

Lowering SEMC Forecasts

■ Lowered GDP, device market assumptions

In conjunction with our economists lowering GDP forecasts such that UBS now expects a global recession (<2% GDP growth), we have lowered our global device forecasts and subsequently reduce our Sony-Ericsson (SEMC) forecasts. We now forecast 3% device growth in 2009E (from 6% previously).

■ We now forecast no recovery at SEMC until Q4 '09

SEMC has had some one-off issues affecting it in 2008E (change in Japanese handset sales structure) and the product portfolio is broader than other struggling vendors (such as Motorola). However, Nokia's launch of "Comes with Music" in October, and high end competition in Europe is likely to put further pressure on SEMC. We now assume that the company reports an EBIT loss for 2009E (c.€150m) compared with consensus positive EBIT of €91m.

■ No changes for the core business for now

We have left our assumptions in Ericsson's core business unchanged at this stage. Our recent capex work suggests that industry revenue growth is well supported in 2008E and 2009E but that deteriorating mix is likely to continue in H2 as Europe and N.America mobile capex slows significantly.

■ Valuation – lowered to SKr63 from SKr72

Reflecting losses at SEMC, we have lowered our '09E EPS by 9%. We lower our price target to SKr63 (based on 13x P/E '09E EPS) from SKr72.

Highlights (SKrm)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	179,821	187,780	192,190	197,535	202,428
EBIT (UBS)	29,894	23,414	19,587	20,891	20,651
Net Income (UBS)	26,251	21,836	15,112	15,455	16,250
EPS (UBS, SKr)	8.27	6.87	4.75	4.86	5.10
Net DPS (UBS, SKr)	2.50	2.50	1.75	1.69	1.78

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	6.5	12.5	10.2	10.6	10.2
ROIC (EBIT) %	24.6	27.4	20.3	22.4	22.0
EV/EBITDA (core) x	14.9	11.0	5.0	4.5	4.7
PE (UBS) x	4.7	17.8	12.2	11.9	11.3
Net dividend yield %	1.0	2.0	3.0	2.9	3.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of SKr57.70 on 03 Oct 2008 21:42 BST

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12-month rating **Neutral**
Unchanged

12m price target SKr63.00/US\$89.72
Prior: SKr72.00/US\$102.53

Price SKr57.70/US\$8.15 (ADR)

RIC: ERICb.ST BBG: ERICB SS

5 October 2008

Trading data (local/US\$)

52-wk range	SKr133.60-52.95/US\$41.38-8.15
Market cap.	SKr183bn/US\$4.51bn
Shares o/s	2,910m (BFREE)/291m (ADR)
ADR ratio	1 ADR:10 BFREE
Free float	100%
Avg. daily volume ('000)	23,368/5,926
Avg. daily value (SKrm)	1,577.6/62.4

Balance sheet data 12/08E

Shareholders' equity	SKr141bn
P/BV (UBS)	1.3x
Net Cash (debt)	SKr46.8bn

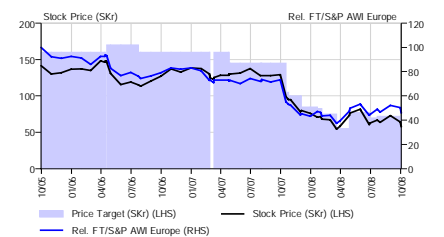
Forecast returns

Forecast price appreciation	+9.2%
Forecast dividend yield	3.0%
Forecast stock return	+12.2%
Market return assumption	8.9%
Forecast excess return	+3.3%

EPS (UBS, SKr)

	12/08E		12/07	
	From	To	Cons.	Actual
Q1E	1.01	1.01	0.85	1.83
Q2E	0.96	0.96	1.10	2.02
Q3E	1.02	1.05	0.87	1.25
Q4E	1.84	1.73	1.51	1.77
12/08E	4.83	4.75	4.36	
12/09E	5.30	4.86	5.72	

Performance (SKr)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 11.

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Forecast Changes

We have lowered our device market forecasts for 2009E/2010E to reflect lowered GDP assumptions. Investors wishing to review the analysis behind this are referred to our companion telecom equipment I/O released today. From an Ericsson perspective, we have at this stage left our core assumptions unchanged but lower our SEMC forecasts such that it now does not recover until 2009E.

