Prior to assuming his position as above, Torbjörn Nilsson was head of Group Function Marketing & Strategic Business Development.

Henry Sténson

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Senior Vice President and head of Group Function Communications (since May 2002).

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Studied law, sociology and political science, Linköping University, Sweden, and at the Swedish War Academy, Karlberg, Stockholm, Sweden.

Prior to assuming his position as above, Henry Sténson was head of SAS Group Communication, SAS AB.

Hans Vestberg

Executive Vice President and head of Business Unit Global Services (since February 2005).

Bachelor of Business Administration degree, University of Uppsala, Sweden.

Prior to assuming his position as above, Hans Vestberg was Senior vice President and head of Business Unit Global Services (since January 2004) and prior to assuming that position, Hans Vestberg was head of Market Unit Mexico.

Joakim Westh

Senior Vice President and head of Group Function Operational Excellence (since December 2004).

Chairman of the Board of Directors of Absolent AB and member of the Board of Directors of VKR Holding A/S.

Master of Science degree, Royal Institute of Technology, Stockholm, Sweden, and Master of Science degree within Aeronautics & Astronautics, MIT, Boston, USA.

Prior to assuming his position as above, Joakim Westh was head of J. Westh Företagsutveckling AB and before that, Joakim Westh held various senior management positions within Assa Abloy.

Sivert Bergman

Senior Vice President (since January 1, 2006) and head of Business Unit Transmission and Transport Networks (since 2002).

Bachelor degree of electric engineering complemented with studies in mathematics, Trollhättan, Sweden.

Prior to assuming his position in 2002, Sivert Bergman was Research and Development Manager for transmission activities and head of Business Unit Transmission Solutions.

During 2005, the officer below was also a member of the Group Management Team of the Company:

Mats Granryd

Former Senior Vice President and head of Business Unit Mobile Systems CDMA,

Since July 18, 2005 Vice President and head of Market Unit India & Sri Lanka and member of the Extended Management Team.

In addition to the Group Management Team, there is an Extended Management Team consisting of the officers of the Group Management Team and:

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Cesare Avenia, Vice President and head of Market Unit Italy and global customer account executive Telecom Italia;

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Rory Buckley, Vice President and head of Market Unit North East Asia;

Ragnar Bäck, Chairman of the Market Units within the Central and Eastern Europe, Middle East & Africa (CEMA) regions;

Jan Campbell, Vice President and head of Market Unit Central Europe;

Sandeep Chennakeshu, President Ericsson Mobile Platforms AB;

Mats Granryd, Vice President and head of Market Unit India & Sri Lanka;

Jef Keustermans, Vice President and head of Market Unit Northern Europe;

Kinson Loo, Vice President and global customer account executive Hutchison;

Ingemar Naeve, Vice President and head of Market Unit Iberia and global customer account executive Telefonica;

Anders Olin, Vice President and global customer account executive Vodafone;

Mats Olsson, Vice President and head of Market Unit Greater China;

Torbjörn Possne, Vice President and global customer account executive Deutsche Telekom;

Angel Ruiz, Vice President and head of Market Unit North America;

Jan Signell, Vice President and head of Market Unit South East Asia; and

Gerhard Weise, Vice President and head of Market Unit Mexico.

During 2005, the officers below were also members of the Extended Management Team of the Company:

Kristian Teär

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Former Vice President and head of Market Unit South East Asia.

Kristian Teär left the company on June 1, 2005.

Mats Dahlin

Former Vice President and head of Business Unit Enterprise.

Mats Dahlin left the company on April 30, 2005.

No member of the Extended Management Team has any business activities which compete with or in any other way negatively affect Ericsson s business, and no member of the Extended Management Team has been appointed on account of any arrangement or understanding with any major shareholder, customer, supplier or other person.

AUDITORS

In Swedish companies, the external, independent auditors are elected by the shareholders at the Annual General Meeting for a period of four years. The auditors report to the shareholders at Shareholders Meetings.

To ensure that the Board of Directors information and control requirements are fulfilled, the auditors report to the Board regarding the planning, scope and content of the annual audit. The auditors then examine the year-end financial statements and report findings, including an assessment of the accuracy and completeness of the accounts as well as adherence to appropriate accounting procedures and principles. In addition, the auditors, at least annually, provide information to the Board about assignments performed in addition to auditing services,

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the consideration paid for such services and other circumstances of relevance for determining the auditor s independence. For further information on the contacts between the Board and the auditors, please see Work of the Board of Directors above.

All our quarterly reports are subject to review by our auditors.

Statutory auditors

Peter Clemedtson

Authorized Public Accountant, PricewaterhouseCoopers.

Elected 2004 (as successor for the remaining mandate period of Carl-Eric Bohlin) until 2007.

Audit services performed in other large companies such as: Electrolux, KMT, Medivir, OMX, SEB, SinterCast.

Bo Hjalmarsson

Authorized Public Accountant, PricewaterhouseCoopers.

Elected 2003 until 2007.

Audit services performed in other large companies such as: portfolio companies to EQT, OMX, Sony Ericsson.

Thomas Thiel

Authorized Public Accountant, KPMG.

Elected 2003 until 2007.

Audit services performed in other large companies such as: Folksam, Handelsbanken, Holmen, Peab, Ratos, SKF, Swedish Match.

Deputy auditors

Jeanette Skoglund

Authorized Public Accountant, PricewaterhouseCoopers.

Elected 2003 until 2007.

Audit services performed in several large subsidiaries of global companies such as TDC Song.

Robert Barnden

Authorized Public Accountant, PricewaterhouseCoopers.

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Elected 2004 (as successor for the remaining mandate period of Peter Clemedtson) until 2007.

Audit services performed in other large companies such as: AcandoFrontec, Nobia, SCA, Seco Tools, VSM Group.

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Stefan Holmström

Authorized Public Accountant, KPMG.

Elected 2003 until 2007.

Audit services performed in other large companies such as: Atlas Copco, Länsförsäkringar, Posten, Swedish Meat, V&S Vin & Sprit.

Fees paid to external auditors

Ericsson paid the fees (including expenses) listed in the table in Notes to the Consolidated Financial Statements Note C31, Fees to auditors for audit-related and other services.

