



M ERICSSON TELEPHONE COMPANY
1977 ANNUAL REPORT 102nd YEAR OF OPERATIONS



A MILESTONE IN LM ERICSSON'S HISTORY

In connection with the Company's Annual General Meeting in May, 1977, Dr. Marcus Wallenberg retired as chairman of the board of directors after 45 years of service to the Company, 24 of them as its chairman.

Dr. Wallenberg was thanked for his unique contributions on behalf of the Company by Dr. Jan Wallander, by the retiring managing director Mr. Björn Lundvall, and by Mr. Åke Andersson, as a representative of the employee organizations.

Due to time limitations, Dr. Wallenberg was obliged to delete certain portions of the text of his remarks. At the request of the Management, he has now made these comments available in writing and they form the concluding section of this commemorative publication from the historic Annual General Meeting.



remnants that were left. One of the remnants was called LM Ericsson. The company was then owned by Kreuger, who some years earlier had purchased a voting majority of the shares. The Company had expanded rapidly and concessions to operate telephone services had been obtained in many parts of the world. In itself, this was a good thing. But it required a great deal of money. It meant, in effect, that the Company had to finance the buildup of telephone networks in these countries. A lot of money had to be borrowed, and was borrowed, not least of all during the period when Kreuger had had a decisive influence in the Company. He had, in this connection, performed in the same way he did on many other occasions. He participated actively in the borrowing, and then took care of the funds himself. This meant that the Company had no liquid assets — only Kreuger's notes. And now you couldn't convert those notes to cash. The shortage of liquid assets was therefore acute and there was a great risk that the Company would have to suspend payment of its obligations.

There were short-term bank loans of approximately Skr 60 million, against which there were receivables on Kreuger & Toll in about the same amount. To our inflation-damaged ear today, Skr 60 million naturally does not sound like a great deal of money. But let us translate it to current conditions, to the Ericsson Group of today, and imagine that we found ourselves today in the same situation that existed then. In the entire Group today, we have short-term bank loans of Skr 655 million, not an insignificant amount. Were we in the 1932 situation, we would instead have current bank loans of Skr 3.4 billion, for which we would have very poor collateral.

These were not the only problems that had to be solved. To make matters worse, we had an exceptionally delicate situation to deal with.

In those days, as today, one of Ericsson's principal competitors in the market was called ITT, International Telephone & Telegraph Corporation. The competition with ITT was active in such countries as Argentina and Mexico. Now it was learned that Kreuger had borrowed \$11 million from ITT and had given his Ericsson shares as security for the loan. Since the loan could not be repaid, this meant that ITT had the voting majority in LM Ericsson.

All this was indeed a rather pretty kettle of fish to try to tidy up, if indeed it could be tidied up. There was a lot of pondering over whether it was possible to do the job, but eventually the Swedish banks decided to make an attempt. The man who was put on the job, and who right from the beginning took the lead in the board of directors and in the rescue operation, was Marcus Wallenberg.

At that time, you were a young man, Marcus. You were not more than 32 and you of course had your Daddy and the

Enskilda Banken behind you — not a bad thing in itself — but the result was still due, in all major respects, to your own ability, to your energy, your ingenuity, and the confidence you could inspire on the part of various counterparts. Much was certainly demanded, but you had what was needed — and it really succeeded in dealing with the problems. You succeeded in solving them through a patient and tiring job extending over many long years. In retrospect, it seems like a miracle, or rather like a series of miracles.

You succeeded in reaching an agreement with the creditors which provided the breathing space that was needed during the Thirties. You created, one might say, an umbrella under which Ericsson could operate, and when the Second World War broke out nearly ten years later, the Company's finances were finally cleaned up. The shareholders had a hard time during this period. They did not receive any continuing dividends until 1941. Of course, in two previous years — 1937 and 1938 — they had received a small dividend, but it was only a token. The shareholders actually lost 30 percent of their investment when the share capital was written down. And those who were in on this were, among others, ITT and Handelsbanken and Enskilda Banken, who had the big shareholdings.

You also succeeded in, so to say, "boxing in" ITT. There were certain legal circumstances involved that allowed some possibilities of bargaining with them. Kreuger's transfer of shares to them was not in accordance with Swedish law. Against this background, you gradually reached an agreement with them which meant that Ericsson could, in reality, be operated as an independent Swedish company that could compete freely on the world market. But ITT had three seats on the Ericsson board of directors and its president held one of them year after year. Even if he himself did not usually attend meetings, the board memberships were still there and there were many grounds for conflict. Mexico was one such troublesome problem. Eventually a settlement was made that created a situation that was manageable. But it took nearly 20 years before that point was reached.

It is obvious that it was highly important to ease ITT completely out of the Company. Even if they had been tolerably pacified, it was naturally a continuous source of irritation to have them as the largest single shareholder, in terms of voting rights. And the situation also hurt Ericsson a great deal in its international operations since it was natural that many outside the Company — not least of all its competitors — continually maintained that Ericsson was dependent on ITT.

In the Fifties, after many long years of a continuing balancing act on a slack rope, it began to become possible to discuss a solution with ITT. And towards



Jan Wallander:

"The decision of the Annual General Meeting (approving the list of nominees to the board of directors) is a very important one. It means that the chairman is leaving the board and that new men are being elected to serve in important positions in LM Ericsson. On this occasion, there is certainly reason to say a few words about what Marcus Wallenberg has meant — and means — to this Company.

Björn Lundvall spoke earlier of the problems Ericsson has had and is having in connection with the deepest recession we have experienced since the Thirties. Our problems were also related to the fact that we are being forced to introduce a new technology within the Company in a very brief period — and to market that technology. It is obvious that this is creating substantial problems but I can assure you it is still only child's play compared with the situation in Ericsson 45 years ago.

On March 12, 1932, a shot rang out in Paris and the Kreuger financial empire collapsed. Here in Sweden, people set to work and tried to make something of the

the end of the Fifties, you had the fish on your hook, and on advantageous terms. I can imagine that it was a bitter feeling when, at the last moment, the fish got away and you found that you had to catch an even more difficult one.

What happened was that ITT changed presidents and the new president was named Harold S. Geneen, a person who is not unknown in international business and who cannot be considered an easily-hooked fish.

It was naturally a very great day for Ericsson and for you when, on February 16, 1960, you could sign your name below the agreement between ITT and Marcus Wallenberg — “a resident of Stockholm,” as the text reads. The agreement meant that you would acquire ITT's Ericsson shares and place a majority of them in safe Swedish hands, thereby making Ericsson a completely Swedish company in all respects after 28 long years.

The shareholders, the board, the management and all who work in LM Ericsson certainly owe much gratitude, appreciation and tribute to you, Marcus. And we have naturally given a great deal of thought to appropriate ways of expressing our gratitude.

First, we would like to propose that the shareholders elect you Honorary Chairman of LM Ericsson. Second, we would like to propose to the Meeting that it approve our establishment of a foundation with a capital of Skr 5 million to be known as the “Marcus Wallenberg Foundation for Scientific Research and Training.” The foundation will be devoted to objectives of direct concern to the Ericsson Group. The name of the foundation has been chosen deliberately so that it can embrace a broad range of projects. This is because it is our thought that you, as chairman of a committee, will shape the detailed guidelines for the foundation in a manner that you think can be useful to the Group. You are naturally the obvious chairman of the foundation's board, to serve as long as you so desire.

It is a great source of satisfaction to us that you have agreed to assume the role of special advisor to the board of directors. Common human beings normally have the right to retire in their seventy-eighth year, and this can be a good thing in many cases. But you, Marcus, are no common human being but, rather, a very uncommon representative of the human race. We in LM Ericsson and its board have already accumulated a greater debt of gratitude to you than we reasonably have a right to. It is even more delightful to be able to look forward to increasing that debt.

Ladies and gentlemen, shareholders in LM Ericsson, I have proposed that Dr. Wallenberg be named honorary chairman of the Company and that we should establish, in his name, a foundation with a capital of Skr 5 million. Do you approve the motion?”



Åke Andersson:

“There is no question that Marcus Wallenberg has a long period of employment behind him, and with it also an impressive record of achievement. Naturally, I am well aware that achievements may be judged in the light of conditions life once offered.

Even though our Company has the major part of its employees outside Sweden, Marcus Wallenberg has many times declared that LM Ericsson is a Swedish company that should provide security and work here at home as well. This is an attitude that has been noted with satisfaction on the part of the employees' organizations. It is our sincere hope that this attitude will also continue in the Company in the future.

On this occasion, there is cause to recall the thoughtfulness concerning the older workers that has been expressed concretely in the establishment of the so-called “Gold Medalists' foundation,” and which has already distributed more than half a million kronor.

Even so, what we on the employee organizations' side appreciate most about Marcus Wallenberg is his capacity to analyze and reason openmindedly. We indeed have a strong feeling that Marcus Wallenberg has well understood that if a company is to be successful, the employees must feel a sense of unity with it. This unity can be created only by permitting the employees to participate and influence the development of the company, and only if their experience and knowledge is utilized effectively within the company.

If this country had not had the climate for essential reforms which have changed our society so basically, and with it working life, the improvement in well-being that has been achieved would certainly not have been possible. Nor would the Company have had its favorable development without this climate. It is therefore with deep concern that we in the employee organizations note the strong demands in recent times for a return to a period and to social conditions that are far in the past.

It is against this background that we feel it important to express the hope that,

now that Marcus Wallenberg is leaving the chairmanship of the Company's board, the spirit of mutual understanding and the sense of cooperation that characterized his era will continue to set their mark on the Company in the future.

With these words, let me extend on behalf of the employees' organizations their warm thanks for Marcus Wallenberg's long period of meritorious service within the Company.”

Marcus Wallenberg:

“First, I want to express my warm thanks to Jan Wallander for his — if you will excuse the expression — very nice speech. It is, in any case, always nice to hear such unpleasant times described in such a nice way. I appreciate that very much. I plan, a little further on towards the close of the Meeting, to go into a bit more detail about some of the things Dr. Wallander said about me. It is possible that I may have contributed to one thing or another, but it was not I who “did the job.”

That is why I would like to return a little later and have the opportunity, instead, to name the persons who played the most important roles in making LM Ericsson what it is today.

At the same time I want to now take the opportunity to thank you so much (Dr. Wallander) for having wanted, on behalf of the Board, to propose a foundation that would bear my name. You were even so careful as to inquire if I would make my name available. I replied that that depended on what the foundation would do. On one condition, namely that it be used to benefit those who work in the Company, for improvement and growth in the Company's interest, I feel very proud to be able to make my name available.

Then I want to thank you, Åke Andersson, most warmly for taking the trouble to make those comments. I agree with you completely that, if we work together in the future as we have tried to do up to now, it will be possible to cope with very difficult problems.