Chart 1: UBS – forecast changes for Ericsson

	New			Old			Change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Networks	129,242	131,827	134,463	129,242	131,827	134,463	0.0	0.0	0.0
% change	0%	2%	2%	0%	2%	2%			
- of which Network roll-out	20,090	20,546	20,957	20,090	20,546	20,957	0.0	0.0	0.0
% change	9%	2%	2%	9%	2%	2%			
Professional Services	45,314	47,127	49,012	45,314	47,127	49,012	0.0	0.0	0.0
% change	6%	4%	4%	6%	4%	4%			
- of which managed services	13,814	14,138	14,704	13,814	14,138	14,704	0.0	0.0	0.0
% change	13%	2%	4%	13%	2%	4%			
Multimedia systems	17,644	18,591	18,963	17,644	18,591	18,963	0.0	0.0	0.0
% change	11%	5%	2%	11%	5%	2%			
Intersegment sales	-10	-10	-10	-10	-10	-10			
Total revenues	192,190	197,535	202,428	192,190	197,535	202,428	0.0	0.0	0.0
% change	2.3%	2.8%	2.5%	2.3%	2.8%	2.5%			
50% of Sony-Ericsson	53,594	50,136	45,838	55,449	56,416	58,352	-3.3	-11.1	-21.4
Total Revenues - prop.	245,785	247,671	248,266	247,639	253,950	260,780	-0.7	-2.5	-4.8
Networks	14,351	15,273	14,791	14,351	15,273	14,791	0.0	0.0	0.0
margin %	11.1%	11.6%	11.0%	11.1%	11.6%	11.0%			
Professional Services	6,460	5,655	5,881	6,460	5,655	5,881	0.0	0.0	0.0
margin %	14.3%	12.0%	12.0%	14.3%	12.0%	12.0%			
Multimedia systems	-759	474	569	-759	474	569			
margin %	-4.3%	2.6%	3.0%	-4.3%	2.6%	3.0%			
Other	-465	-511	-590	-465	-511	-590	0.0	0.0	0.0
Total EBIT	19,587	20,891	20,651	19,587	20,891	20,651	0.0	0.0	0.0
50% of Sony-Ericsson	434	-706	825	768	1,207	2,801	-43.5	-158.5	-70.5
margin %	0.8%	-1.4%	1.8%	1.4%	2.1%	4.8%			
Other j-vs	165	165	165	165	165	165			
Total group EBIT	20,186	20,350	21,642	20,520	22,263	23,617	-1.6	-8.6	-8.4
Specific items	-4,038	0	0	-4,038	0	0			
EBIT pre restructuring charge	24,224	20,350	21,642	24,558	22,263	23,617	-1.4	-8.6	-8.4
margin %	9.9%	8.2%	8.7%	9.9%	8.8%	9.1%			

Source: UBS

Chart 2: UBS – forecast changes for Ericsson

	New			Old			Change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Total revenues	192,190	197,535	202,428	192,190	197,535	202,428	0.0	0.0	0.0
Gross profit	72,205	74,054	77,856	72,205	74,054	77,856	0.0	0.0	0.0
margin %	37.6%	37.5%	38.5%	37.6%	37.5%	38.5%	0.0	0.0	0.0
R&D & other technical	-29,571	-29,630	-31,376	-29,571	-29,630	-31,376	0.0	0.0	0.0
S&A	-24,990	-25,182	-27,328	-24,990	-25,182	-27,328	0.0	0.0	0.0
Other income/exp	1,943	1,650	1,500	1,943	1,650	1,500			
Group EBIT	19,587	20,891	20,651	19,587	20,891	20,651	0.0	0.0	0.0
Associates	599	-541	990	933	1,372	2,966			
Total EBIT	20,186	20,350	21,642	20,520	22,263	23,617			
Net financials	214	920	920	214	920	920			
PBT	20,400	21,270	22,562	20,734	23,183	24,537			
Tax	-5,050	-5,595	-6,092	-5,118	-6,096	-6,625			
Minorities	239	220	220	239	220	220			
Net profit	11,781	15,455	16,250	12,046	16,867	17,692			
Net profit pre specifics	15,112	15,455	16,250	15,377	16,867	17,692	-1.7	-8.4	-8.2
EPS - basic reported	3.70	4.86	5.10	3.79	5.30	5.56	-2.2	-8.4	-8.2
EPS - diluted reported	3.68	4.83	5.08	3.77	5.27	5.53	-2.2	-8.4	-8.2
EPS - basic pre specifics	4.75	4.86	5.10	4.83	5.30	5.56	-1.7	-8.4	-8.2
EPS - diluted pre specifics	4.73	4.83	5.08	4.81	5.27	5.53	-1.7	-8.4	-8.2
DPS - proposed not paid (/share)	1.75	1.69	1.78	1.78	1.85	1.94	-1.7	-8.4	-8.2
EBITDA	29,304	29,188	28,344	29,304	29,188	28,344	0.0	0.0	0.0
EBITDA pre specifics	29,304	29,188	28,344	29,304	29,188	28,344	0.0	0.0	0.0
NWC moves	-3,710	-2,909	-775	-3,710	-2,909	-775			
Op FCF	25,595	26,279	27,568	25,595	26,279	27,568			
Cash tax	-4,323	-4,196	-5,939	-4,374	-4,572	-6,459			
Capex PPE	-3,896	-4,741	-5,061	-3,896	-4,741	-5,061			
Capex capitalised product devt	-1,620	-1,665	-1,706	-1,620	-1,665	-1,706			
FCF	15,755	15,677	14,862	15,704	15,301	14,342	0.3	2.5	3.6
FCF pre NWC/other	19,465	18,586	15,637	19,414	18,210	15,117			
Net cash (debt)	39,647	50,791	61,699	39,596	50,470	61,573	0.1	0.6	0.2

Source: UBS

UBS vs Guidance/Consensus

As shown in the tables below, we remain well below consensus for 2009E particularly for 2009E. Management's guidance for revenue to grow faster than a flattish market should be easily achievable given the strength in H1 constant currency revenue growth.