The Audit Committee will review and pre-approve any services other than audits to be performed by the external auditors, in order to assure that the provision of such services does not impair the auditors independence. The scope of services other than audit services provided by the auditors during the period 2003 to 2005 is described in Notes to the Consolidated Financial Statements Note C31, Fees to auditors .

Audit Committee Pre-approval Policies and Procedures

The Audit Committee has particular responsibility for preparing recommendations or proposals for resolution on the performance of, and level of the audit fee payable to, the external auditors. The Audit Committee reviews the scope and execution of audits performed (external and internal) and analyzes the result of and the costs for such audits.

Our Audit Committee has established pre-approval policies and procedures for other services than audits performed by the external auditors. Under these policies and procedures, proposed such services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services (general pre-approval); or (ii) require the specific pre-approval of the Audit Committee (specific pre-approval). Tax, transaction, risk management, corporate finance, attestation and accounting services and general services have received a general pre-approval of the Audit Committee, provided that the estimated fee level for the project does not exceed SEK 1 million. The Audit Committee will be informed of services rendered in compliance with this general pre-approval policy. All other audit, audit-related, tax and other services must receive specific pre-approval. The Audit Committee has delegated specific pre-approval authority to the Audit Committee Chairman for proposed services with an estimated fee level not exceeding SEK 2.5 million per project. The Chairman reports any pre-approval decisions to the Audit Committee at its next scheduled meeting. Pre-approval authority may not be delegated to management. The policies and procedures also include a list of prohibited services.

Applications to provide services that require specific approval by the Audit Committee must be made by an auditor. Such an application shall be submitted to the CFO and, if supported by the CFO, submitted by the CFO to the Audit Committee for final approval.

Disclosure Controls and Procedures

Ericsson maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed pursuant to the Securities Exchange Act of 1934, its listing agreement with Stockholm Stock Exchange and the ongoing listing requirements of the London Stock Exchange and NASDAQ is recorded, processed, summarized and reported within the time periods specified, and that such information is accumulated and communicated to the

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management, including the CEO and CFO, as appropriate, to allow for timely decisions

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regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain entities that we do not control or manage. Accordingly, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our subsidiaries.

We have carried out an evaluation, under the supervision and with the participation of management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on the foregoing, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There have been no changes in our internal control over financial reporting identified in connection with our evaluation thereof that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our Disclosure Policies

The purpose of our financial disclosure policies is to help achieve a fair market value for Ericsson shares through transparent, informative and consistent communications with the investment community on a fair and equal basis. Our aim is to communicate our strategy and results in such a way that shareholders and potential investors can gain sufficient understanding of how our Company works, our operational performance, what our prospects are and the risks we face that these opportunities may not be realized.

To continue to achieve these goals, we apply the following principles in our financial reporting and disclosure:

Transparency: our disclosure is designed to enhance understanding of the economic drivers and operational performance of our business, in order to build trust and credibility

Consistency: we aim to ensure that our disclosure is consistent and comparable within each reporting period and between reporting periods

Simplicity: we try to disclose information in as simple a manner as possible, consistent with allowing readers to gain the appropriate level of understanding of our business operations and performance

Relevance: we aim to avoid information overload by focusing our disclosure on what is relevant to Ericsson s stakeholders, or as required by regulation or listing agreements

Timely: we utilize well established disclosure controls and procedures to ensure that all disclosures are complete, accurate and performed on a timely basis

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Fair and equal: we publish all material information via press releases to ensure simultaneous dissemination to all market participants

Best practice: we strive to ensure that our disclosure is in line with industry norms, and, if possible, lead the way to improved best in class standards.

Our website (www.ericsson.com/investors) includes comprehensive information about Ericsson, including an archive of our annual and interim reports, on-demand-access to recent news and copies of presentations that senior management have given at industry conferences.

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Independence requirements on the Board

The Ericsson Board of Directors is subject to a variety of independence requirements, summarized below. The Board complies with these requirements except for certain NASDAQ requirements which are contradictory to Swedish Law and for which exemption has been granted, see NASDAQ Corporate Governance Exemptions below.

The Stockholm Stock Exchange listing requirements

- Not more than one person from the senior management may be a member of the board (applies also to senior management in the company s subsidiaries).
- A majority of the directors elected by the shareholders meetings (employee representatives not included) are to be independent of the company and its management. An overall assessment should be made in each case in order to consider whether a director is independent or not.
- At least two of the directors who are independent of the company and its management shall also be independent of the company s major shareholders and one of these directors should have experience in the requirements placed on a listed company.

The Swedish Code of Corporate Governance

Independence requirements on the board of directors (excluding employee representatives):

- Not more than one person from the senior management may be a member of the board.
- A majority of the directors elected by the shareholders meetings are to be independent of the company and its management.
- At least two of the directors who are independent of the company and its management shall also be independent of the company s major shareholders.

Independence requirements on the audit committee:

- The majority of the audit committee members are to be independent of the company and senior management.
- At least one member of the committee is to be independent of the company s major shareholders.

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A board member who is part of senior management may not be a member of the committee.

Independence requirements on the remuneration committee:

The members of the committee are to be independent of the company and the senior management.

The NASDAQ Market Place Rules

Independence requirements on the board of directors:

A majority of the members of the board of directors must be independent within the meaning of the NASDAQ rules.

Ericsson has obtained an exemption from NASDAQ allowing for employee representative directors to be exempt from NASDAQ s independence requirements.

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Sarbanes-Oxley Act of 2002 and corresponding NASDAQ rules

Independence requirements on the audit committee:

All members of the audit committee must be independent within the meaning of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 includes a specific exemption for non executive employee representatives.

NASDAQ Corporate Governance Exemptions

Pursuant to an amendment to NASDAQ s Marketplace Rules adopted in 2005, foreign private issuers such as Ericsson may follow home country practice in lieu of certain of NASDAQ s corporate governance requirements.

Prior to the adoption of the 2005 amendment, NASDAQ s Marketplace Rules provided that foreign private issuers may, upon application, be exempt from certain of its corporate governance requirements when these requirements were contrary to the laws, rules or regulations, or generally accepted business practices of the issuer s home jurisdiction.