But there is one thing that I feel it is important to say right now. And that is that there is often a tendency to believe that industrialists in general are so stupid that they do not want to create a good working environment for their employees. For decades, and long before all these various reform demands appeared, it has certainly been in the interest of all progressive companies to create conditions that offer an attractive work environment and thereby provide a base for exceptionally good product results. We should also remember that Swedish prosperity was created by cooperation be-

It had been my intention at the 1977 Annual General Meeting of LM Ericsson to speak of the many Company employees who, perhaps for lack of space, could not be identified in the various histories of the organization but whose contributions were of great importance, not only during the time of reconstruction but also during the periods of consolidation and expansion. They were men with whom I had contact, was able to follow, and learned to value highly for their initiative as well as their loyal, untiring and successful work, often under very difficult conditions.

Ericsson's management has expressed the wish that the comments which time did not permit me to make at the Annual General Meeting might, in the form of a supplement to the 1977 Annual Report, be given wider circulation as a well deserved tribute to the outstanding colleagues with whom I worked during the period when I participated actively in the Company's activities in many places at home and abroad.

Naturally, my contacts with these fine men was closest during the period of the Company's reorganization. But they also continued beyond that time. With some, the association has extended over long periods. I am thinking primarily of Ericsson's situation with respect to financial problems beyond those involving direct contacts with the Swedish and foreign banks. And of the particularly intricate relationship with ITT — not only the warped foundation created by the Kreuzer crash but also the interminable battle for control of Ericsson's policy and operations in virtually all areas, although — as noted earlier — the hardest blows were struck in such competitive engagements as Mexico and Argentina, as well as in Scandinavia, France and England.

The first task of the triumvirate that has been referred to earlier — Waldemar Borgquist, Wiking Johnson and Sten Rudberg — and of the Company's management, was to restore an atmosphere of confidence both inside and outside the Company, in Sweden and abroad. The mainstays in the clean-up were those fighters, Benhard Wahlqvist and Holger Ohlin, particularly in the matter of clarifying the Company's financial and economic position. This was essential in order to gain the breathing space with ITT and the foreign bankers that was needed in order to arrange the Company's future management, organization, finances and general policy.

Among the engineers, let me name Gösta Grönwall, Anders Tobiasson, Mauritz Vos and Hugo Blomberg, who from the beginning of the reconstruction era played a very important role in the technical development work. Ericsson received substantial income from Sieverts Kabelverk and that company was run in an outstanding way by Georg Olsson.

Ericsson encountered serious problems in the concession areas in Mexico, Poland, Argentina and Italy.



Bernhard Wahlqvist, together with his excellent assistant, Gustaf Segerström, prepared a detailed plan for the investments and tariffs of Mexikanska Telefon AB Ericsson and this was made available to the local company which was headed by Gunnar Beckman, a fine representative of Ericsson.

In Poland, Åke Nilsson Åkers initially, and later Sigge Häggberg, had through their diligence succeeded in gaining the confidence of the local authorities and public. As a result, the company there became a source of income through the shareholding and through deliveries.

Conditions in Argentina were complicated and required unending vigilance, a characteristic that distinguished the work of Walter Ahlström and Nils Sterner.

In Italy, Ericsson had succeeded in becoming associated with a fine Italian group under the leadership of Camillo Protto who, with the assistance of Swedish engineers such as Gottlieb Piltz — trained in the Cedergren school — and Arvid Conrad Olsson, handled the development of telephony in the so-called "Fifth Zone" in southern Italy. Protto was also active in building up production in Italy, a prerequisite for a continuing relationship with the Italian authorities. Ericsson also received strong support from General Consul Elov Kihlgren.

There were also problems with Ericsson's interests in foreign factories in England, Finland and France.

The management of Ericsson Telephones Ltd was in good hands, with Sir Harold Wernher as chairman and T. Kirkham as managing director. The company had a good position and was a member of the so-called "bulk agreement" for deliveries of telephone equipment to the Post Office. Its shares were introduced on the London Stock Exchange, attracted a good reception and, later on, when they were disposed of at an advantageous price, they were able to strengthen the Company's treasury at an appropriate period.

In Finland, Ericsson faced troublesome competition from ITT and Sie-

mens, necessitating domestic production, supported by strong Finnish interest. Ericsson's Finnish company was managed with great skill by Sven Weber, who developed its position in the Finnish market in a strong manner.

In France, Ericsson's French subsidiary also encountered severe competition but succeeded, thanks to its local manufacturing, in obtaining a position as a supplier to the PTT. In the beginning the very complicated ownership structure demanded strong and skillful efforts on the part of Messrs Egnell, Grönberg and Caudray.

Where the consolidation and expansion periods are concerned, it is obvious that I remember with special gratitude the substantial contributions made by Helge Ericson, Bernhard Wahlqvist, Holger Ohlin, Hugo Lindberg and Hans Thorelli, along with the technical experts like Knut Käell, Malte Patricks, Christian Jacobæus, Eric Ericsson, Fred Sundkvist and Arvid Westling. From the expansion period, in particular, in addition to those present, I want to mention especially Sven Ture Åberg and Nils Sterner, both of them exceptionally skilled.

With reference to our export markets, I would also like to cite very briefly the following countries and persons: In Australia, Les G. Rowe and C.R. Darvall; in Brazil, J.M. Magalhães; in Denmark, Lars Christian Nørrelund; in Norway, Eilif Björnstad; in Finland, Ingmar Horelli; in France, André Duprez and Marcel Cazes; in Italy, Giuseppe Marchesi, Carlo Bombieri and Arvid Westling; in Mexico — in addition to Gunnar Beckman — our Mexican partners, Carlos Trouyet and Eloy S. Vallina.

All of them — each in his own country — have safeguarded and developed LM Ericsson's interests in an outstanding way.

A brief review like the present one can — as I have already noted — cover only a scant number of all those who have made substantial contributions to LM Ericsson. Many more are described in the excellent history published in connection with the Company's one hundredth anniversary, in which, in addition, there are special presentations of a number of them.

Those I have named have been selected for this tribute only as representatives of all who, over the course of years, have performed so devotedly to assure the growth of LM Ericsson.

A handwritten signature in dark ink, reading "Mr. Wahlqvist". The signature is written in a cursive, flowing style.

tween the productive forces (in the country) and that the reason we have come so far is that we have had an export industry that was competitive with industry throughout the world.

This applies not least to this Company, which is one of the world's leaders in the telecommunications field, and which as a result has gained the flattering but exceptionally troublesome attention of its competitors. This is evidence that, if we are permitted to live in accordance with sound economic principles, having in mind what is economically feasible, we can still look ahead with great confidence. I shall return to this point a little later.

I just want to say that I am very grateful for what you have said and that I want to demonstrate that I am ready to do my part. In connection with my retirement from the Board, I had planned to make a donation of one million kronor to the so-called "Gold Medalists' foundation," to which I made a contribution on the occasion of my seventieth birthday.

I have deliberately saved my comments on Björn Lundvall for the end. He became managing director in 1964 and as he now retires in 1977, he has had the longest period of service in that position, 13 years, since the Kreuger period. The first managing director in that period was Hans Theobald Holm, who served nine years. Then came Helge Ericson, eleven years. After him, Sven Ture Åberg, also eleven years. And then Björn Lundvall, beginning in 1964. I will return later to what this entire era has meant to LM Ericsson, but the expansion that the Company has experienced during Björn Lundvall's period as managing director is totally fantastic. He contributed to this expansion through his ability to lead the Company, together with its strong staff of associates — this truly skillful technical staff that has now produced the AXE system. With the sales personnel, who are also technical experts, he has also been able to cultivate the Company's important markets. At the same time, he has had to deal with all possible problems. We have had enormous problems in Brazil. We have had great problems in Italy. We have had great problems in Australia. We have had great problems in England. And we have had many problems even in the Nordic countries. Björn Lundvall's performance is, I believe, one of the most noteworthy jobs in Sweden's modern industrial history. The Board of Directors intends, therefore, to propose to the Meeting that we be allowed to have his portrait painted. But that is certainly not my most important announcement. The most important one is that we would like to present to you, Björn, the Company's highest award, its Gold Medal, bearing the inscription: "The Board of Directors of Telefonaktiebolaget LM Ericsson expresses its deepest appreciation for your many years of unique services in behalf of the Company under difficult conditions."



Björn Lundvall:

"Generosity and humanity are characteristics of truly great personalities. Our chairman has them in rich measure. Now, after 13 years as managing director, I would like to thank my chairman for cooperation that has been exceptionally broad and abundant. It can perhaps be best characterized by the expression "Never a dull moment." It has been a cooperation that has in truth spanned the entire world and all of the Company's operations: financing, technical development, accounting, personnel policy, and much, much more.

Dr. Wallander has sketched our chairman's outstanding contributions over a period of 45 years — and this is almost half of this Company's existence.

The development of telephone technology is distinguished, as few other activities are, by an inexorable demand for continuity. New investments in telephone networks are only superimposed on investments already made. New equipment to be introduced must interface with systems that may have been in service for perhaps 50 years. This demand for continuity sets its mark on both manufacturers and customers. In some way, the past is always alive in this business which, despite this, has taken technology's most advanced aids into its service, and which has developed so rapidly. It has therefore been an unusually special advantage to be able to have access to a chairman who has had this continuity and who has had such an overview of causes and effects over so long a period.

But with this feeling for continuity our chairman also combined a unique interest in what the future would bring for our Company. This may have involved technology, financing, economic or political developments in a market — or people. Behind it lay — and I hope will continue to lie for many years — a boundless interest and involvement in the Company and its future. The experience of a long life spent in dealing with many difficult tasks also meant an objectivity of opinion and speed in analyzing problems that got to the heart of a matter.

When your retiring managing director lets his thoughts drift back a bit over the

many years of cooperation with his chairman, there come to mind such events as the re-establishment of operations in Mexico, the sale of North Electric (in the U.S.), the successes and setbacks in Brazil, the battles in France, the breakthrough in Spain — and many, many other events.

I want to thank my chairman for his continuing willingness to give me his support in my work and to let me share his exceptionally comprehensive and deep knowledge and experience — but perhaps above all, as I regarded it, for the inspiration and encouragement and counsel in moments of setbacks and troubles. There has been a spirit of confidence and constructiveness during these unforgettable 13 years that I will always recall with deep gratitude.

Finally, I would like to pay tribute to all the work and all the outstanding contributions made by my colleagues. They have placed the Company's interests above their own, and what I may have been able to achieve has occurred thanks to them. My gratitude goes out to all, forgetting none. And I wish my successor every conceivable success in the task of bringing about a dynamic and prosperous development of the Group."

Marcus Wallenberg:

"Since the day's proceedings have been quite long, I shall be very brief — if, indeed, it is possible to be brief about a period of 45 years that has been so exciting. We have had many crises during these 45 years. We have had a world war. We have had postwar crises. We have had many minor wars. We have had tensions both in the field of foreign policy and in the area of currency exchange rates. We have had trade wars and we have also had fluctuating economic conditions.