Table 1: UBS vs consensus

Group (SKr)	2008E	2009E	2008 - cons	2009- cons.
Revenue	192,190	197,535	194,951	202,446
EBIT	19,587	20,891	19,803	24,649
EPS	4.73	4.83	4.44	5.49
SEMC (Euro)				
Revenue	11,381	10,626	11,578	11,728
EBIT	67	-149	157	391

Source: UBS, SME Direkt

Valuation

To reflect the volatility in the market, we separate our multiple-based price target from our DCF based fair value. We lower our price target (13x 2009E) to SKr63 from SKr72. We lower our DCF based fair value to SKr69 from SKr72, with our longer term assumptions (laid out below) unchanged.

Table 2: UBS – Ericsson fair value DCF assumptions

	Fade starts	Duration	Last reported	Revenue g		Last reported	EBIT mgn %		Last reported	Capex/R&D/sales %		WACC
				End explicit	Target		End explicit	Target		End explicit	Target	
Networks	2016	20	1.0%	2.0%	2%	13.5%	11.0%	10%	2.9%	3.8%	3.8%	9%
Professional Services	2016	20	16.4%	2.0%	2%	15.0%	12.0%	10%	2.9%	3.8%	3.8%	9%
Multimedia	2016	20	14.5%	2.0%	2%	-0.8%	5.0%	7%	2.9%	3.8%	3.8%	9%
Sony Ericsson	2016	20	17.2%	1%	2%	12%	4%	5%	2.1%	2.1%	2.1%	9%
Other	2016	20		0%	3%		8242%	-6.0%	2.9%	3.8%	3.8%	9%

Source: UBS

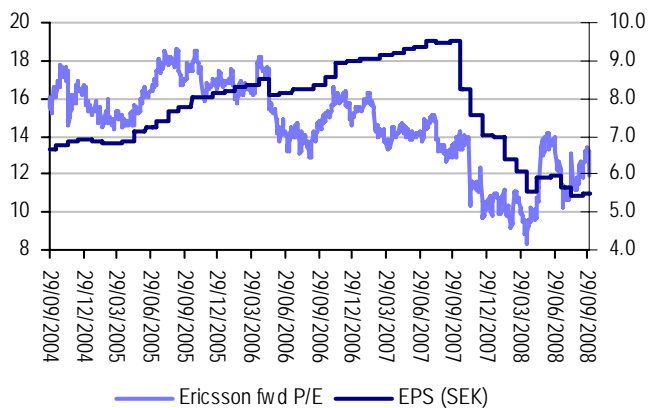
Table 3: UBS – Ericsson summary of DCF

	EV	Net cash (debt)	MV
Networks	143,925		
Professional Services	41,266		
Multimedia	10,985		
Sony Ericsson (50%)	5,611		
Other	-25,489		
Tax shield	0		
Group	176,298	45,313	221,611
			69.0

Source: UBS

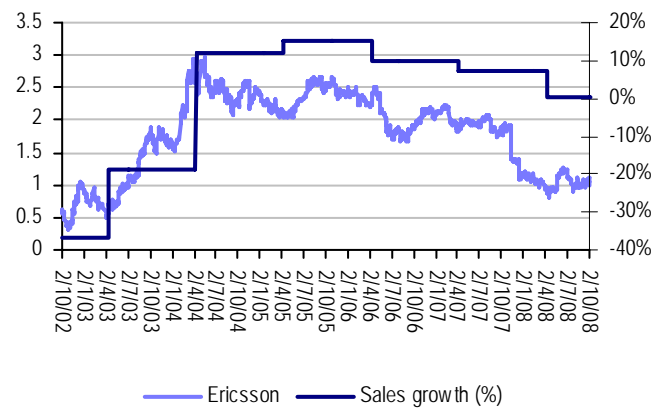
On a relative multiples basis, Ericsson trades on a P/Es of 12x '09E against the sector on 15x. Ericsson's multiples have done relatively better recently against the sector reflecting – we believe – the perception that the mobile capex environment. While we agree with this in part (revenues should hold-up), we believe mix is likely to deteriorate further in H2 '08E.