Ericsson has received (and is entitled to continue to rely thereon under the 2005 amendment) exemptions from NASDAQ s corporate governance requirements under the Marketplace Rules as follows:

from the requirement that the majority of the board consist of, and that each of the audit and remuneration committees consist solely of, independent directors, in order to allow for the required participation of employee representatives on the board and each committee thereof as mandated by Swedish law;

from the requirement that an issuer s director nominees be selected, or recommended for the board s selection, by either a majority of independent directors or a nomination committee comprised solely of independent directors, in order to allow for the fact that: (1) under Swedish law, shareholders (not the board) have the authority to nominate directors for election to the board; and (2) in line with common market practice among Swedish public companies, Ericsson s Nomination Committee is elected by shareholders; and

from the requirement that the independent directors of the board have regularly scheduled meetings at which only independent directors are present (executive sessions), in order to allow for the fact that under Swedish law: (1) employee representatives on the board have the right to participate in all board and board committee meetings; and (2) decisions may not be made by the board unless, where possible, all of the directors have had the opportunity to participate and have received satisfactory information in order to reach a decision.

In addition, Ericsson relies on the exemption provided by the 2005 amendment with respect to the requirement of NASDAQ s Marketplace Rules relating to quorums. NASDAQ requires that an issuer provide, as specified in the issuer s bylaws, for a quorum for any meeting of the holders of its common stock, such quorum to be not less than 33.3 percent of the outstanding shares of the issuer s voting common stock. This is contrary to Swedish law followed by Ericsson under which: (1) meetings of shareholders are convened in accordance with the rules of the Swedish Company Act and the articles of association of the issuer; and (2) the quorum requirements for any specific meeting of shareholders differ based on the subject matter to be decided upon at the meeting.

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SUPPLEMENTAL INFORMATION

The following information is provided for purposes of complying with certain requirements of Form 20-F which are not satisfied in full by the information in the Swedish Annual Report.

EXCHANGE RATES

The following tables provide information with respect to the exchange rate for SEK per USD 1.00, based on the noon buying rate for cable transfers in SEK as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate of May 11, 2006, was SEK 7.2857 per USD 1.00. The average is computed using the noon buying rate on the last business day of each month during the period indicated.

Year ended December 31	Average
2001	10.4328
2002	9.6571
2003	8.0351
2004	7.3320
2005	7.5170

Month	High	Low
September 2005	7.8136	7.3936
October 2005	7.9695	7.6870
November 2005	8.2434	7.9749
December 2005	8.1162	7.8323
January 2006	7.8097	7.5385
February 2006	7.9656	7.6487
March 2006	7.9604	7.6491
April 2006	7.7580	7.3579

We describe the effects of exchange rate fluctuations on our business in the Board of Directors Report under the heading Risk Management and in Notes to the Consolidated Financial Statements Note C21, Financial Risk Management and Financial Instruments.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Telefonaktiebolaget LM Ericsson is entered under no. 556016-0680 in the Company Register kept by the Swedish Companies Registration Office. Our Company s objective and purposes are described in §2 of the Articles of Association.

Our Articles of Association do not stipulate anything regarding a) a director s power to vote on a proposal, arrangement, or contract in which the director is materially interested, b) our directors power to vote for compensation to themselves, c) our directors borrowing powers, d) retirements rules for our directors or e) the number of shares required for a director s qualification. Applicable provisions are found in the Swedish Companies Act, as referred to in Certain Powers of Directors and the President below.

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There are no age limit restrictions for directors and they are not required to own any shares in the company.

Share Capital, Increases of Share Capital and Preferential Rights of Shareholders

The Articles of Association of Ericsson provide that the share capital of the Company may not be less than SEK 6,000 million nor more than SEK 24,000 million, and that the number of shares in the Company shall amount to no less than 6,000,000,000 and no more than 24,000,000,000. The registered share capital is SEK 16,132,258,678 and the Company has in total issued SEK 16,132,258,678 shares.

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ERICSSON ANNUAL REPORT ON FORM 20-F 2005

The Company s shares are divided into three series: Class A shares, Class B shares and Class C shares; however, no Class C shares are currently outstanding. Under the Swedish Companies Act of 2005, applicable as of January 1, 2006 (the Swedish Companies Act), shareholders must approve each issue of additional shares either by deciding on the share issue at a shareholders meeting, or by a shareholders approval of a decision on a share issue by the Board, or by giving an authorization to the Board to decide about a share issue. If we decide to issue new Class A, Class B and Class C shares by means of a cash issue, or an issue against payment through set-off of claims, Class A, Class B and Class C shareholders (except for Ericsson and its subsidiaries, in the event they hold shares in Ericsson) have a primary preferential right to subscribe for new shares of the same type in relation to the number of shares previously held by them. Shares not subscribed for through a preferential right shall be offered to all shareholders for subscription on a pro rata basis. If we decide to issue new shares of only one series by means of a cash issue or an issue against payment through set-off of claims, all shareholders, regardless of whether their shares are Class A, Class B or Class C, are entitled to a preferential right to subscribe for new shares in proportion to the number of shares previously held by them. Shareholders may vote to waive shareholders preferential rights at a general meeting.

If we decide to issue warrants or convertibles through a cash issue or an issue against payment through set-off of claims, the shareholders have preemptive rights to subscribe to warrants as if the issue were of the shares that may be subscribed to pursuant to the warrant and, respectively, preemptive rights to subscribe to convertibles as if the issue were of the shares that the convertibles may be converted to.

The above does not constitute any restriction to waive the shareholders preferential rights when deciding on either a cash issue, an issue against payment through set-off of claims, an issue of warrants or an issue of convertibles.

Dividends

Our Class A and Class B shareholders have the same right to dividends, while Class C shareholders have a right to a yearly dividend as described in article 15 of our Articles of Association. No Class C shares are currently outstanding.

Under Swedish law, only a general meeting of shareholders may decide on payment of dividends, which may not exceed the amount proposed by the Board of Directors (except in certain limited circumstances), and may only be paid from funds legally available for that purpose. Under Swedish law, no interim dividends may be paid in respect of any fiscal period for which audited financial statements of the company have not yet been adopted by the annual general meeting of shareholders. The market practice in Sweden is for dividends to be paid annually. Under the Swedish Companies Act, dividends to shareholders and other transfers of value from a company such as purchases of own shares (see below) may only be made in case the company s restricted equity remains fully covered after the transfer of value has been made. The calculation shall be based upon the most recently adopted balance sheet, and any changes in the restricted equity that has occurred after the balance sheet date shall be taken into account. In addition, dividends to shareholders and other transfers of value from the company may only be made if this is justifiable taken into account the type of business activities of the company, their scope and risks related thereto and the company s need for financial resources, its liquidity and position. In respect of parent companies, also the business activities of the group, their scope and risks related thereto and the group s need for financial resources, its liquidity and position should be taken into account.