At the same time we at LM Ericsson started, as Dr. Wallander has pointed out, in a very precarious position after Kreuger's death. Dr. Wallander spoke of the liquidity crisis, and I would like to express to him, as head of Svenska Handelsbanken, our Company's appreciation. If Handelsbanken had not called up every day in 1932 and asked how our cash situation was, and if we had money to pay our bills, LM Ericsson might not have been able to survive.

That was the contribution of Handelsbanken.

Then I think we should remember the contribution made by the triumvirate that was appointed by the so-called Nothin Commission, and which consisted of Waldemar Borgquist, Wiking Johnson from Handelsbanken and Sten Rudberg from Stockholms Enskilda Bank, during the period when Johan

Grönberg was still managing director of the Company. He, too, performed very loyal work despite the fact that he was about to retire and remained only until Hans Theobald Holm became head of LM Ericsson in the beginning of 1933. There were many more people who helped. We had real problems in Argentina. Curt Schenström made himself available there. Our associates in Italy gave us a great deal of money when the need was critical.

During the entire period we were negotiating, first with the banks and then of course with ITT. The battle with ITT was quite simply due to the fact that Kreuger had put 410,000 "A" shares — that is, a majority of the shares — in the hands of a foreigner. That was illegal. We succeeded in obtaining a new law that was known as "Lex ITT." It was the end product of extended negotiations in which ITT's chairman, Colonel Behn, demanded that the Swedish banks stand behind LM Ericsson and that he should have his people on the Board.

When they wanted me to become vice chairman of the Board and chairman of a finance committee, I made it a condition that LM Ericsson should be operated as a vigorous independent Swedish company. And Behn had to accept that. That was the "truce" we lived under up to 1960.

I should recall that Colonel Behn had demanded to take over Ericsson's interests in France and in England. He wanted to drive us out of Norway and Denmark. He wanted, broadly speaking, to try to strangle LM Ericsson — and we had to oppose that. We had difficult problems with him in Mexico and Argentina. Due to circumstances, I was the one who had to negotiate. During the war he got a chance to more or less take Mexico away from us. We had to travel down to Zurich, Hans Theobald Holm and I, to talk with Behn. We got nowhere.

We had negotiations scheduled with him in London during the war. We were supposed to lunch together. We never got any farther than the cocktail table. Then we parted.

With the kind of demands he was making, we had to vote him out of the Board on one occasion. During the period from 1946 through 1949 he was not a member. I mention this as an example of how very rough the battle was. We had a preliminary agreement with his successor to buy up ITT's Ericsson shares for \$9 a share. But ITT's board rejected the deal. After a few years, we finally did conclude the deal, but by then the price was \$21 per share.

Over the years LM Ericsson had grown strong. First we had a period of negotiations with banks, etc., but the Company continued to develop. We had telephone operating concessions that cost money. We decided to dispose of the concessions and succeeded in doing so in most cases. There were concessions in Brazil and Italy — and even in Smyrna. They were

sold, but it took time. In Mexico, it took until 1958. The disposing of the concessions was one of the milestones in LM Ericsson's development.

We succeeded because we had good people. We had skilled engineers. During the entire period following the reorganization of the Thirties there was a continuing program — in which Hans Theobald Holm played a very important role — of cleaning up the Company and thereby laying the foundation for what developed in Helge Ericson's and Sven Ture Åberg's eras.

Sven Ture Åberg deserves to be mentioned again for it is certainly interesting that he was one of those who were laid off during the reconstruction period of the Thirties when the idea was to save money, and when the number of employees was reduced by 50 percent. Åberg had been employed in Latin America. Instead of returning home, he went to Ecuador, where he found some indications that he might be able to sell Ericsson technology. He wrote a letter home. He then received \$100 a month, I think it was, to continue to assist the Company as a consultant. He succeeded in obtaining an opportunity for the Company to submit a tender, and after a short period he was reemployed. It is certainly amusing that LM Ericsson has produced people who first are fired and then become managing directors.

On the whole, this Company has been characterized by a unique spirit of cooperation among all categories of employees. It has been most fortunate that we have had telephone men as managers. While Hans Theobald Holm certainly was not a telephone man, he was an exceptional administrator and dedicated himself to mastering the business. Helge Ericson, who came from the Swedish Telecommunications Administration, had once been employed at LM Ericsson. He was a telephone man. So were Sven Ture Åberg and Björn Lundvall — and now Björn Svedberg. The Company has achieved its great successes on the basis of its technology. There was the crossbar system during the Fifties and Sixties. Now the AXE system is emerging.

I always like to say of Ericsson's performance: Think of our achievement in Australia when our crossbar system was selected as the standard there! We had virtually no plant there. What genuine delight there was that our engineers had brought home the victory! And, when one of the conditions was that our competitors should be licensed to manufacture our system, what a genuine delight it also was to go into their plants and see LM Ericsson's products being manufactured there! It was a success for technology, energy and imagination that a Swede can be very proud of.

Time does not permit me to name all the people who have been so important in the technical, sales and administrative areas. For me, it has been a pure pleasure to work in this Company even under

the awkward conditions and enormous crises that we have experienced. With the background and the people that the Company has, I am convinced that it will be able to handle the problems that lie ahead of us. Because, remember, we are not yet over our problems. We have a period of respite. It was certainly a good thing that we did not have any major conflict, but there is no question but that our motto here in Sweden today should be: Cooperation and — excuse me for saying it — sacrifice. We have gotten a little off the track, which is indicated by the large foreign loans for which we have committed ourselves — a sign that we are really living beyond our resources. But we can very easily recover. All this talk about trying to solve our problems by changing the value of the krona and making it a sort of elastic band is all wrong. It will only mean that we are buttering our bread and getting bigger and bigger problems. Why shouldn't we, instead, take a short rest period? This doesn't mean that we are questioning the reforms that have been achieved — but only that we are trying to catch a fair wind, to prevent all the misery that would afflict all the Swedish people if we should go the English route. Forgive my saying that. I admire England very much, but I do not like the "English disease" and I do not want Sweden to catch it.

Thank you very much."





LM ERICSSON TELEPHONE COMPANY

Annual Report and Year's Review

HEADQUARTERS

Telefonaktiebolaget LM Ericsson
Telefonplan, S-126 25 Stockholm, Sweden
Telephone: 08/719 00 00

STOCK LISTED ON

Stockholm Exchange A and B shares
Amsterdam, Düsseldorf, Frankfurt am Main, B shares
Geneva, Hamburg, London, Oslo and Paris Exchanges

REFERENCE BANKS FOR SHAREHOLDERS RESIDING OUTSIDE SWEDEN

France:

Crédit Lyonnais
Banque Nationale de Paris
Banque de Neuflyze, Schlumberger, Mallet
Banque de Paris & des Pays-Bas

The Netherlands:

Pierson, Heldring & Pierson N.V.

Switzerland:

Pictet & Cie, Swiss Bank Corporation and Union Bank of Switzerland

United Kingdom:

S.G. Warburg & Co. Ltd.

U.S.A.:

Citibank N.A.

West Germany:

Deutsche Bank AG and Westdeutsche Landesbank Girozentrale

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Stockholm Fair, Mässvägen 1, Älvsjö at 4.00 p.m. Tuesday, June 6, 1978.

Shareholders intending to participate in the Annual General Meeting must be entered as shareholders in the share register kept by Värdepapperscentralen VPC AB (Securities Register Centre) not later than May 26, 1978. Shareholders whose shares are registered in the name of an agent must reregister the shares temporarily in their own names in order to participate in the meeting.

In addition to the above-mentioned requirements, shareholders shall give notice of attendance to the Headquarters of the Company between 10.00 a.m. and 4.00 p.m. daily, not later than Thursday, June 1, 1978 at 4.00 p.m.

DIVIDEND

The Board of Directors has proposed June 8, 1978 as the record date for payment of dividends. Provided this proposal is approved, the dividend is expected to be paid by Värdepapperscentralen VPC AB on June 15, 1978.

Dividends on shares for which certificates have been issued under the former system will not be paid until the exchange of certificates and the entry in the share register kept by Värdepapperscentralen VPC AB have been made.

Shareholders who have changed their names or mailing addresses should as soon as possible notify Värdepapperscentralen VPC AB, Box 7077, S-103 82 Stockholm, Sweden.

Cover: The new DIAVOX telephone.

Left: The first ARE 13 international transit exchange was placed in service in Kuwait in August, 1977.

Page 2: Assembling of thick film circuits in Rifa's new plant in Kista, north of Stockholm. Rifa is the largest manufacturer of electronic components in Scandinavia.

Contents

4 10-Year Financial Summary

5 Progress Charts 1968 – 1977

Annual Report of the Board of Directors and Audit Report

6 Board Report

19 Consolidated Income Statement

20 Consolidated Balance Sheet

22 Source and Application of Funds

23 Parent Company Income Statement

24 Parent Company Balance Sheet

26 Investments

28 Notes to the Financial Statements

32 Audit Report

33 Consolidated Net Sales by Product
Groups and Markets

Year's Review

34 Sweden

35 Europe (excluding Sweden)

37 Latin America

37 Africa

37 Asia

37 Australia

39 U.S.A. and Canada

40 The Ericsson Group, Associated
Companies and Representatives

42 Products and Systems



Honorary Chairman

MARCUS WALLENBERG
Dr. h.c.

Board of Directors

BJÖRN LUNDVALL
Chairman

JAN WALLANDER
Vice Chairman

PETER WALLENBERG
Vice Chairman

ÅKE ANDERSSON

NILS BERGGREN

LENNART DAHLSTRÖM

LARS-OLOF EKEBERG

GUNNAR LAGERGREN

WERNER SUNDELL

RAGNAR WOXÉN

BJÖRN SVEDBERG
President

Deputy Members

TORSTEN BENGTSON

GÖRAN BORG

GUNNAR HÖGBERG

GUSTAV LEVIN

ARNE MOHLIN

FRITZ STAFFAS

HANS SUND

Senior Management

BJÖRN SVEDBERG
President

HANS SUND
Senior Executive Vice President

ARNE MOHLIN
Executive Vice President
Production

FRITZ STAFFAS
Executive Vice President
Finance

LARS EDMARK
Vice President
Marketing

SVEN FAGERLIND
Vice President
Defence and Signaling

BO LANDIN
Vice President
Telecommunications Operations

HÅKAN LEDIN
Vice President
Telecommunications Operations

GÖSTA LINDBERG
Vice President
Research and Development

KARL-AXEL LUNELL
Vice President
Licensing and Patents

JAN STENBERG
Vice President
Legal Affairs

NILS SVENSSON
Vice President
Personnel

YNGVE ÅKESSON
Vice President
Cable Operations

Vice Presidents

OLOF ALSTRÖM

STURE EDSMAN

ROLF ERIKSSON

HANS FLINCK

NILS HOLMGREN

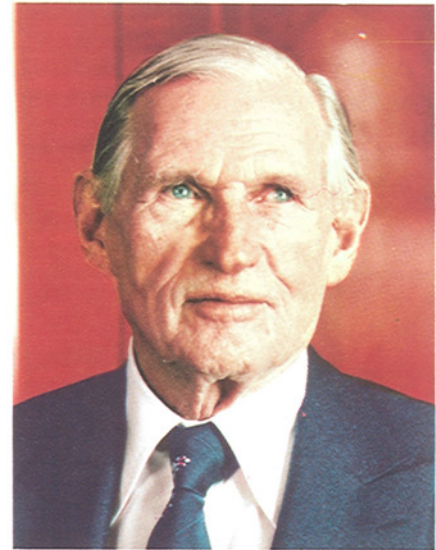
ULF JOHANSSON

TORSTEN LINDSTEDT

SVEN LÖNNSTRÖM

BENGT R SÖDERBERG

NILS TENGBERG



Dr. Marcus Wallenberg, chairman of the board of directors of LM Ericsson Telephone Company, retired from the board at the Annual General Meeting of the Company in June, 1977. He had been elected a director in 1933. Since the spring of 1932 he had participated in the working committee that was assembled to reconstruct the Company following the consequences of the "Kreuger crash." His contribution was based to a high degree on the international confidence enjoyed by the Wallenberg family and Stockholms Enskilda Bank.