Chart 3: Ericsson 1-yr fwd P/E vs EPS




Source: Datastream

Chart 4: Ericsson 1-yr fwd EV/Sales vs sales growth



Source: Datastream

Chart 5: Relative multiples

UBS Telecom Equipment Relative Multiples																
Company	Rating	Price	Curr Price	Price target	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EV/FCF		EV/NCI	
					2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
ADC Telecommunications	Buy (CBE)	7.54	15		0.5	0.5	3.5	3.3	5.6	5.1	7.0	6.7	5.6	5.1	0.9	0.8
Adtran Inc.	Neutral	19.65	26		1.9	1.8	7.1	6.6	7.6	7.2	14.4	13.4	7.1	6.6	6.3	6.2
Alcatel-Lucent	Neutral	2.67	3		0.4	0.4	4.2	4.2	13.5	10.1	12.5	8.3	9.7	10.0	0.8	0.9
Arris Group Inc.	Neutral	7.57	10		0.7	0.7	6.3	5.3	7.4	6.1	12.6	9.9	2.9	2.5	0.8	0.8
Ciena Corp.	Neutral (CBE)	9.23	15		0.3	0.4	3.0	6.7	3.6	10.2	9.2	17.7	4.1	12.0	0.6	0.6
Cisco Systems Inc.	Neutral	22.08	25.5		3.9	2.6	11.5	8.1	13.2	9.3	19.1	13.9	12.4	9.0	10.2	8.2
Ericsson	Neutral	57.7	63		0.8	0.7	5.0	4.6	7.5	6.4	12.2	11.9	6.7	6.0	1.5	1.4
Corning Inc.	Neutral (CBE)	15.15	18		-0.8	-1.1	-2.4	-3.7	-3.5	-5.6	8.2	9.0	-3.8	-6.1	-0.7	-0.7
FS Networks, Inc.	Buy (CBE)	22.2	37		2.1	1.7	7.3	5.9	8.3	6.7	23.7	17.9	-	-	4.8	4.9
Harmonic, Inc.	Neutral (CBE)	8.8215	9		1.0	0.7	5.6	4.2	6.7	4.7	14.5	17.1	6.6	4.8	3.8	2.8
Juniper Networks	Neutral (CBE)	19.74	28		2.4	1.7	8.0	5.6	9.9	7.0	17.7	14.1	9.2	6.1	2.3	2.1
Riverbed Technology	Sell (CBE)	12.19	10		1.8	1.5	9.5	7.2	10.8	8.1	186.8	57.7	9.5	7.2	30.6	21.2
Tellabs Inc.	Neutral (CBE)	4.08	5.75		0.3	0.3	4.6	2.9	9.3	4.3	21.5	13.0	7.7	4.1	0.3	0.3
Infrastructure					2.56	1.7	8.3	5.9	10.3	7.3	15.5	14.5	11.0	8.4	6.7	5.4
- ex Ericsson					2.79	1.8	8.7	6.1	10.7	7.4	15.9	14.8	9.6	6.8	7.3	5.9
- ex ALU					2.69	1.8	8.6	6.0	10.1	7.1	15.7	14.9	9.2	6.6	7.0	5.7
Apple Inc.	Buy	105.3	195		2.4	1.8	11.7	9.0	12.6	9.6	19.2	16.4	12.1	6.3	15.1	13.0
Dell Inc.	Neutral	16.0	20		0.8	0.3	11.9	5.4	14.1	6.4	19.7	11.0	15.9	5.9	-7.8	-4.4
HTC Corporation	Buy (CBE)	444.5	645		1.8	1.4	8.2	6.6	8.6	6.9	11.0	9.4	8.3	6.7	115.9	48.6
Nokia	Neutral	13.0	14.5		1.0	1.1	5.8	7.1	6.8	8.6	8.3	9.5	8.3	9.2	6.3	4.7
Motorola Inc.	Neutral	7.2	8.8		0.2	0.3	8.4	4.4	87.8	6.5	87.7	14.0	4.9	11.7	0.8	1.0
Palm	Sell (CBE)	6.2	6.0		0.7	0.6	-10.4	-18.9	-7.3	-10.1	-16.8	-11.0	-15.0	-11.5	1.6	1.7
Qualcomm Inc.	Buy	43.1	63.0		5.2	4.6	15.2	11.3	17.3	12.3	21.1	17.5	22.2	12.9	11.7	10.0
Research in Motion Limited	Neutral (CBE)	66.5	88.0		7.3	3.1	23.9	11.2	25.4	11.9	35.5	17.0	27.7	29.0	17.6	8.6
Samsung Electronics	Sell	528000	507000		0.7	0.7	3.6	4.2	7.4	11.1	9.4	12.6	17.2	15.3	1.8	1.7
Spirent Plc	Buy	70.8	90.0		2.0	1.9	9.0	9.2	10.7	10.9	11.8	10.7	9.1	9.3	8.3	7.9
TomTom	Buy (CBE)	10.7	22.0		0.9	1.1	4.1	5.0	4.8	6.0	6.1	5.4	4.6	5.8	1.3	0.9
ZTE Corporation	Buy	28.0	40.0		0.8	0.6	10.3	8.5	13.4	11.0	21.3	15.7	-19.6	-460.0	6.1	4.5
Devices					2.6	1.9	10.9	8.0	14.4	10.0	18.8	14.0	5.7	4.0	11.2	7.7
- ex Nokia					3.0	2.1	12.1	8.25	16.3	10.4	21.4	15.1	16.7	4.6	12.4	8.5
NEC Electronics	Neutral	1919.0	2840.0		0.6	0.4	4.7	3.0	74.6	24.7	-22.5	0.0	15.1	9.2	1.4	1.0
Fujitsu	Neutral	626.0	850.0		0.3	0.3	4.0	3.2	8.6	6.8	20.7	13.0	6.0	4.8	1.7	1.3
Murata Mfg.	Neutral	4060.0	4900.0		2.0	0.9	7.0	3.8	10.9	8.2	21.0	20.0	7.0	3.8	2.8	1.1
Hitachi Cable	Neutral	298.0	400.0		0.4	0.2	5.6	2.6	10.7	6.7	17.9	10.1	9.2	4.1	1.2	0.6
Mitsubishi Electric	Buy	616.0	1200.0		0.7	0.4	6.9	3.8	10.2	5.7	17.2	8.7	8.6	4.8	2.2	1.2
Sumitomo Electric Industries	Buy	989.0	1500.0		0.6	0.4	6.3	4.1	10.9	7.8	15.2	9.1	8.5	5.7	1.3	0.8
Fujikura	Neutral	372.0	470.0		0.5	0.3	6.6	3.9	16.3	10.2	58.4	12.2	11.8	6.8	1.1	0.7
Hewlett-Packard Co.	Neutral	45.0	50.0		0.9	0.9	8.1	7.5	10.1	9.0	11.4	10.2	10.3	13.6	2.3	2.1
Conglomerates					0.8	0.7	7.3	6.2	10.9	8.6	13.7	10.5	9.6	10.8	2.2	1.7

Source: UBS

Q3 Preview

We do not intend to dedicate significant space to quarterly thoughts but set our estimates below. We believe Ericsson is unlikely to change its industry guidance for flattish revenue growth and is likely to continue to be cautious regarding the margin outlook in light of the mix developments and weakness in capex into H2 '08 in Europe and North America.