The Company s shares are registered in the computerized book-entry share registration system administered by VPC AB (VPC). The rights attached to shares eligible for dividends accrue to those persons whose names are recorded in the register of shareholders on the record day. The dividends are then sent to a specified account as directed by the person registered with VPC, or to the address of that person. The relevant record day must, in

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most circumstances, be specified in the resolution declaring a dividend or resolving upon a capital increase or any similar matter in which shareholders have preferential rights, or the Board of Directors must be authorized to determine the relevant record day.

Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on issues of shares with preferential rights for the shareholders, shares, as well as rights. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is adopted for share issues. Specific authority to act as a nominee must be obtained from VPC. The nominee must issue a public report to the VPC every six months, listing all beneficial holders of more than 500 shares. VPC is required to keep a register with regard to any holding on behalf of a single beneficial owner in excess of 500 shares in any one company. This list must reveal the names of the beneficial owner and must be open to public inspection.

Voting

In a general meeting of Ericsson, each Class A share shall carry one vote, each Class B share one tenth of one vote and each Class C share one-thousandth of one vote.

We are required to publish notices to attend annual general meetings no earlier than six weeks and no later than four weeks prior to the general meeting and the same notice period requirements apply regarding extraordinary general meetings concerning changes in our articles of association. Notices to attend other types of extraordinary general meetings must be published no earlier than six weeks and no later than two weeks prior to the general meeting.

Directors are elected during the annual general meeting for a period of one year at a time and do not stand for reelection at staggered intervals.

A shareholder may attend and vote at the meeting in person or by proxy. Proxies are not valid for longer than a year from the date of issuance. Any shareholder wishing to attend a general meeting must notify us no later than 4:00 p.m. (CET) on the day specified in the notice. We are required to accept all notifications of attendance received at least five business days (Saturdays normally included) prior to the meeting. A person designated in the register as a nominee (including the depositary of the ADSs) is not entitled to vote at a general meeting, nor is a beneficial owner whose share is registered in the name of a nominee (including the depositary of the ADSs) unless the beneficial owner first arranges to have such owner s own name entered in the register of shareholders maintained by VPC no later than the designated record day.

Under the Swedish Companies Act, resolutions are passed by a simple majority of votes cast at the meeting with the chairman of the meeting having a decisive vote (except in respect of elections), unless otherwise required by law or a company s articles of association. Under the Swedish Companies Act, certain resolutions require special quorums and majorities, including, but not limited to, the following:

A a resolution to amend the articles of association requires a majority of two-thirds of the votes cast as well as two-thirds of the shares represented at the meeting, except in those circumstances described in B-D below;

B a resolution to amend the articles of association which reduces any shareholder s rights to profits or assets, restricts the transferability of shares or alters the legal relationship between shares, normally requires the unanimous approval of the shareholders present at the meeting and who hold nine-tenths of all outstanding shares;

C a resolution to amend the articles of association for the purpose of limiting the number of shares with which a shareholder may vote at a general meeting or allocating part of the net profit for the fiscal year

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to a restricted fund or limiting the use of the company s profits or assets in a liquidation or dissolution, normally requires the approval of shareholders representing two-thirds of the votes cast and nine-tenths of the shares represented at the meeting;

D a resolution of the kind referred to under B or C above may, however, be taken with a lower supermajority requirement if the amendments referred to therein will only adversely affect specific shares or classes of shares. In such cases, the requirement under a above will apply together with the following separate supermajority: (a) where only a class of shares is adversely affected, approval of the owners of one-half of all shares of such class and nine-tenths of the shares of such class represented at the meeting, or (b) where the shares adversely affected do not constitute a class of shares, the unanimous approval of all such affected outstanding shares present at the meeting and who hold nine-tenths of all outstanding shares adversely affected;

E a resolution to issue, approve or authorize the issuance for cash of new shares, warrants or convertibles with a deviation from the preferential right for existing shareholders requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting;

F a resolution to reduce the outstanding share capital requires a two-thirds majority of votes cast at the meeting as well as two-thirds of the shares represented at the meeting. In case there are several classes of shares in a company, the above described majority requirement shall apply also within each share class represented at the meeting and for which the rights of the shares are adversely affected; and

G a resolution to approve a merger requires a two-thirds majority of the votes cast at the meeting and two-thirds of the shares represented at the meeting.

At a general meeting of shareholders, a shareholder or proxy for one or more shareholders may cast full number of votes represented by the holder s shares.

Purchase of Own Shares

A public Swedish limited liability company whose shares are traded on a securities exchange, an authorized market place or another regulated market place is entitled to purchase its own shares under certain conditions. A purchase by us of our own shares may take place only if (a) the purchase has been decided upon by a general meeting of shareholders or the Board has been authorized by a general meeting of shareholders, in both cases by a two thirds majority of votes cast at the meeting as well as two-thirds of the shares present or represented at the meeting, (b) the purchase is effected on a securities exchange or in some other regulated market either in the European Economic Area (EEA) or outside the EEA (in the latter case with the approval of the Swedish Financial Supervisory Authority the SFSA) or pursuant to an offer to all shareholders or holders of a specific class of shares, (c) the Company s restricted equity will still be fully covered and the purchase is justifiable taken into account the type of business activities of the Company and the group, their scope and risks related thereto and the Company s and the group s need for financial resources, its liquidity and position, and (d) we and our subsidiaries do not hold or, as a result of purchase, will not hold in excess of 10 percent of all our outstanding shares. As of December 31, 2005, the Company held an aggregate of 268,065,241 repurchased Class B shares.

Investment Restrictions

There are no limitations imposed by Swedish law or by our Articles of Association in respect of the rights of non-residents or foreign persons to purchase, own or sell securities issued by us.