Dr. Wallenberg served the Company for 45 years, 24 of them as chairman of the board. During this long period he was personally responsible for carrying out many negotiations of vital importance to the Company. He established firm guidelines for the business that became of decisive significance, took initiatives in many fields and assisted in the solution of difficult problems.

Of special importance was the continuity which his long participation represented in an industry which, despite its rapid technical development, is characterized by demands for unbroken links between the past and the future.

The objective which Dr. Wallenberg himself established in 1933, "to assure the continuing existence of the Company as a strong, independent Swedish enterprise with possibilities for lasting growth," was truly achieved through his efforts and inspiring leadership.

In speeches at the Annual General Meeting in 1977, representatives of the board of directors and of the employees expressed to their retiring chairman the deep gratitude felt by all for his achievements. Their comments, together with Dr. Wallenberg's response, are reproduced in a supplement to this Annual Report.

With the objective of promoting the further development of the Ericsson Group and its employees, the Annual General Meeting approved the allocation of S.Kr. 5 million (\$1.1 m.) to establish "The Marcus Wallenberg Foundation for Scientific Research and Training."

The Ericsson Group 10-year financial summary

As reported in the annual reports for the respective years

INCOME DATA

Dollar amounts in millions except per share figures

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Net sales	1,673.6	1,562.3	1,546.9	1,279.4	1,113.7	917.6	803.2	675.1	621.1	538.7
Income before special adjustments and taxes	118.1	86.9	156.3	174.7	188.8	115.6	101.9	106.6	98.9	78.2
Percent of sales	7.1 %	5.6 %	10.1 %	13.7 %	17.0 %	12.6 %	12.7 %	15.8 %	15.9 %	14.5 %
Depreciation	64.8	61.9	56.2	48.5	42.9	34.7	27.4	23.4	19.5	18.3
Special adjustments	18.3	23.8	67.0	75.7	36.6	20.4	34.3	30.3	23.1	13.7
Swedish and foreign income taxes	47.2	30.0	46.0	53.7	74.6	44.3	30.9	35.1	40.1	32.8
Reported net income	41.2	31.0	36.3	42.2	59.8	38.5	28.3	37.4	32.4	29.3
Per share	1.89	1.42	1.66	1.93	2.74	1.77	1.30	1.72	1.49	1.34
Adjusted net income per share	2.64	2.08	3.04	3.19	3.39	2.16	1.94	2.38	2.00	1.64
Dividend	23.3	23.3	23.8	19.7	18.1	16.4	14.5	14.5	14.5	11.0
Per share	1.07	1.07	1.09	0.91	0.83	0.75	0.66	0.66	0.66	0.50
(1977, proposed)										

BALANCE SHEET DATA (year-end)

Net working capital	932.9	861.5	934.1	732.5	703.1	606.9	460.1	392.3	336.7	306.7
Ratio of current assets to current liabilities	2.1:1	2.2:1	2.1:1	2.0:1	2.1:1	2.3:1	2.3:1	2.2:1	2.4:1	2.3:1
Net property, plant and equipment	447.6	430.4	389.2	329.4	288.4	230.6	212.1	167.4	140.9	127.7
Long-term debt	529.4	525.8	586.8	390.1	380.5	349.4	235.8	162.5	110.5	102.2
Minority interest	82.1	74.0	87.7	86.1	94.4	77.0	51.9	34.5	28.1	25.3
Stockholders' equity	572.1	554.2	453.3	436.7	410.2	335.5	309.5	295.7	268.3	246.4

OTHER DATA (year-end)

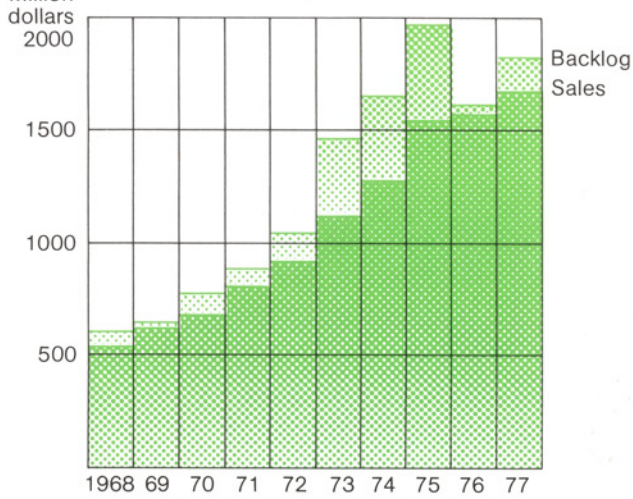
Capital expenditure for property, plant and equipment	117.1	125.2	140.3	107.2	83.6	79.2	86.0	58.3	34.8	35.9
Backlog of orders	1,830.1	1,607.3	1,957.7	1,645.5	1,451.9	1,041.7	875.9	771.6	644.9	606.0
Number of employees	66,400	71,100	84,100	80,600	75,600	70,600	66,900	61,900	53,600	48,700
Number of shares outstanding	21,788,498	21,788,498	15,380,117	15,380,117	15,380,117	12,304,094	12,304,094	12,304,094	12,304,094	10,253,412

All per share figures reflect the stock dividends in 1969 and 1973 as well as the stock dividend and new issue in 1976.

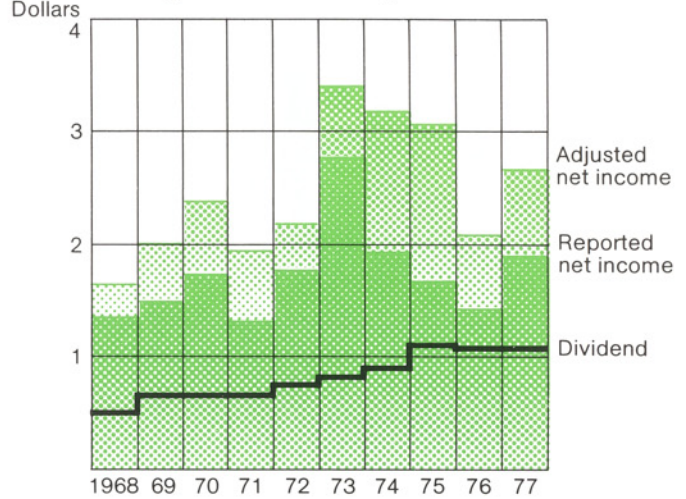
Adjusted net income per share reflects net income after adding back special adjustments, less amounts equivalent to reduction in current income taxes resulting from such adjustments.

The United States dollar amounts shown in the above summary represent translations from Swedish kronor at the parity exchange rate at December 31, 1977, of S.Kr. 4.68 to \$1.00.