Chart 6: UBS – Q3 forecasts Ericsson

Dec yr end (SKr m)	Q3 '07	Q3 '08E	Q4 '08E	FY '08E	Q3 cons	Q4 cons
Revenue						
Total Networks	28,538	28,138	37,838	129,242	29,831	38,242
- of which Network roll-out	4,002	4,361	6,432	20,090	4,409	5,985
Professional Services	10,995	11,545	12,741	45,314	11,714	13,215
- of which managed service	3,352	3,463	3,822	13,814	3,676	3,768
Multimedia systems	4,017	4,218	5,014	17,644	4,222	5,052
Other/unallocated	0	0	0	0	0	0
Intersegment sales	-5	-5	-5	-10	-15	-18
Total revenues	43,545	43,896	55,587	192,190	45,705	56,472
50% of Sony-Ericsson	14,387	12,921	14,782	53,594	13,135	15,499
Total proportionate revs	57,932	56,817	70,370	245,785	58,840	71,971
EBIT (clean)						
Total Networks	2,283	3,095	5,297	14,351	2,799	4,680
Professional Services	1,649	1,616	1,975	6,460	1,641	1,892
Multimedia systems	40	-127	100	-759	-112	16
Other/unallocated	-87	-74	-147	-465	-144	84
Group EBIT	3,885	4,511	7,226	19,587	4,184	6,672
50% of Sony-Ericsson	1,737	-293	-192	434	-196	249
Other j-vs	14	35	76	165	18	10
Total EBIT pre specifics	5,636	4,253	7,110	20,186	4,006	6,931
Specific items	0	-1,300	-300	-4,038	-831	-204
Total EBIT (reported)	5,636	2,953	6,810	16,148	3,175	6,727
Dec yr end (SKr m)	Q3 '07	Q3 '08E	Q4 '08E	FY '08E	Q3 cons	Q4 cons
Revenues	43,545	43,896	55,587	192,190	45,705	56,472
Cost of sales	-28,050	-27,764	-34,459	-119,985	-28,970	-35,416
Gross profit	15,495	16,132	21,128	72,205	16,735	21,056
R&D costs	-7,229	-6,584	-7,226	-29,571	-7,331	-7,960
Sales & Admin costs	-4,783	-5,487	-7,226	-24,990	-5,612	-6,911
Other income/exp	402	450	550	1,943	406	491
Group EBIT	3,885	4,511	7,226	19,587	4,184	6,672
Associates	1,751	-258	-116	599	-178	259
Total EBIT	5,636	4,253	7,110	20,186	4,006	6,931
Net financials	-53	-10	40	214	19	75
PBT	5,583	4,243	7,150	20,400	4,025	7,006
Tax	-1,629	-862	-1,575	-5,050	-1,149	-1,976
Minorities	-16	50	70	239	-33	-54
Net profit	3,970	2,030	5,204	11,781	2,245	4,806
Net profit pre specifics	3,970	3,330	5,504	15,112	2,843	4,977
EPS - basic reported	0.25	0.64	1.63	3.70	0.71	1.51
EPS - diluted reported	0.25	0.63	1.63	3.68	0.69	1.48
EPS - basic pre specifics	0.25	1.05	1.73	4.75		
EPS - diluted pre specifics	0.25	1.04	1.72	4.73		
DPS - proposed not paid (/sl)	0.00	0.00	0.00	1.75		
EBITDA	5,838	5,405	9,705	25,266		
EBITDA pre specifics	5,436	6,705	10,005	29,304		
NWC moves	-4,906	-2,133	284	-3,710		
Op FCF	-1,881	4,572	10,289	25,595		
Op. FCF - Ericsson	-1,605	5,494	9,147	25,272		
Cash tax	-1,694	-647	-1,182	-4,323		
Capex PPE	-871	-834	-1,223	-3,896		
Capex capitalised product d	-237	-382	-483	-1,620		
FCF	-4,683	2,710	7,401	15,755		
FCF pre NWC/other	3,036	4,843	7,117	19,465		
Net cash (debt)	11,483	32,206	39,647	39,647		