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As a general rule, Swedish securities may be freely sold to and owned by non-residents or foreign persons; however, on account of our defense-related contracts with the Swedish government and certain defense contractors, we are subject to defense industry licensing requirements in Sweden. The licenses granted by the

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governmental authorities in Sweden in relation to the defense industry provide that the production of defense equipment may be carried on as long as Swedish legal entities or persons hold the ultimate control of the parent company. In this context, control relates to the holding of the majority of the voting power of the outstanding shares. We are currently controlled by Swedish legal entities and persons and we must report any change, which could result in a change from Swedish control to foreign control. Further, our President and CEO and at least 50 percent of the members of our Board of Directors and their deputies must be Swedish citizens domiciled in Sweden. If we do not comply with the requirements under our licenses, the governmental authorities may reconsider our licenses or their terms. Furthermore, there are certain flagging and ownership examination rules that apply, irrespective of nationality.

Pursuant to recommendations concerning the disclosure of acquisition and transfer of shares issued by Naringslivets Borskommitte (the Swedish Industry and Commerce Stock Exchange Committee), any seller or purchaser of securities including shares of stock, convertible debt instruments, warrants, non-standardized options and futures of a Swedish company listed on Stockholmsborsen, must report to Stock holmsbb rsen and to the company transactions in which the purchaser or seller acquires or disposes of 5 percent of any subsequent percentage that is a multiple of five, up to and including 90 percent of either the voting rights of all shares or the total number of shares in the company. These changes in ownership should also be reported to an established news agency and to a nationally published newspaper in Sweden no later than 9:00 a.m. on the day after which trading has been conducted on Stockholmsborsen.

In addition, according to the Swedish Financial Instruments Trading Act, if a natural or legal person acquires or disposes of shareholdings in a Swedish company that has its shares listed on a stock exchange situated or operating within one or more EEA countries and, as a result of such acquisition or disposition, holds voting rights equal to, in excess of or less than one of the thresholds of 10 percent, 20 percent, 33 percent, 50 percent or 66 percent, the person is required to notify the company in writing at the same time it notifies the stock exchange or, if the shares are not listed in Sweden, the SFSA within seven calendar days of the acquisition or disposition.

In addition, the Act on Reporting Obligations Regarding Certain Holdings of Financial Instruments requires, among other things, that certain individuals who own shares representing 10 percent or more of the share capital or the voting rights in a publicly traded company report such ownership to the SFSA, which keeps a public register based on the information contained in such reports, and also to report any changes in such ownership within five business days (Saturdays normally included).

EXCHANGE CONTROLS

There is no Swedish legislation affecting a) the import or export of capital or b) the remittance of dividends, interest or other payments to non-resident holders of our securities except that, subject to the provisions in any tax treaty, dividends are subject to withholding tax.

The defense industry is subject to licensing requirements in Sweden. The licenses granted by the governmental authorities in Sweden in relation to the defense industry provide that the production of defense equipment may be carried on as long as Swedish legal entities or persons hold the ultimate control of the parent company. In this context, control relates to the holding of the majority of the voting power of the outstanding shares. Such control of the parent company is now held by Swedish legal entities and persons and the Company must report any change, which could result in a change from Swedish control to foreign control. Further, the president of the Company and at least 50 percent of the members of the board of directors and their deputies must be Swedish citizens domiciled in Sweden. In case of non-compliance with the requirements under a license, the governmental authorities may reconsider the license or its terms.

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TAXATION

General

The taxation discussion set forth below does not purport to be a complete analysis or listing of all potential tax effects relevant to the acquisition, ownership or disposition of Class B shares or ADSs. The statements of United States and Swedish tax laws set forth below are based on the laws in force as of the date of this report and may be subject to any changes in United States or Swedish law, and in any double taxation convention or treaty between the United States and Sweden, occurring after that date, which changes may then have retroactive effect.

Specific tax provisions may apply for certain categories of tax payers. Your tax treatment if you are a holder of Class B shares or ADSs depends in part on your particular situation. If you are a holder of Class B shares or ADSs, you should therefore consult a tax advisor as to the tax consequences relating to your particular circumstances resulting from the ownership of Class B shares or ADSs.

The tax consequences to holders of ADSs, as discussed below, apply equally to holders of Class B shares.

Certain Swedish Tax Considerations

This section describes the material Swedish income and net wealth tax consequences for a holder of ADSs or Class B shares who is not considered to be a Swedish resident for Swedish tax purposes. This section applies to you only if you are a holder of portfolio investments representing less than 10 percent of capital and votes and is not applicable if the ADSs or Class B shares pertain to a permanent establishment or fixed base of business in Sweden.

Taxation on Capital Gains

Generally, non-residents of Sweden are not liable for Swedish capital gains taxation with respect to the sale of ADSs or Class B shares. However, under Swedish tax law, capital gains from the sale of shares in Swedish companies and certain other securities by an individual may be taxed in Sweden at a rate of 30 percent if the seller has been a resident of Sweden or has lived permanently in Sweden at any time during the year of the sale or the 10 calendar years preceding the year of the sale (absent treaty provisions to the contrary). The provision is applicable on ADSs or Class B shares.

This provision may, however, be limited by tax treaties that Sweden has concluded with other countries. Under the tax treaty between Sweden and the United States (the U.S. Tax Treaty), this provision applies for ten years from the date the individual became a non-resident of Sweden.

Taxation on Dividends

A Swedish dividend withholding tax at a rate of 30 percent is imposed on dividends paid by a Swedish corporation, such as us, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish corporation, including payments as a result of redemption of shares and repurchase of stock through an offer directed to its shareholders. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under the U.S. Tax Treaty, the withholding tax on dividends paid on portfolio investments to eligible U.S. holders is reduced to 15 percent.

Under all Swedish tax treaties, except the tax treaty with Switzerland, withholding tax at the applicable treaty rate should be withheld by the payer of the dividends. With regard to dividends paid from shares in corporations registered with the VPC (such as our shares), a reduced rate of dividend withholding tax under a tax treaty is generally applied at

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the source by the VPC or, if the shares are registered with a nominee, the nominee, as long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to the VPC or the nominee.

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In those cases where Swedish withholding tax is withheld at the rate of 30 percent and the person who received the dividends is entitled to a reduced rate of withholding tax under a tax treaty, a refund may be claimed from the Swedish tax authorities before the end of the fifth calendar year following the year that the distribution was made.

Taxation on Interest

No Swedish withholding tax is payable on interest paid to non-residents of Sweden.

Net Wealth Taxation

The ADSs and Class B shares are not subject to Swedish net wealth taxation in the hands of a holder that is not resident in Sweden for tax purposes.