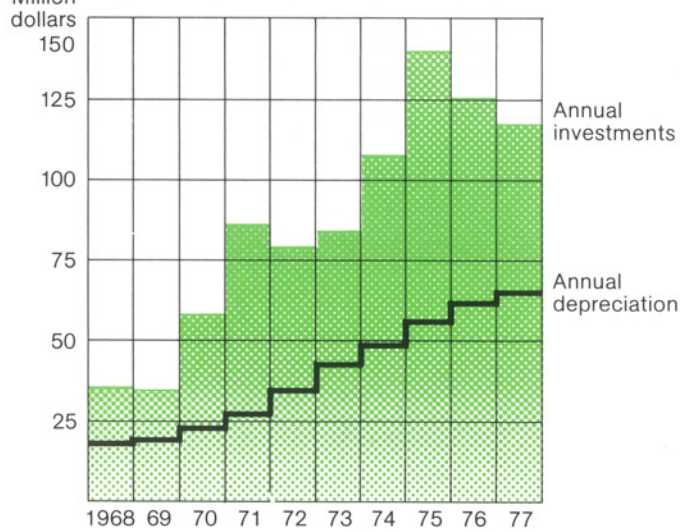
Sales and backlog



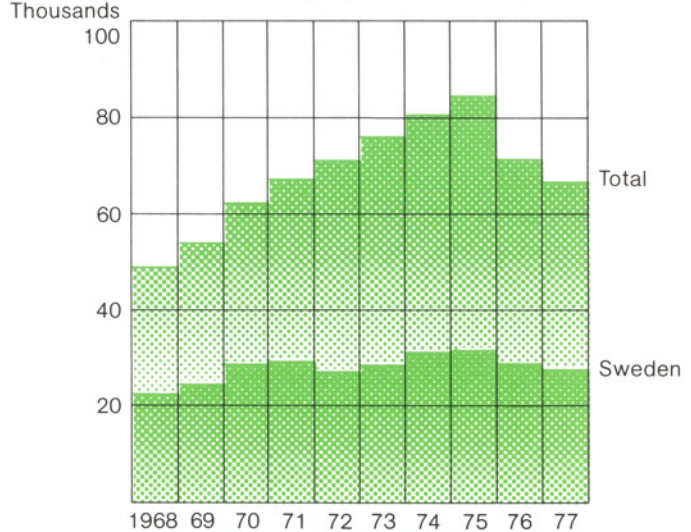
Earnings and dividends per share



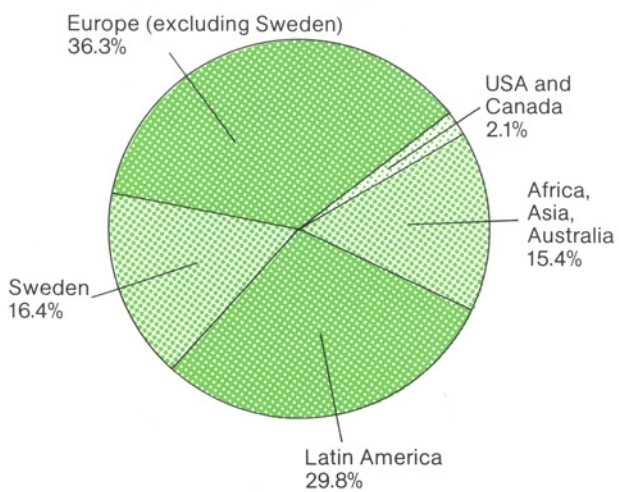
Capital expenditures



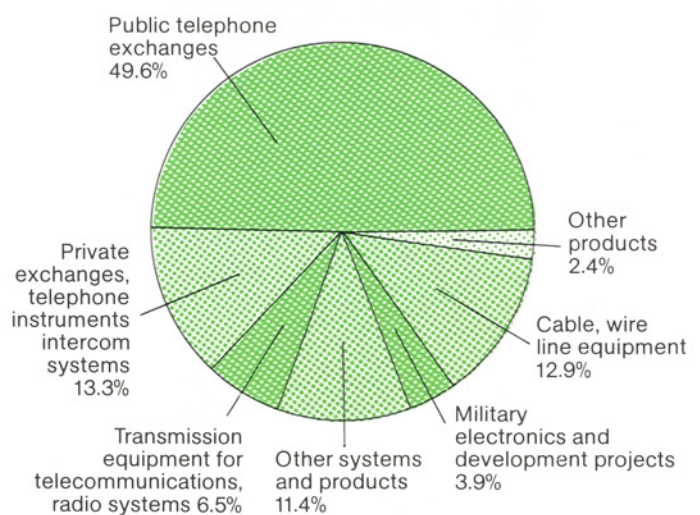
Number of employees



Overall geographic distribution of sales



Group sales by products



Annual Report of the Board of Directors to the Stockholders



The largest contract in Ericsson history was signed in Riyadh, Saudi Arabia on January 25, 1978 by the Saudi Minister of Communications, Dr. Alawi Darwish Kayyal, Ericsson's President, Björn Svedberg, and representatives of Philips of The Netherlands and Bell of Canada.

Group operating results in brief

(\$ Millions except where otherwise indicated)			
	1977	1976	Change
Order bookings	\$1,851.5	\$1,528.6	+21 %
Order backlog	\$1,830.1	\$1,607.3	+14 %
Sales	\$1,673.6	\$1,558.5	+ 7 %
Income before special adjustments and taxes	\$118.1	\$86.9	
Percent of sales	7.1 %	5.6 %	
Reported net income	\$41.2	\$31.0	
Per share	\$1.89	\$1.53	
Adjusted net income	\$57.5	\$45.3	
Per share	\$2.64	\$2.23	

As a result of the stock dividend and new issue of shares in 1976, income per share in 1976 has been calculated on a theoretical number of 20,265,067 shares. Income per share in 1977 has been calculated on the actual number of shares outstanding, 21,788,498.

Economic development was weak in many industrialized countries in 1977. Unemployment continued to constitute a substantial problem. Growth in the OECD countries was lower than during 1976. In the United States, the economic upturn has been maintained without interruption for nearly three years, although at a slow rate, but the relatively good economic conditions in that country have not, generally speaking, had any stimulating effect on the economies of other countries.

The rate of economic growth in Sweden was low. A high cost situation in the industry again in 1977 resulted in reduced competitive capacity in export markets at the same time that demand was low as a consequence of the economic conditions. For the second year in a row the rate of economic growth in Sweden was among the lowest in the OECD countries.

The Swedish krona was devalued twice and its weighted average value is estimated to have fallen approximately 17 percent during 1977. The devaluations meant that the currencies in a number of countries in which the Group has large investments did not develop negatively, relative to the krona, in the same manner as in 1976.

The weak economic trends in many industrialized countries which experienced low demand and rising unemployment resulted in intensified export efforts on the part of industry. An increasingly protectionist attitude became noticeable. For the Ericsson Group, this meant that there was a sharper demand for exports from Group companies in a number of countries.

For a large number of the Group's customers, the restrictive economic policy meant continued limitations on allocations for investments. A lower rate of growth in numbers of subscribers was noted in some countries, and there are substantial indications that the growth rate of telecommunications networks leveled off during 1977.

With a few exceptions, of which the Parent Company is one, the large international suppliers of telecommunications equipment base their operations on a substantial domestic market. The decrease in the rate of expansion of telecommunications networks in home markets resulted in intensified export efforts on the part of a number of suppliers. Thus competition in 1977 was considerably more severe than earlier. In addition, the competitive situation was aggravated by the fact that the number of qualified suppliers in the international market increased.

In international bidding competitions, there continued to be sharp variations in the price picture during 1977 but a stabilization at a lower level than earlier unfortunately became noticeable.

Technically advanced products, forceful marketing and advantageous credit terms are important competitive tools.

A number of important orders during the year confirmed that the Group holds a position in the very front ranks of the industry in terms of technically advanced solutions, particularly within the field of telephone exchanges.

For its marketing, the Group is fortunate to have a very widespread international organization which has had the confidence and cooperation of customers throughout the world. This has contributed decisively to the Group's success. The Group is represented in more than 40 countries through more than 130 subsidiaries, associated companies and technical offices. The markets in an additional 70 countries are cultivated through specialized agents.

Where competition on advantageous credit terms is concerned, however, the Group is in a less favorable position than many competitors. It must base credit terms to customers completely on its own ability to obtain capital, on terms that are inferior to those available to the competitors.

Order bookings

Orders booked by the Group during 1977 amounted to \$1,851.5 m., an increase of 21 percent compared with bookings of \$1,528.6 m. in 1976, when orders had decreased 7 percent.

The distribution of orders by major product groups was as follows:

(\$ Millions)	1977	1976	Change %
Public telephone exchanges	\$ 902.3	\$ 671.6	34
Subscriber exchanges, instruments and intercom systems	216.7	202.8	7
Telex and traffic signaling systems and components	120.2	137.3	-12
Transmission equipment and radio communications systems	107.5	127.4	-16
Military electronic equipment and development work	108.6	62.1	75
Cable, wire and network equipment	248.9	213.9	16
Other Group products	102.5	66.6	54
Miscellaneous	44.8	46.9	- 5
Total	\$1,851.5	\$1,528.6	21

Orders for *public telephone exchanges* rose sharply, compared with 1976. The increase was concentrated in the last half of the year and to a large degree resulted from the fact that a number of customers, for a variety of reasons, had for a long time deferred the placing of large contracts.

Slightly more than half of the bookings for local and trunk exchanges in 1977 were for crossbar systems. This, however, represented a reduced relative share of total bookings, which had also been anticipated.

Orders for the modernized crossbar systems with computer-controlled registers ARE were somewhat lower than in the preceding year.

Contracts for the AKE and AXE fully computer-controlled systems were higher and their relative share of total bookings rose substantially.

Orders booked for computer-controlled trunk exchanges with code switches (AKE) were somewhat higher than the preceding year.

A comprehensive presentation activity was carried on during the year as part of the continuing introduction of the Group's AXE computer-controlled telephone exchange system. Nearly 30 symposia were arranged in as many countries with participants from various telecommunications administrations.

The operating AXE exchanges in Sweden and Finland were demonstrated for nearly 1,500 visitors from countries throughout the world.

The AXE system achieved its international breakthrough during the year and order bookings accounted for well over one fourth of the total contracts for local exchanges. Orders were received from seven countries.

In the middle of the year the Australian Government, in accordance with the recommendation presented by the administration responsible for national telephone service, decided to select the AXE system for future local exchanges. The selection, made following a bidding competition in which the world's best qualified suppliers participated, attracted substantial publicity and contributed to the rapid international breakthrough of the AXE system.



In January, 1978, two contracts totaling \$82 m. were signed with the Swedish Telecommunications Administration. Participating in the ceremonies: Director General Tony Hagström of the Administration and Ericsson's President, Björn Svedberg.

In the beginning of 1978 two of the largest contracts in the history of the Parent Company were signed: with the telecommunications authorities in Saudi Arabia, and with the Swedish Telecommunications Administration, involving deliveries of AXE equipment as well as substantial quantities of other material produced by the Group.

Despite the very difficult competition, the Group succeeded in increasing its order bookings for *subscriber exchanges, telephone instruments* and *intercom systems* during 1977.

During the year a broad effort was devoted to the international introduction of the AXB 20 computer-controlled *telex exchanges*, which are based on the same technique as the AXE system. This resulted in the receipt of a number of significant orders in 1977 and during the early part of 1978.

Even prior to 1977, internationally there had been excess production capacity and reduced demand for *transmission equipment*. The result was increasingly severe price competition, as a consequence of which Group order bookings declined to approximately 75 percent of the preceding year's total. The Group's main supplier of *radio equipment*, Svenska Radio AB, expanded its marketing area and recorded higher orders.

Thanks to its highly developed techniques in the radar and laser area, the Parent Company was able to obtain significantly increased contracts for *military electronics*.

The low rate of investment, notably in the construction field, meant that orders for *power cable* received by the Group's cable companies were lower than in the preceding year. However, this was offset by higher bookings for *telecommunications cable*, so that total orders for cable remained unchanged. Orders for *network material* and *network installation* work rose markedly, due primarily to a very large contract from Libya.

Effective in 1977, the classification *other Group products* includes—following the acquisition of a Swedish installation company—installations of conduits and tubes, which primarily account for the increased order bookings in this product category.

The geographic distribution of order bookings was as follows:

(\$ Millions)	1977	1976	Change %
Sweden	\$ 307.3	\$ 274.5	12
Europe (excluding Sweden)	655.3	584.0	12
Latin America	537.3	413.5	30
Other markets	351.6	256.6	37
Total	\$1,851.5	\$1,528.6	21

A large part of the increase in order bookings in Latin America consisted of index-regulated additional charges on invoiced deliveries.

Orders received by the Parent Company from customers with whom it concludes delivery agreements directly increased by more than \$98.3 m. in 1977; of this amount, purchasers outside Europe accounted for approximately 75 percent.

Further details of developments in the various markets appear in the Year's Review.