Source: UBS

Income statement (SKrm)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Revenues	117,738	131,972	151,821	179,821	187,780	192,190	2.3	197,535	2.8	202,428	2.5
Operating expenses (ex depn)	(122,520)	(100,585)	(115,430)	(142,411)	(156,003)	(166,924)	7.0	(168,347)	0.9	(174,084)	3.4
EBITDA (UBS)	(4,782)	31,387	36,391	37,410	31,777	29,304	-7.8	29,188	-0.4	28,344	-2.9
Depreciation	(5,853)	(7,004)	(5,702)	(7,516)	(8,363)	(9,717)	16.2	(8,296)	-14.6	(7,692)	-7.3
Operating income (EBIT, UBS)	(10,635)	24,383	30,689	29,894	23,414	19,587	-16.3	20,891	6.7	20,651	-1.1
Other income & associates	(2,545)	2,306	2,394	5,934	7,232	599	-91.7	(541)	-	990	-
Net interest	(864)	(540)	251	165	83	214	157.8	920	329.9	920	0.0
Abnormal items (pre-tax)	0	0	0	0	0	(4,038)	-	0	-	0	-
Profit before tax	(14,044)	26,149	33,334	35,993	30,729	16,362	-46.8	21,270	30.0	22,562	6.1
Tax	1,460	(8,330)	(8,875)	(9,557)	(8,594)	(4,343)	-49.5	(5,595)	28.8	(6,092)	8.9
Profit after tax	(12,584)	17,819	24,459	26,436	22,135	12,020	-45.7	15,675	30.4	16,470	5.1
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(201)	(297)	(145)	(185)	(299)	(239)	-20.1	(220)	-7.9	(220)	0.0
Net income (local GAAP)	(12,785)	17,522	24,314	26,251	21,836	11,781	-46.0	15,455	31.2	16,250	5.1
Net Income (UBS)	(10,844)	16,805	23,690	26,251	21,836	15,112	-30.8	15,455	2.3	16,250	5.1
Tax rate (%)	0	32	27	27	28	27	-5.1	26	-0.9	27	2.6
Pre-abnormal tax rate (%)	0	38	31	32	37	26	-30.3	26	0.6	28	10.1
Per share (SKr)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
EPS (local GAAP)	(4.04)	5.53	7.67	8.27	6.87	3.70	-46.1	4.86	31.1	5.10	5.1
EPS (UBS)	(3.43)	5.31	7.47	8.27	6.87	4.75	-30.9	4.86	2.2	5.10	5.1
Net DPS	0.00	1.25	2.25	2.50	2.50	1.75	-30.1	1.69	-3.3	1.78	5.1
Cash EPS	(1.58)	7.52	9.27	10.64	9.50	7.80	-17.9	7.46	-4.4	7.52	0.8
BVPS	41.46	27.65	34.93	41.28	46.09	44.17	-4.2	47.93	8.5	51.24	6.9
Balance sheet (SKrm)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Net tangible fixed assets	11,307	9,774	11,889	12,932	13,972	10,916	-21.9	7,360	-32.6	4,729	-35.8
Net intangible fixed assets	38,340	35,371	32,981	41,032	62,135	59,016	-5.0	60,681	2.8	62,387	2.8
Net working capital (incl. other assets)	(15,758)	(7,286)	4,679	20,646	28,611	27,579	-3.6	30,488	10.5	31,263	2.5
Other liabilities	(29,772)	(3,423)	(4,035)	(3,852)	(4,881)	(4,597)	-5.8	(4,597)	0.0	(4,597)	0.0
Operating invested capital	4,117	34,436	45,514	70,758	99,837	92,914	-6.9	93,932	1.1	93,783	-0.2
Investments	2,970	4,155	6,313	9,409	10,903	9,160	-16.0	9,160	0.0	9,160	0.0
Total capital employed	7,087	38,591	51,827	80,167	110,740	102,074	-7.8	103,092	1.0	102,943	-0.1
Shareholders' equity	60,481	80,445	101,622	120,113	134,112	140,624	4.9	152,566	8.5	163,105	6.9
Minority interests	2,299	1,057	850	782	940	1,097	16.7	1,317	20.1	1,537	16.7
Total equity	62,780	81,502	102,472	120,895	135,052	141,721	4.9	153,883	8.6	164,642	7.0
Net debt / (cash)	(63,698)	(52,998)	(56,536)	(47,696)	(30,500)	(46,802)	53.5	(57,946)	23.8	(68,854)	18.8
Debt deemed provisions	8,005	10,087	5,891	6,968	6,188	7,155	15.6	7,155	0.0	7,155	0.0
Total capital employed	7,087	38,591	51,827	80,167	110,740	102,074	-7.8	103,092	1.0	102,943	-0.1
Cash flow (SKrm)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Operating income (EBIT, UBS)	(10,635)	24,383	30,689	29,894	23,414	19,587	-16.3	20,891	6.7	20,651	-1.1
Depreciation	5,853	7,004	5,702	7,516	8,363	9,717	16.2	8,296	-14.6	7,692	-7.3
Net change in working capital	14,416	(4,900)	(10,183)	(11,930)	(11,948)	(3,710)	-69.0	(2,909)	-21.6	(775)	-73.3
Other (operating)	24,409	1,822	(3,641)	(6,122)	1,492	7,484	401.6	2,300	-69.3	(82)	-
Operating cash flow	34,043	28,309	22,567	19,359	21,321	33,078	55.1	28,579	-13.6	27,486	-3.8
Net interest received / (paid)	(864)	(540)	251	165	83	214	157.8	920	329.9	920	0.0
Dividends paid	(206)	(292)	(4,133)	(7,343)	(8,132)	(8,014)	-1.5	(5,594)	-30.2	(5,409)	-3.3
Tax paid	1,460	(8,330)	(8,875)	(9,557)	(8,594)	(4,343)	-49.5	(5,595)	28.8	(6,092)	8.9
Capital expenditure	(5,851)	(3,598)	(4,539)	(5,180)	(5,372)	(5,516)	2.7	(6,406)	16.1	(6,767)	5.6
Net (acquisitions) / disposals	(818)	(1,549)	(957)	(14,992)	(26,208)	0	-	0	-	0	-
Other	(10,091)	(39,495)	5,750	2,705	25,218	(795)	-	(761)	-4.3	770	-
Share issues	7	15	117	58	0	(4,607)	-	0	-	0	-
Cash flow (inc)/dec in net debt	17,680	(25,480)	10,181	(14,786)	(1,684)	10,018	-	11,144	11.2	10,908	-2.1
FX / non cash items	30,270	14,780	(6,643)	5,946	(15,512)	6,284	-	0	-100.0	0	-
Balance sheet (inc)/dec in net debt	47,950	(10,700)	3,538	(8,840)	(17,196)	16,302	-	11,144	-31.6	10,908	-2.1
Core EBITDA	(4,782)	31,387	36,391	37,410	31,777	29,304	-7.8	29,188	-0.4	28,344	-2.9
Maintenance capital expenditure	(5,851)	(3,598)	(4,539)	(5,180)	(5,372)	(5,516)	2.7	(6,406)	16.1	(6,767)	5.6
Maintenance net working capital	13,524	522	(4,117)	(7,700)	(10,859)	(1,746)	-83.9	(662)	-62.1	1,471	-
Operating free cash flow, pre-tax	2,891	28,311	27,735	24,530	15,546	22,042	41.8	22,120	0.4	23,048	4.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