Certain United States Federal Income Tax Consequences

The following discussion is a summary of the material United States federal income tax consequences relevant to the ownership and disposition of ADSs or Class B shares. This discussion is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. The discussion is not a full discussion of all tax considerations that may be relevant to the ownership and disposition of ADSs or Class B shares. The discussion applies only if you will hold the ADSs and/or the Class B shares as capital assets and you use the USD as your functional currency. It does not deal with the tax treatment of investors subject to special rules, such as grantor trusts, real estate investment trusts, regulated investment companies, banks, brokers or dealers in securities, traders in securities or currencies that elect to use a mark-to-market method of recording for their securities holdings, financial institutions, insurance companies, tax-exempt entities, investors liable for alternative minimum tax, holders (either actually or constructively) of 10 percent or more of our Class B shares, persons holding ADSs and/or Class B shares as part of a hedging, straddle, conversion or constructive sale transaction and persons who are resident or ordinarily resident in Sweden. In addition, investors holding ADSs and/or Class B shares indirectly through partnerships are subject to special rules not discussed below. You should consult your own tax advisers about the United States federal, state, local and foreign tax consequences to you of the ownership and disposition of the ADSs or Class B shares.

The discussion below applies to you only if you are a beneficial owner of ADSs and/or Class B shares not resident in Sweden for purposes of the U.S. Tax Treaty and you are, for United States federal income tax purposes, (1) a citizen or resident of the United States, (2) a corporation or any other entity treated as a corporation that is organized in or under the laws of the United States or its political subdivisions, (3) a trust if all of the trust s substantial decisions are subject to the control of one or more United States persons and the primary supervision of the trust is subject to a United States court or if a valid election is in effect with respect to the trust to be taxed as a United States person, or (4) an estate the income of which is subject to United States federal income taxation regardless of its source.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with the terms. If you hold ADSs, you will be treated as the holder of the underlying Class B shares represented by those ADSs for United States federal income tax purposes.

Taxation of ADSs or Class B shares

Dividends

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Subject to the passive foreign investment company rules discussed below, the gross amount of dividends paid (before reduction for any Swedish withholding taxes) with respect to the ADSs or Class B shares generally

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will be included in your gross income as ordinary income from foreign sources to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of earnings and profits will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADSs or Class B shares and thereafter as capital gain. The dividends will not be eligible for the dividends received deduction available to corporations in respect of dividends received from other U.S. corporations. The amount of any dividend paid in SEK will be the U.S. dollar value of the dividend payment based on the exchange rate in effect on the date of receipt by you, in the case of Class B shares or by the depositary, in the case of ADSs, whether or not the payment is converted into USD at that time. Your tax basis in the SEK received will equal such USD amount. Gain or loss, if any, recognized on a subsequent sale or conversion of the SEK will be U.S. source ordinary income or loss.

If you are a non-corporate holder of ADSs or Class B shares, dividends you receive on the ADSs or Class B shares for taxable years beginning before January 1, 2009, may be taxed at the lower applicable capital gains rate provided that (1) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, (2) certain holding period requirements are met and (3) either (a) our ADSs continue to be listed on the Nasdaq Stock Market (or a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended) or (b) we are eligible for the benefits of the U.S. Tax Treaty. You should consult your own tax advisors regarding the availability of the lower rate for dividends paid with respect to ADSs or Class B shares.

Subject to certain limitations, you will generally be entitled to receive credit against your United States federal income tax liability (or a deduction against your United States federal taxable income) with respect to any Swedish tax withheld in accordance with the U.S. Tax Treaty and paid over to Sweden. If a refund of the tax withheld is available to you under the laws of Sweden or under the U.S. Tax Treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your United States federal income tax liability (and will not be eligible for the deduction against your United States federal taxable income). For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, and will generally be treated as passive income (or, in the case of certain holders, financial services income). For taxable years beginning after December 31, 2006, dividends will generally be treated as passive category income (or, in the case of certain holders, general category income).

Sale or Exchange of ADSs or Class B shares

Subject to the passive foreign investment company rules discussed below, you will generally recognize capital gain or loss on the sale or other disposition of the ADSs or Class B shares equal to the difference between the USD value of the amount realized and your adjusted tax basis (determined in USD) in the ADSs or Class B shares. Such gain or loss will be capital gain or loss and will generally be treated as arising from U.S. sources for foreign tax credit limitation purposes.

The amount realized on a disposition of ADSs or Class B shares will generally be the amount of cash you receive for the ADSs or Class B shares (which, in the case of payment in a non-U.S. currency, will equal the USD value of the payment received determined on (a) the date of receipt of payment if you are a cash basis taxpayer and (b) the date of disposition if you are an accrual basis taxpayer). If the ADSs or Class B shares are treated as traded on an established securities market, if you are a cash basis taxpayer (or, if you are an accrual basis taxpayer, if you so elect) you will determine the USD value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

You will have a tax basis in any foreign currency received equal to the USD amount realized. Any gain or loss you realize on a subsequent conversion of foreign currency will be U.S. source ordinary income or loss.

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Passive Foreign Investment Company Status

A non-U.S. corporation is a passive foreign investment company (a PFIC) in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (a) at least 75 percent of its gross income is passive income or (b) at least 50 percent of the quarterly average value of its assets is attributable to assets that produce or are held to produce passive income. Based on the market value of our shares, the composition of our assets and income and our operations, we believe we were not a PFIC during the year 2005. However, whether or not we will be considered a PFIC will depend on the nature and source of our income and the value of our assets, as determined from time to time. If we are treated as a PFIC, we will not provide information necessary for the qualified electing fund election as the term is defined in the relevant provisions of the Code. You should consult your own tax advisors about the consequences of our classification as a PFIC.

If we were a PFIC, for any taxable year in which you held ADSs or Class B shares, you would be subject to special rules with respect to:

- any gain realized on the sale or other disposition of ADSs or Class B shares; and
- any excess distribution made to you (generally, any distributions to you in respect of ADSs or Class B shares during a single taxable year that are, in the aggregate, greater than 125 percent of the average annual distributions received by you in respect of ADSs or Class B shares during the three preceding taxable years or, if shorter, your holding period for ADSs or Class B shares).