Production

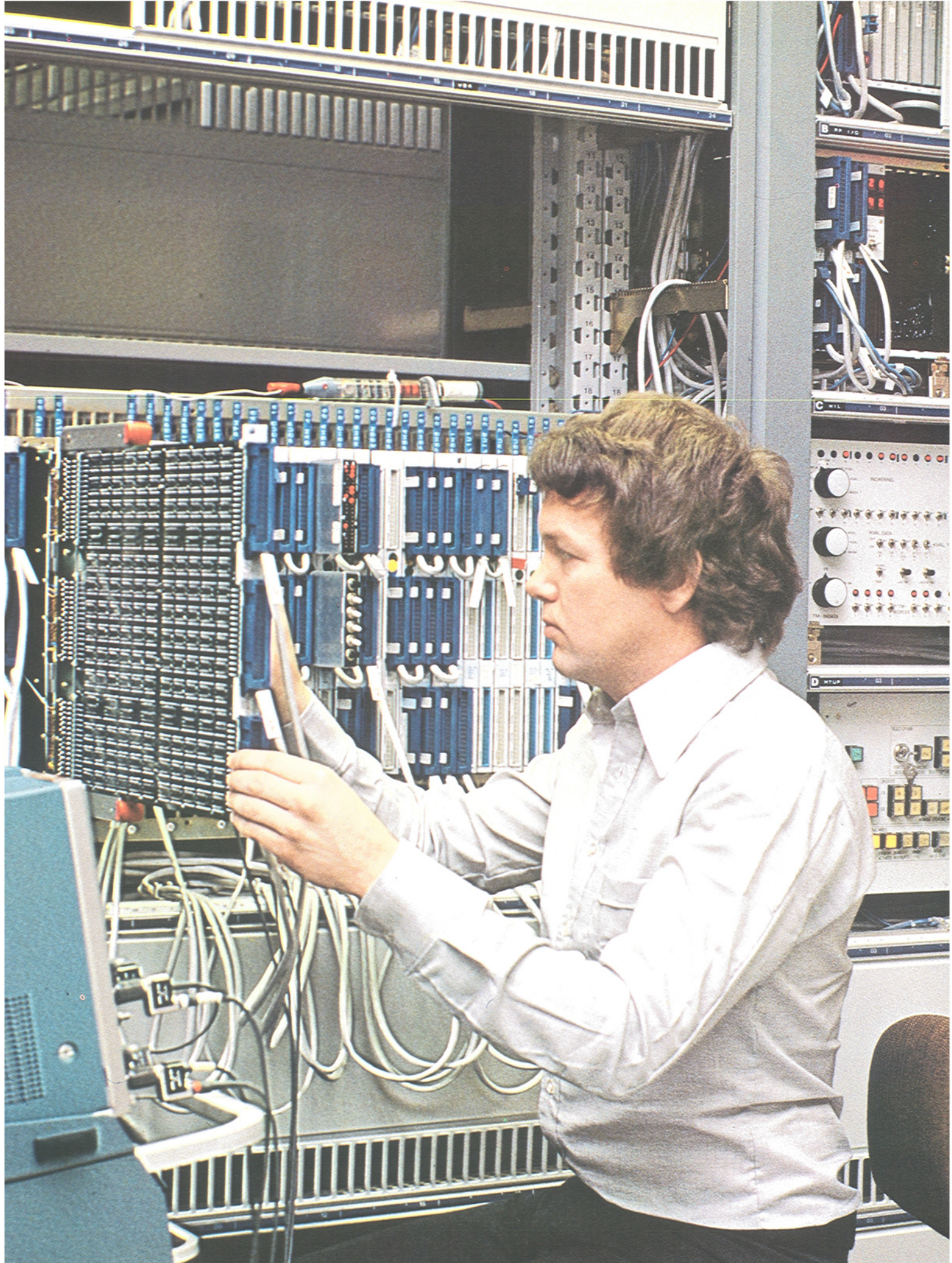
The decrease in Parent Company order bookings for electromechanical systems and products that had been recorded in 1976 continued during 1977. As a result, utilization of capacity for this type of production in the Company's plants was low. In order to reduce this excess capacity and to meet the sharply increased demand for electronic systems, the change-over of production capacity within the Company continued at an accelerated pace. Of the 23 factories in Sweden, 11 are already wholly or primarily oriented towards electronic production and another two are being converted.

With a view to evening out employment in the Parent Company's factories in Sweden—which are widely dispersed geographically, and of which a number are of great importance to the local economies—a redistribution of the units' production of electromechanical equipment was undertaken. This occasioned costly retraining procedures.

There were great variations in the utilization of capacity in the other Swedish Group companies. It was relatively high in factories that concentrated on electronic equipment, but was low in other units.

With the exception of the production companies in Mexico, utilization of capacity in the Group's foreign manufacturing companies was unsatisfactory, due to low order bookings. Production facilities at LM Ericsson Pty. Ltd. in Australia were reduced through the sale of a plant with 8,000 square meters of floor area and manufacturing at Ericsson do Brasil was concentrated in a smaller number of plants with a view to reducing capacity.

Final testing of AXE equipment in the new electronics plant in Älvsjö, outside Stockholm.



Group production facilities at year-end (including space for materials handling) were distributed geographically as follows:

(Square meters)	1977	1976
Sweden: Parent Company	560,000	545,000
Other companies	280,000	300,000
	<u>840,000</u>	<u>845,000</u>
Europe (excluding Sweden)	215,000	215,000
Latin America	232,000	230,000
Other countries	52,000	60,000
Total	1,339,000	1,350,000

The average number of workers employed in production declined 11 percent during the year. The geographical distribution of factory personnel was as follows:

	1977	1976
Sweden: Parent Company	11,520	13,570
Other companies	2,410	2,280
	<u>13,930</u>	<u>15,850</u>
Europe (excluding Sweden)	5,820	5,920
Latin America	4,790	5,830
Other countries	1,350	1,520
Total	25,890	29,120

Technical development

Research and development costs in 1977 amounted to \$137.0 m., equal to 8 percent of Group sales.

Most of the research and development activity is handled by the Group's Swedish companies but advanced technical development has for many years also been carried out in a number of the Group's foreign subsidiaries and associated companies. The continued expansion of this local R&D activity is both natural and desirable in view of the aspirations of the local authorities and the employees. It is also of major importance with respect to the rapid and broad introduction of the Group's new products.

Basic development work

As a result of the improved properties and lower production costs of digital semiconductors, analogue systems and components in the Group's product areas will to an increasingly higher degree be replaced by digital equipment. Against this background, substantial investments were made during the year to continue to expand the Group's competence in the semiconductor field, both within AB Rifa, the Group's component company, and in the Group's other technical units.

Fiber optical systems and components are expected to be introduced in many of the Group's product areas during the early 1980s. Basic development work in this field is being carried out in the Parent Company's laboratories and those of Sieverts Kabelverk.

The Group today commands a substantial amount of know-how in the computer field. This applies equally to computers used in various products and to support systems employed in the development and handling of these products. It is particularly true in the case of the advanced and unique software technique that has been developed for application in Group products. Further basic development work continued during the year in cooperative projects involving Parent Company specialists and those of ELLEMTEL, the development company jointly owned by Ericsson and the Swedish Telecommunications Administration. These projects included software languages and new structures for computer systems.

The interplay between new technology and the new systems concepts which it makes possible is also effecting a gradual change in the networks in which the Group's telecommunications products will be used. Work on overlapping network studies, especially of digital systems, was intensified during the year, based on calculations of the costs of various types of technique, as well as their possible rates of introduction.

Product development

The success with AXE and the possibilities this offers for future applications in digital networks resulted in broadened development work on new digital system components.

Through the use of display screens, the AKE computer-control system was supplemented with an information system for telephone operators, developed by the Parent Company and Svenska Radio AB.

The ARE trunk exchange recently placed in service in Kuwait contains new equipment for the telephone operators and a newly designed unit for charging of trunk calls.

During the year development of an advanced operation and maintenance center for complete telecommunications networks was continued at the Parent Company.

The first installation of the computer-controlled AXB 20 *telex system* was cut into service in Malmö, Sweden, marking the conclusion of basic development work. Further development of such additional functions as manual keyboards, "store and forward" capability and asynchronous data links continued according to plan.

In the *transmission* field, most of the modernization of multiplexing and cable equipment for systems up to 12 MHz was completed. Following successful field tests during 1977, the first installations of 60 MHz coaxial cable equipment are planned in Italy during the current year.

Up to now digital transmission has been used primarily to increase the capacity of existing cables in large city networks through the use of 2 Mb/s PCM (pulse code modulation) systems. With the introduction of digital switching equipment of the AXE type, telecommunications administrations' interest in digital transmission systems with higher channel capacities is also increasing. Equipment for systems up to 34 Mb/s was completed during 1977 and development work on systems for 140 Mb/s also got under way in the Parent Company and at FATME in Italy.

Radio link systems will increasingly be used in place of cable systems in new installations in long distance networks. During 1977 a test link for the upper 6 GHz band

with 2,700 telephone channels was placed in operation in Norway with good results. The system was developed by Elektrisk Bureau's Nera Division.

A family of fully electronic *subscriber switchboards* is under development in the laboratories of the Parent Company and ELLEMTEL. The exchanges, which are designed to handle from 20 to 900 extensions, are distinguished by a large number of special facilities and a well conceived philosophy in terms of installation, operation and maintenance. Development work on the smaller version of the exchange, for 20 to 100 extensions, was completed during 1977. The first units are being delivered during the spring of 1978. Development of the larger exchange, for 60 to 900 extensions, will be concluded during 1978.

The first pilot installation of a digital computer-controlled booking system—a special exchange for such users as travel agencies and airlines—developed by the Group's Australian subsidiary was installed during the year.

Development work was completed on a new desk instrument, the DIAVOX, which is the basic unit in a new family of *telephone instruments* currently being developed. In addition to the desk instrument, this will consist of wall instruments, loudspeaking telephones, a secretarial system, etc. The instrument, which is fully electronic, was very well received when it was introduced in the market

and has already been selected as a standard instrument in several countries.

In the field of *military electro-optical systems*, a second, more advanced FLIR (Forward Looking Infra Red) system was developed. The system was put through flight tests, with good results, during 1977.

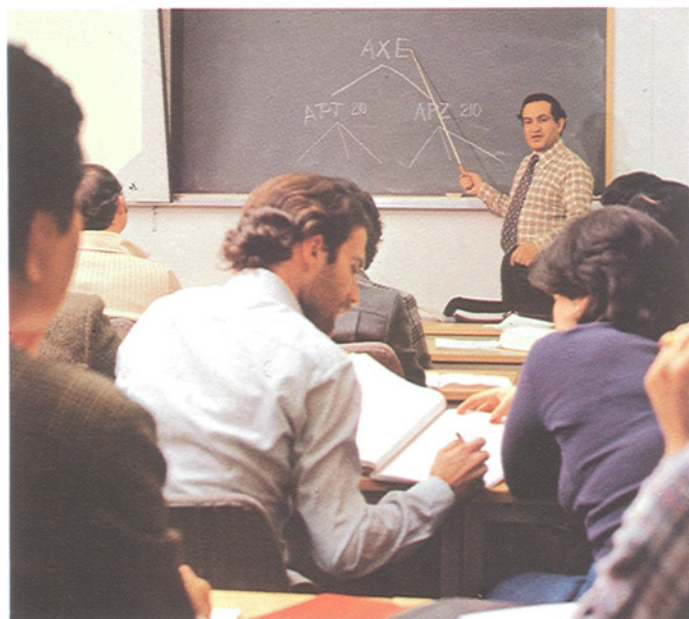
During the year, Sieverts Kabelverk made an initial delivery of an "integrated cable", in which conductors for the transmission of both electrical energy and control signals are enclosed within the same sheathing. The cable has been used for the operation and maneuvering of submarine robots, among other purposes.