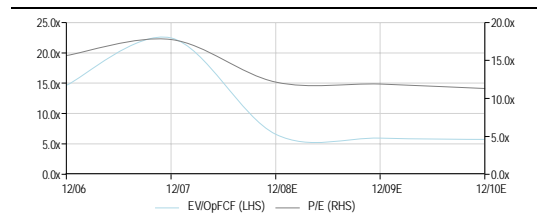
12-month rating **Neutral**

12m price target **SKr63.00**

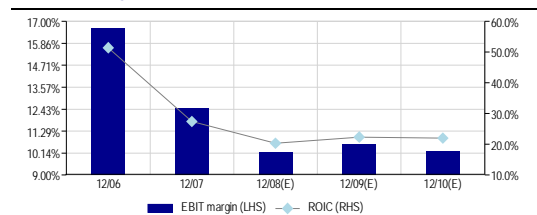
Company profile

Swedish company Ericsson is a leading manufacturer of wireless communication equipment. The company is the leading global provider of wireless infrastructure equipment and a major second-tier player worldwide in mobile handsets through its joint venture with Sony. Ericsson is also a leading developer of enabling mobile technologies, such as location-based services and Bluetooth - one of the major short-distance wireless communication standards.

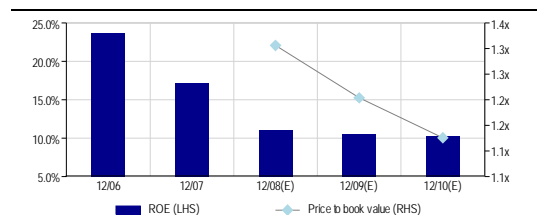
Value (EV/OpFCF & P/E)



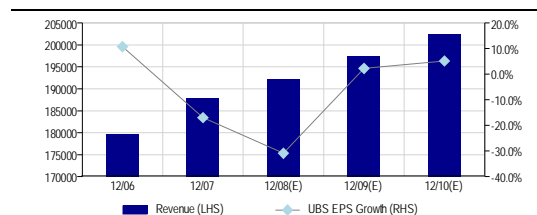
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
P/E (local GAAP)	5.8	15.7	17.8	15.7	11.9	11.4
P/E (UBS)	4.7	15.6	17.8	12.2	11.9	11.3
P/CEPS	NM	12.1	12.8	7.4	7.7	7.7
Net dividend yield (%)	1.0	1.9	2.0	3.0	2.9	3.1
P/BV	2.7	3.1	2.6	1.3	1.2	1.1
EV/revenue (core)	1.8	2.0	1.9	0.8	0.7	0.7
EV/EBITDA (core)	14.9	9.6	11.0	5.0	4.5	4.7
EV/EBIT (core)	23.6	12.0	14.9	7.5	6.3	6.4
EV/OpFCF (core)	20.6	14.6	22.4	6.6	6.0	5.7
EV/op. invested capital	5.8	6.2	4.1	1.5	1.4	1.4

Enterprise value (SKrm)	12/06	12/07	12/08E	12/09E	12/10E
Average market cap	409,822	386,901	182,937	182,937	182,937
+ minority interests	185	299	239	220	220
+ average net debt (cash)	(52,116)	(39,098)	(38,651)	(52,374)	(52,374)
+ pension obligations and other	6,968	6,188	7,155	7,155	7,155
- non-core asset value	(5,611)	(5,611)	(5,611)	(5,611)	(5,611)
Core enterprise value	359,248	348,679	146,069	132,327	132,327