Under these rules:

- the gain or excess distribution would be allocated ratably over your holding period for ADSs or Class B shares;
- the amount allocated to the taxable year in which the gain or excess distribution was realized and any year before we became a PFIC would be taxable as ordinary income and
- the amount allocated to each prior year, other than the current year and any taxable year prior to the first taxable year in which we were a PFIC, would be subject to tax at the highest applicable marginal tax rate in effect for each such year; and an interest charge would be imposed to cover the deemed benefit for the deferred payment of the tax attributable to each such year.

As an alternative to the special rules described above, holders of marketable stock in a PFIC may elect mark-to-market treatment with respect to their ADSs or Class B shares. ADSs or Class B shares will not be considered marketable stock unless the Class B shares are regularly traded on a qualified exchange or other market. If the mark-to-market election is available and you elect mark-to-market treatment you will, in general, include as ordinary income each year an amount equal to the increase in value of your ADSs or Class B shares for that year (measured at the close of your taxable year) and will generally be allowed a deduction for any decrease in the value of your Class B shares for the year, but only to the extent of previously included mark-to-market income.

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If you own ADSs or Class B shares during any year in which we are a PFIC, you are required to make an annual return on IRS Form 8621 regarding distributions received with respect to Class B shares and any gain realized on the disposition of your ADSs or Class B shares.

Information reporting and backup withholding

In general, information reporting requirements may apply to dividends paid in respect of ADSs or Class B shares and the proceeds received on the sale or exchange of the ADSs or Class B shares within the United States or by a broker with certain United States connections. Backup withholding, at a rate of 28 percent through 2010,

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and 31 percent thereafter, may apply to payments to you of dividends paid in respect of ADSs or Class B shares or the proceeds of a sale or other disposition of ADSs or Class B shares if you fail to provide an accurate taxpayer identification number (certified on IRS Form W-9) or, upon request, to certify that you are not subject to backup withholding, or otherwise to comply with the applicable requirements of backup withholding. The amount of any backup withholding from a payment to you will be allowed as a credit against your United States federal income tax liability and a refund of any excess amount withheld under the backup withholding rules may be obtained by filing the appropriate claim for refund with the IRS and furnishing any required information.

FIVE-YEAR SUMMARY

US GAAP

SEK million	2005	2004[2)]	2003[2)]	2002[2)]	2001[1)2)]
Net sales	**151,821**	131,972	117,738	145,773	231,839
Net income	**24,495**	14,386	-10,597	-19,918	-24,403
Earnings per share, basic, after cumulative effect of accounting change (SEK per share)[3) 4)]	**1.55**	0.91	-0.67	-1.58	-2.23
Earnings per share, diluted, after cumulative effect of accounting change, diluted (SEK per share)[3) 5)]	**1.54**	0.91	-0.68	-1.58	-2.27
Total assets	**211,042**	192,863	195,611	226,480	282,207
Stockholders equity	**104,638**	84,369	69,963	83,203	77,801
Capital stock	**16,132**	16,132	16,132	15,974	8,066
Number of shares (in millions):					
average, basic[3)]	**15,843**	15,829	15,823	12,573	10,950
average, diluted[3)]	**15,907**	15,855	15,831	12,684	11,057

1) Upon adoption of SFAS142 on January 1, 2002, Ericsson ceased amortization of all goodwill for US GAAP reporting purposes. Amortization expense on goodwill on a US GAAP basis for the year ended December 31, 2001 was SEK 1,123 million.
2) Effective October 1, 2001, Sony Ericsson Mobile Communications assumed substantially all of the operations of the Phones segment. As of this date, 50 percent of the results of the Sony Ericsson joint venture are reported under Share in earnings of joint ventures and associated companies pursuant to equity accounting principles. Retained Phones operations are reported under Other operations .
3) 2001 adjusted for stock dividend element of stock issue.
4) Earnings per share, basic, are calculated by dividing net income by average number of shares outstanding, basic.
5) Diluted earnings (loss) per share are calculated by dividing net income (loss), after cumulative effect of accounting change, by the sum of the average number of shares outstanding plus all additional shares that would have been outstanding if all convertible debentures were converted and stock options were exercised. Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.

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INVESTMENTS

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company as of December 31, 2005. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish Companies Registration Office (Bolagsverket), may be obtained upon request to: Telefonaktiebolaget LM Ericsson, External & Management Information, SE-164 83 Stockholm, Sweden.

SHARES OWNED DIRECTLY BY THE PARENT COMPANY

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK m.
Subsidiary companies						
I	Ericsson AB	556056-6258	Sweden	100	50	20,645
I	Ericsson Shared Services AB	556251-3266	Sweden	100	361	7,216
I	Ericsson Enterprise AB	556090-3212	Sweden	100	360	335
I	Ericsson Microwave Systems AB	556028-1627	Sweden	100	30	152
I	Ericsson Sverige AB	556329-5657	Sweden	100	100	102
II	AB Aulis	556030-9899	Sweden	100	14	6
II	LM Ericsson Holding AB	556381-7666	Sweden	100	105	131
III	Ericsson Gämsta AB	556381-7609	Sweden	100	162	324
III	Ericsson Credit AB	556326-0552	Sweden	100	5	5
	Other (Sweden)					2,028
I	Ericsson Austria GmbH		Austria	100	4	665
I	Ericsson Denmark A/S		Denmark	100	90	216
I	Oy LM Ericsson Ab		Finland	100	13	196
II	Ericsson Participations France SAS		France	100	26	524
I	Ericsson GmbH		Germany	100	20	343
I	Ericsson Hungary Ltd.		Hungary	100	2,552	120
II	LM Ericsson Holdings Ltd.		Ireland	100	2	15
I	Ericsson S.r.l.		Italy	53[1])		3,151
II	Ericsson Holding International B.V.		The Netherlands	100	222	3,200
I	Ericsson A/S		Norway	100	156	237
I	Ericsson Corporatio AO		Russia	100	5	5
I	Ericsson AG		Switzerland	100		
II	Ericsson Holding Ltd.		United Kingdom	100	74	758
	Other, Europe, excluding Sweden					218
II	Ericsson Holding II Inc.		United States	100		9,531
I	Cia Ericsson S.A.C.I.		Argentina	95[2])	5	10
I	Ericsson Telecommunicagoes S.A.		Brazil	22[3])		368
I	Teleindustria Ericsson S.A.		Mexico	100	n/a	1,550
	Other, United States, Latin America					59
II	Teleric Pty Ltd.		Australia	100	20	100
I	Ericsson Ltd.		China	100	2	2
I	Ericsson (China) Company Ltd.		China	100	65	475
I	Nanjing Ericsson Panda Communication Co. Ltd.		China	25[4])	5	37