Svenska Radio AB's new mobile telephone was introduced during the year and was a major sales success in Sweden. Development of digital cryptograph units for mobile radio is under way in cooperation with AB Transvertex. Development of a new display system for aircraft, using holographic technique for sight line indicators is also progressing.

LM Ericsson Telemateriel intensified its efforts in the field of integrated security and alarm systems. This resulted in the development of transmission units by means of which alarm and remote control networks spanning great distances can be built. The system was very well received when it was introduced on the market.

Control room in the new AXE telephone exchange in Turku, Finland, the first to be equipped with digital group selectors.





Foreign students are trained in AXE technique at the Group's International Training Center in Stockholm.

Personnel

The total number of employees within the Group was as follows:

	December 31		Change
	1977	1976	
Sweden: Parent Company	20,320	21,700	-1,380
Other companies	7,050	7,030	20
	<u>27,370</u>	<u>28,730</u>	<u>-1,360</u>
Europe (excluding Sweden)	18,480	18,350	130
Latin America	13,990	17,440	-3,450
Other countries	2,980	2,980	-
	<u>62,820</u>	<u>67,500</u>	<u>-4,680</u>

Including the telephone operating companies in Argentina, the total number of employees was 66,370 in 1977 and 71,070 in 1976.

At the close of 1976, the management of the Parent Company and the employee organizations jointly began an analysis of future personnel requirements, with the objective of proposing appropriate measures for adjusting capacity over both the short and long terms. In the subsequent negotiations it was agreed to institute a four-day week during 20 weeks of 1977 in order to reduce the rate of inventory increases. On the fifth day of these weeks practical and theoretical training of 11,500 factory workers was carried out, utilizing Government grants, in order to avoid layoffs.

In many cases, reductions in personnel had the effect of raising the average age of employees, thereby increasing "adjustment" problems. Accordingly, a joint working group with representatives of management, the employee organizations and the Company health department was set up at the main factory and some other units in Sweden to develop proposals for solutions to this problem.

The gradual changes in technique and production created an acute need for internal mobility among various categories of employees, both within Group companies and between them. It is clearly essential that an adequate degree of such mobility be achieved.

During the year an extremely restrictive personnel recruiting policy was in effect in the Parent Company's factories in Sweden at the same time that employees were assigned to new jobs. Hiring was limited to personnel required for specific jobs.

This situation and the prevailing recession in the labor market probably affected employee turnover among employees covered by collective labor agreements. In contrast, absenteeism due to illness did not deviate substantially from 1976 figures.

Employee turnover in the Parent Company was as follows:

	1977	1976
Factory workers	9.4 %	15.8 %
Other employees	6.9 %	7.3 %

Absenteeism due to illness, as a percentage of total employee time, including vacations, was as follows in the Parent Company:

	1977	1976
Factory workers	12.0 %	12.4 %
Other employees	4.7 %	5.0 %

The lower order bookings in recent years caused reductions in the workforce in a number of companies outside Sweden. The sharpest reduction occurred in the subsidiary in Brazil.

Supplementary information on the average number of employees and on wages, salaries and other remuneration paid is presented in connection with the comments and notes to the financial statements on pages 28-31.

Training and retraining

The recession during the year affected the total training activity only to a limited extent. In most companies other factors were decisive. These included the introduction of -or preparations for- new technologies, the need for further training of managers and administrative personnel, and the demands imposed on the companies by society.

Training activities in Sweden were to a substantial degree directed towards facilitating the transition to electronics and new telephone systems, as well as towards adjustments to the new laws and contracts related to working life.

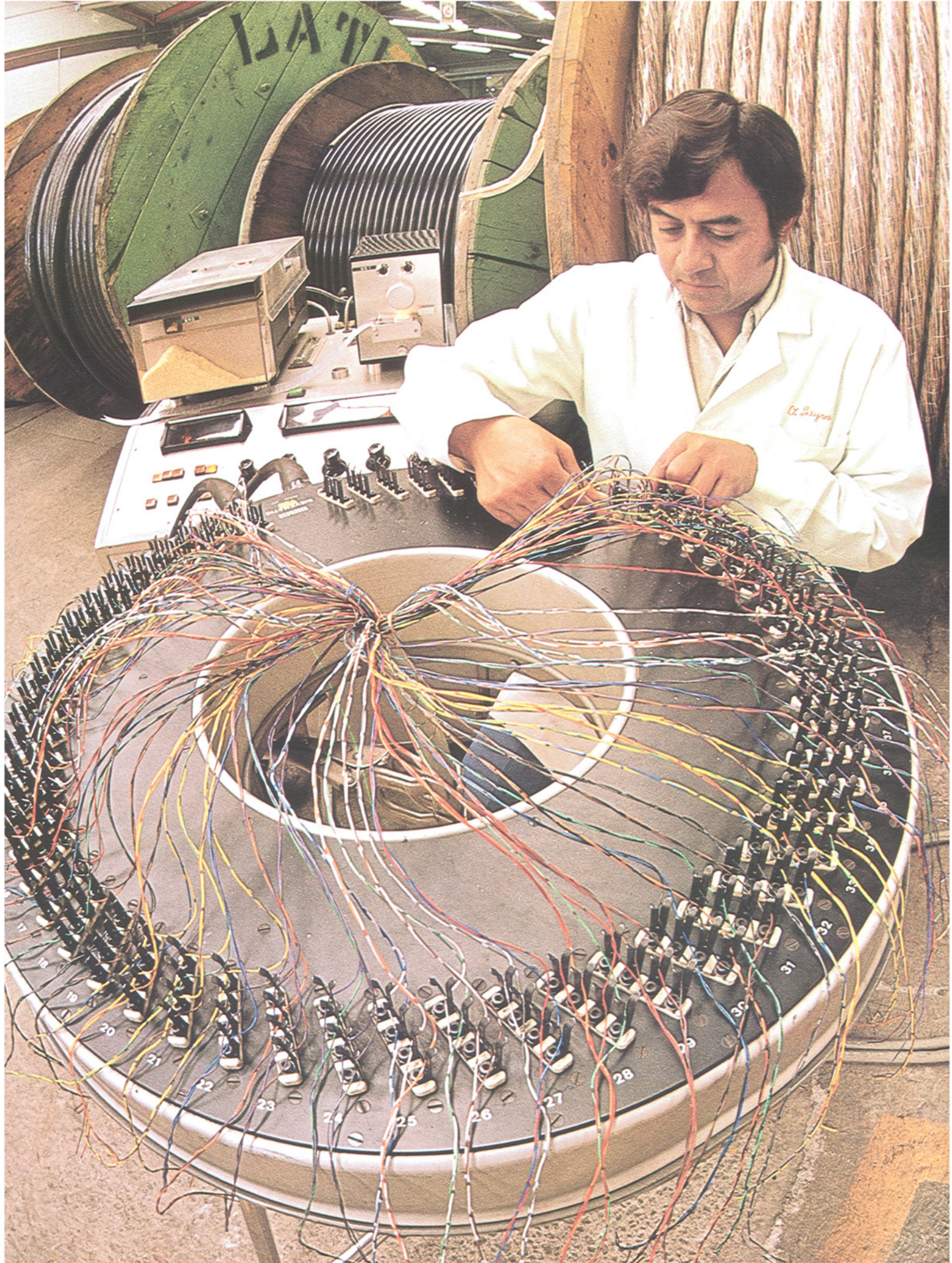
As a result of the introduction of the new telephone system, training activities at Ericsson's International Training Center in Stockholm increased during the year. There were nearly 700 students from customer organizations and subsidiary companies outside Sweden, accounting for approximately 230,000 hours of study. The number of students from the Swedish sector of the Group was approximately 5,000, who accounted for slightly more than 200,000 hours of study.

Funds

The various LM Ericsson assistance and scholarship funds provided financial aid to employees in the customary manner.

Dr. Marcus Wallenberg, honorary chairman of the board of directors, donated an additional \$214,000 to the Fund bearing his name, which is designed to assist retired employees with long periods of service. The Fund was thereby able to expand its assistance program and has to date disbursed approximately \$139,000 of its income.

Testing telecommunications cable at the LATINCASA cable factory in Mexico.





Norsk Kabelfabrik's plant in Hokksund, Norway.



Rifa's new plant in Kista, north of Stockholm.

Results of Group and Parent Company operations

□ Group net sales in 1977 amounted to \$1,673.6 million, an increase of 7 percent over 1976 sales of \$1,558.5 m., which had been 14 percent higher than in 1975. Deliveries to Swedish customers accounted for slightly more than 16 percent of total sales, the same as in 1976. Sales in the European market outside Sweden rose 4 percentage points, primarily as the result of higher invoicing in Denmark and Italy. Deliveries to customers in Latin America were lower and the share of total Group sales in this market declined 5 percentage points.

The geographic distribution of Group sales was as follows:

(\$ Millions)	1977	1976	Change %
Sweden	\$ 274.3	\$ 252.1	9
Europe (excluding Sweden)	608.0	496.2	22
Latin America	497.9	550.4	-10
Other markets	293.4	259.8	13
Total	\$1,673.6	\$1,558.5	7

The distribution of sales by markets as well as by product groups is shown in greater detail on page 33.

During the year, it was possible to post modest price increases for certain products, to levels that mainly covered cost increases only. Prices tendered for other products, which were subject to extremely severe competitive conditions, remained unchanged despite the cost increases.

The same prices established for sales to external customers are applied in intra-Group sales, except that the elimination of certain costs in transactions between Group companies is taken into consideration.

□ *Costs of goods and services sold* increased from \$867.4 m. in 1976 to \$923.9 m. in 1977, and the margin (difference between sales revenue and production costs) for the Group was 0.5 percentage points higher than in 1976.

Wages and salaries, including social costs, of employees covered by collective agreements increased approximately 12 percent.

Prices of the most important raw materials used in the Group's manufacturing—metals and plastics—increased

modestly during the year, except in the case of steel and certain types of plastics for which the price increases were 10 percent or higher. Prices of electronic components continued to decline.

An estimated 35 percent of the purchases of the Parent Company—which accounts for around 40 percent of the Group's factory shipments—are in Swedish kronor. The costs of other purchases consequently are highly dependent on the trend of the krona relative to the currencies of other countries. However, the devaluation of the Swedish krona had no significant negative effect on the price level of Parent Company procurement during 1977 partly because it occurred so late in the year, during August, and partly because many purchases were based on long-term contracts, at fixed prices, which had been negotiated prior to the devaluation. During 1978, in contrast, the devaluation of the krona is expected to be reflected in higher purchasing prices.

□ For the Group, *other operating income* consists primarily of license fees from non-Group companies which manufacture Ericsson products under agreements with the Parent Company. Other operating income in the Parent Company also includes license fees from subsidiaries, which are eliminated in the Group income statement. Under the method previously used in the preparation of income statements, these license fees were shown as income from sales.