Growth (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Revenue	5.4	18.4	4.4	2.3	2.8	2.5
EBITDA (UBS)	-	2.8	-15.1	-7.8	-0.4	-2.9
EBIT (UBS)	-	-2.6	-21.7	-16.3	6.7	-1.1
EPS (UBS)	-	10.7	-16.9	-30.9	2.2	5.1
Cash EPS	-	14.8	-10.7	-17.9	-4.4	0.8
Net DPS	-	11.1	0.0	-30.1	-3.3	5.1
BVPS	-4.9	18.2	11.7	-4.2	8.5	6.9

Margins (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBITDA / revenue	10.9	20.8	16.9	15.2	14.8	14.0
EBIT / revenue	6.5	16.6	12.5	10.2	10.6	10.2
Net profit (UBS) / revenue	4.0	14.6	11.6	7.9	7.8	8.0

Return on capital (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBIT ROIC (UBS)	24.6	51.4	27.4	20.3	22.4	22.0
ROIC post tax	-	35.1	17.4	15.1	16.6	15.8
Net ROE	5.9	23.7	17.2	11.0	10.5	10.3

Coverage ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	3.3	2.7	2.7	2.9	2.9
Div. payout ratio (% , UBS EPS)	-	30.2	36.4	36.8	34.8	34.8
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Revenue / op. invested capital	3.3	3.1	2.2	2.0	2.1	2.2
Revenue / fixed assets	3.6	3.6	2.9	2.6	2.9	3.0
Revenue / net working capital	15.8	14.2	7.6	6.8	6.8	6.6

Investment ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
OpFCF / EBIT	1.1	0.8	0.7	1.1	1.1	1.1
Capex / revenue (%)	3.5	2.9	2.9	2.9	3.2	3.3
Capex / depreciation	0.8	0.7	0.6	0.6	0.8	0.9

Capital structure (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Net debt / total equity	(54.3)	(39.7)	(22.7)	(33.3)	(38.0)	(42.2)
Net debt / (net debt + equity)	NM	(65.9)	(29.4)	(49.9)	(61.2)	(73.1)
Net debt (core) / EV	(17.2)	(14.5)	(11.2)	(26.5)	(39.6)	(39.6)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of SKr57.70 on 03 Oct 2008 21:42 BST Market cap(E) may include forecast share issues/buybacks.

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■ Ericsson

Swedish company Ericsson is a leading manufacturer of wireless communication equipment. The company is the leading global provider of wireless infrastructure equipment and a major second-tier player worldwide in mobile handsets through its joint venture with Sony. Ericsson is also a leading developer of enabling mobile technologies, such as location-based services and Bluetooth - one of the major short-distance wireless communication standards.

■ Statement of Risk

Upside risks to Ericsson include gaining a more benign pricing environment following consolidation, improving mix back towards software/expansions, significant data traffic growth and placing a public cap on acquisitions. Downside risks include key operator customers cutting capex further, delays in spending due to network sharing, and the further aggressive moves by the Chinese vendors in developed markets.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES**UK and European Investment Fund ratings and definitions are :**

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

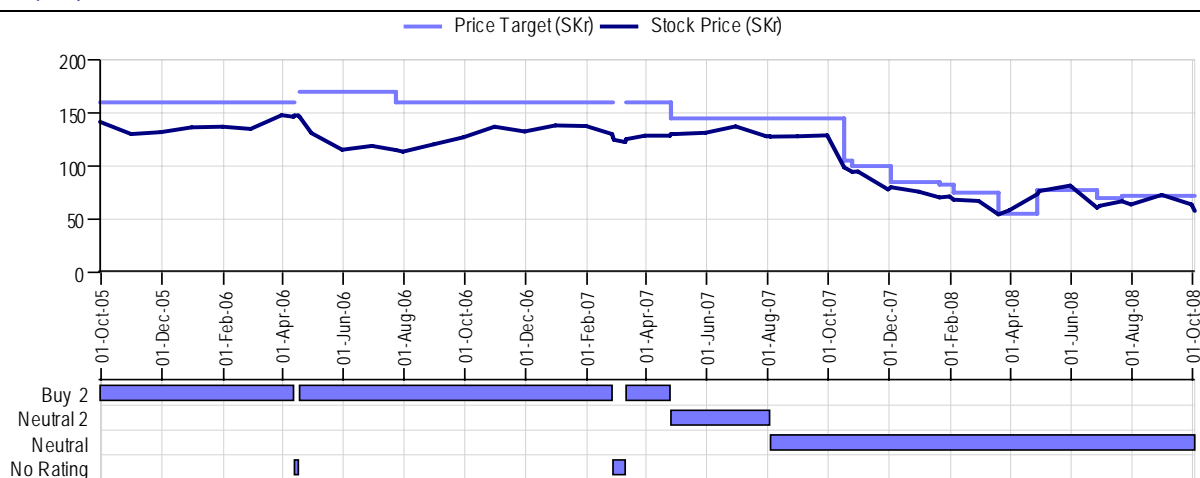
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Ericsson ^{3, 15, 16}	ERICb.ST	Neutral	N/A	SKr57.70	03 Oct 2008

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

3. UBS Limited is providing a fairness opinion to the supervisory board of StMicroelectronics on the joint venture with Ericsson in the Mobile Platforms business.
15. UBS AG, its affiliates or subsidiaries has issued a warrant the value of which is based on one or more of the financial instruments of this company.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Ericsson (SKr)

Source: UBS; as of 03 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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