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I	Ericsson India Private Ltd.	India	100	725	147	
I	Ericsson (Malaysia) Sdn. Bhd.	Malaysia	70	2	4	
I	Ericsson Telecommunications Pte. Ltd.	Singapore	100		1	
I	Ericsson Taiwan Ltd.	Taiwan	80	240	20	
I	Ericsson (Thailand) Ltd.	Thailand	49[5])	90	17	
	Other countries (the rest of the world)				153	
	Total				53,066	

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SHARES OWNED DIRECTLY BY THE PARENT COMPANY (CONTINUED)

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value in local currency, million	Carrying value, SEK m.
Joint ventures and associated companies						
I	Sony Ericsson Mobile Communications AB	556615-6658	Sweden	50	50	4,136
I	Ericsson Nikola Tesla d.d.		Croatia	49	131	330
	Other					8
	Total					**4,474**

SHARES OWNED BY SUBSIDIARY COMPANIES

Type	Company	Reg. No.	Domicile	Percentage of ownership
Subsidiary companies				
I	Ericsson Network Technologies AB	556000-0365	Sweden	100
II	Ericsson Cables Holding AB	556044-9489	Sweden	100
I	Ericsson France SAS		France	100
I	LM Ericsson Ltd.		Ireland	100
I	Ericsson Telecommunicazioni S.p.A.		Italy	99
I	Ericsson S.p.A		Italy	99
II	Ericsson Nederland B.V.		The Netherlands	100
I	Ericsson Telecommunicatie B.V.		The Netherlands	100
I	Ericsson España S.A.		Spain	100
I	Ericsson Telekomunikasyon A.S.		Turkey	100
I	Ericsson Ltd.		United Kingdom	100
I	Ericsson Canada Inc.		Canada	100
I	Ericsson Inc.		United States	100
I	Ericsson NetQual Inc.		United States	100
I	Ericsson IP Infrastructure Inc.		United States	100
I	Ericsson Amplified Technologies Inc.		United States	100
I	Ericsson Servicos de Telecomunicações Ltda.		Brazil	100
I	Ericsson Australia Pty. Ltd.		Australia	100
I	Ericsson (China) Communications Co. Ltd.		China	100
I	Nippon Ericsson K.K.		Japan	100
I	Ericsson Consumer Products Asia Pacific Pte Ltd.		Singapore	100

Key to type of company

I Manufacturing, distribution and development companies

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II Holding companies

III Finance companies

1) Through subsidiary holdings, total holdings amount to 100% of Ericsson S.r.I.

2) Through subsidiary holdings, total holdings amount to 100% of Cia Ericsson S.A.C.I.

3) Through subsidiary holdings, total holdings amount to 100% of Ericsson Telecommunicações S.A.

4) Through subsidiary holdings, total holdings amount to 51% of Nanjing Ericsson Panda Communication Co. Ltd.

5) Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED IN THE YEAR

SFAS123(R): SHARE-BASED PAYMENT

SFAS123(R) was issued in December 2004 and is effective for the first annual reporting period that starts after 15 December 2005. It supersedes APB Opinion 25, Accounting for Stock Issued to Employees. SFAS123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. Ericsson adopted SFAS 123 through SFAS 148 in 2004 using the prospective application transition method. We are still studying the impact of applying the various provisions of SFAS No. 123(R) including the transitional alternatives.

SFAS151: INVENTORY COSTS

SFAS151 was issued in November 2004 and is effective for all inventory costs incurred during fiscal years beginning after 15 June 2005. This statement amends ARE 43. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Unallocated overheads are recognised as an expense in the period in which they are incurred. Other items such as abnormal freight, handling costs and amounts of wasted materials (spoilage) require treatment as current-period charges. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have a material effect on the results or net assets of the group.

SFAS154: ACCOUNTING CHANGES AND ERROR CORRECTIONS

SFAS154 was issued in May 2005 and is effective for fiscal years beginning after 15 December 2005. This statement replaces APB Opinion 20, Accounting Changes. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will be adopting this pronouncement beginning in our fiscal year 2006.

SFAS 155: ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS AN AMENDMENT OF FASB STATEMENTS NO. 133 AND 140

In February 2006, the FASB issued FASB Statement No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS 155 nullifies the guidance from the FASB s Derivatives Implementation Group (DIG) in Issue D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, which deferred the application of the bifurcation requirements of SFAS 133 for certain beneficial interests. SFAS 155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation and requires that beneficial interests in securitized financial assets be analysed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS 155 also provides clarification on specific points related to derivative accounting. SFAS 155 is effective for fiscal years beginning after 15 September 2006. The Company does not currently expect SFAS 155 to have a material impact on its financial position, results of operations or cash flows.

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EITF 05-05: ACCOUNTING FOR EARLY RETIREMENT OR POST-EMPLOYMENT PROGRAMS WITH SPECIFIC FEATURES (SUCH AS TERMS SPECIFIED IN ALTERSTEILZEIT EARLY RETIREMENT ARRANGEMENTS)

In June 2005 EITF 05-05 Accounting for Early Retirement or Post-employment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements) (EITF 05-05) was issued. EITF 05-05 provides specific guidance on how to account for such features and is effective for fiscal years beginning after 15 December 2005. The Company is currently in the process of evaluating any potential impact of adopting this EITF.

SFAS NO. 156: ACCOUNTING FOR SERVICING OF FINANCIAL ASSETS

SFAS No. 156 Accounting for Servicing of Financial Assets was issued in March 2006 and is effective beginning January 1, 2007. This statement amends SFAS No. 140 and permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. The adoption of SFAS No. 156 is not expected to have a material impact on the Company s financial position, results of operations, EPS, or cash flows.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TELEFONAKTIEBOLAGET LM ERICSSON

May 18, 2006

By: /s/ ROLAND HAGMAN
Roland Hagman

Vice President

Group Function Financial Control

By: /s/ CARL OLOF BLOMQVIST
Carl Olof Blomqvist

Senior Vice President and General Counsel