□ *Overhead expenses* increased 14 (24) percent, from \$459.6 m. in 1976 to \$523.8 m. in 1977. The increase in the Parent Company was limited to 7 percent, compared with a rise of 25 percent a year earlier. The increase in overhead expenses in the foreign sector of the Group was due to a large extent to the effect of the devaluation of the Swedish krona on the exchange rates applied in connection with the translation of the foreign subsidiary companies' financial statements.

The number of persons employed in selling, engineering and administration in the Group remained unchanged during 1977.

Wages and salaries, including social costs, of employees in Swedish offices and factories who are not covered by



Elektrisk Bureau's new factory in Risör, Norway.



FATME's new factory in Sulmona, Italy.

collective agreements increased around 13 percent, compared with an increase of 16 percent in 1976. For the Group, the ratio of overhead expenses to sales rose nearly 2 percentage points.

Overhead expenses include realized exchange losses on transactions in foreign currencies of \$2.4 m. for the Group in 1977, compared with \$15.0 m. in the preceding year. In the Parent Company, there was a positive difference of \$7.9 m. for this item in 1977, compared with a negative difference of \$3.2 m. in 1976.

Selling, technical and general overhead expenses also include unrealized exchange losses totaling \$11.5 m. relating to assets and liabilities of the Parent Company in foreign currencies, compared with \$13.7 m. in 1976.

□ *Depreciation of property, plant and equipment* amounted to \$64.8 m. in 1977, as against \$61.9 m. in 1976. In addition, nonrecurring write-downs in the amount of \$24.4 m. in respect of fixed assets acquired during the year were charged against investment reserves. Comparable write-downs in 1976 totaled \$13.4 m.

Depreciation for costing purposes, based on estimated replacement values and the economic life of the assets, corresponds closely to book depreciation.

□ *Interest expense* amounted to \$88.0 m., compared with \$77.6 m. in 1976. The excess of interest expense over interest income decreased by \$4.5 m. in 1977, compared with an increase of \$9.2 m. in the preceding year.

□ *Income before foreign exchange translation differences* was \$146.2 m. in 1977 and \$132.0 m. in 1976.

□ In translating the balance sheets of the foreign subsidiaries from the respective local currencies to Swedish kronor in connection with the preparation of the Consolidated Balance Sheet, *foreign exchange translation differences* in the amount of \$28.0 m. arose. The comparable figure in 1976 was \$45.1 m. The devaluation of the Swedish krona during 1977 meant that the relative value of the currencies in those countries in which the Group has major investments did not change to the same degree as in 1976, as a result of which the translation differences were lower.

□ *Group income before special adjustments and taxes* in

1977 amounted to \$118.1 m., compared with \$86.9 m. in 1976.

Special adjustments and net income

In Sweden and a few other countries, appropriations to various reserves and funds are deductible for income tax purposes. Further details on the Swedish regulations in this area appear in the notes to the financial statements. Appropriations of this type, which are not operating expenses, amounted to \$18.3 m. in 1977, compared with \$23.8 m. in 1976.

The Group's widespread international operations involve substantial exposure of monetary assets and liabilities in subsidiaries in various countries. In connection with the translation of the foreign subsidiaries' balance sheets to Swedish kronor when the Consolidated Balance Sheet is being prepared, the changes in the relationship between the Swedish krona and the various foreign currencies affect the valuation of the monetary balance sheet items and give rise to translation differences. Since the fluctuations in exchange rates do not follow a rational pattern but may be expressed in sharp nonrecurring changes reflecting basic causes accumulated over a long period, the amount of \$6.4 m. was appropriated in both 1977 and 1976 to a special reserve against such currency changes. This amount is included in the appropriations noted earlier.

After deductions for income taxes in the amount of \$47.2 m. (\$30.0 m.), the Group recorded a profit of \$52.6 m. in 1977, compared with \$33.2 m. in 1976. In 1977 certain foreign subsidiaries contributed to Group profits to a higher degree than in the preceding year. As a result, the minority interest in Group profit rose from \$2.2 m. to \$11.5 m.

Group net income for the year was \$41.2 m., as against \$31.0 m. in 1976.

If the Group's reported net income of \$41.2 m. (\$31.0 m.) is increased by the appropriations noted above and then reduced by the income taxes that would have been paid if the special adjustments had not been made, adjusted net income of the Group in 1977 would have been \$57.5 m., equal to \$2.64 per share, compared with \$45.3 m., equal to \$2.23 per share in 1976.



Capital expenditures and financing

During the year the Group invested \$117.1 m. (\$125.2 m.) in property, plant and equipment. Capital expenditures in Sweden totaled \$80.6 m. (\$85.0 m.) and pertained primarily to the Parent Company's new facilities in Huddinge, south of Stockholm. AB Rifa occupied its newly constructed plant in Kista, a northern suburb of Stockholm, during the year. ELLEMTEL and Thorsman & Co, also made major investments in new buildings.

Investments in the foreign companies involved two factories in Italy and were otherwise primarily for replacements of machinery and other equipment.

Inventories (after deductions of advance payments from customers for costs incurred) declined by \$24.1 m. in 1977, as against an increase of \$67.0 m. in 1976.

As shown in the Consolidated Statement of Source and Application of Funds on page 22, the Group's self financing was substantially higher than in 1976. Working capital increased by \$71.4 m., compared with a decrease of \$25.1 m. in the preceding year. The sharp rise in "Notes and accounts receivable and other current assets" is attributable primarily to increased customer receivables in FATME, the Italian subsidiary.

During the year, the Parent Company floated an issue of Swedish bonds in the amount of S.Kr. 100 million (\$21.4 m.) and a debenture loan of US\$30 million. Long-term notes and bank loans totaling Sfrs 150 million were repaid.

Changes within the Group

During 1977 the capital stock in Ericsson do Brasil Comércio e Indústria S.A. was doubled through a new issue of shares. The Parent Company subscribed for virtually the entire issue, as a result of which its holding in the company increased from 85 percent to slightly more than 92 percent.

In connection with the efforts in Norway to strengthen cooperation among certain Norwegian companies in the development and manufacture of electronic products, the Group's associated company, A/S Elektrisk Bureau (EBN) was assigned a central role. To facilitate the carrying out of this program, the Group reduced its holding in EBN from 43 to 25 percent.

In connection with the restructuring of the group of English companies owned jointly with Thorn Electrical Industries, and whose shares are held by Thorn-Ericsson Telecommunications Ltd. (TEL), a holding company, the Parent Company (LM Ericsson) holding in TEL was transferred to Production Control (Ericsson) Ltd., a wholly owned subsidiary, whose capital stock was simultaneously increased by slightly more than £1.7 million (\$3.2 m.).

In addition, the formerly wholly owned rentals company in England was transferred to the TEL group and renamed Thorn-Ericsson Telecommunications (Rentals) Ltd.

The Italian subsidiary FATME S.p.A. during the year acquired Scarfini S.p.A. in Rome, which is active in the field of railway signaling equipment.

In Belgium, a new wholly owned sales company, Ericsson Belgium sa/nv, was established and in Norway Thorsman & Co AB formed a wholly owned subsidiary, Thorsman & Co A/S, to handle sales of its products.

Stock dividends and new issues of shares were also effected in a number of subsidiaries and associated companies without changing the Group's relative holdings in the companies.

Outlook for 1978

Since a couple of years, the general pattern has been a decrease in the rate of investment in public telecommunications networks and a low level of procurement of other telecommunications equipment.

During 1977, however, the decline was felt to have been halted. It is believed that the restraint in placing new orders will continue through 1978. Orders received, however, are expected to increase by some 20 percent, largely as a result of the Saudi Arabian contract signed in January this year. Sales should exceed those of 1977 by approximately 10 percent.

Because of major uncertainties concerning exchange rates, development of costs and sales price pattern for some of the Group's products it is premature to make a considered judgement of the likely trend of the results of the Group.

Parent Company

The following supplements information on the Parent Company given above.

Of sales totaling \$636.0 m. (\$685.3 m.), \$534.4 m., or 84 percent, were attributable to exports. In 1976 exports accounted for \$566.7 m., or 83 percent of Parent Company sales.

Consolidated companies accounted for 38 percent of Parent Company sales and 40 percent of the Parent Company's total purchases of goods and services.

After special adjustments and provision for taxes, the Company reported net income of \$26.0 m. in 1977, compared with \$26.1 m. in 1976.

Reference is made to the accompanying income statements, balance sheets and statements of source and application of funds of the Group and Parent Company together with the notes to the financial statements on pages 28-31, which constitute an integral part of the Annual Report.

Radio link station handling traffic between Reykjavik and Akureyri in Iceland.

Test operation of electronic equipment for street traffic control in Melbourne, Australia.

Proposed disposition of unappropriated earnings in the Parent Company

As shown in the statement on page 31, there are available for disposition by the stockholders at the Annual General Meeting—in addition to a General reserve of \$20,801,000—unappropriated earnings totaling \$28,773,000. The Board of Directors proposes that this sum be disposed of as follows:

To stockholders duly registered on the record day, a dividend of S.Kr. 5.00 per share	\$23,278,000
To be retained in the business	5,495,000
	<u>\$28,773,000</u>



FRED SUNDKVIST

Fred Sundkvist, the far-sighted and forceful executive vice president of the Company and the head of its telecommunications operations, passed away on November 14, 1977.

His career in LM Ericsson coincided to a large extent with the important course of events that began with the breakthrough of the crossbar system in 1950 and which involved the gradual establishment of the system in a long line of international markets during the next two decades. That this occurred was no

coincidence. Fred Sundkvist was one of the very foremost motive forces behind this dynamic development. He was guided in his work by a firm conviction of the ever increasing importance of telecommunications—technically and industrially—and of the possibilities this gave LM Ericsson to battle its way to an acknowledged international position.

Fred Sundkvist's efforts on behalf of the Company were exceptionally important. He participated in the building of a strong international sales organization in which close cooperation was established between the Parent Company and the other Group companies on technical and commercial matters. His far-sightedness found full expression in connection with the expansion of the Group's manufacturing abroad. This also led to his becoming deeply involved in the formation and development of ELLEMTTEL in order to best coordinate and utilize the technical resources available within Sweden.

Courage and perseverance distinguished his character. His associates in the Parent Company and subsidiaries saw in his personality one of the reasons for the Group's success. As a human being, he was characterized by exceptional objectivity, broad technical and commercial knowledge, an uncompromising sense of justice, solicitude for the welfare of his associates but never for himself, and great courage in making difficult decisions.

The Board of Directors expresses its deep gratitude for Fred Sundkvist's contributions.

Stockholm, March, 1978

BJÖRN LUNDVALL

JAN WALLANDER PETER WALLEMBERG

ÅKE ANDERSSON NILS BERGGREN LENNART DAHLSTRÖM

LARS-OLOF EKEBERG GUNNAR LAGERGREN WERNER SUNDELL RAGNAR WOXÉN

BJÖRN SVEDBERG

President

Consolidated Income Statement

TELEFONAKTIEBOLAGET LM ERICSSON
AND SUBSIDIARY COMPANIES

	1977	1976
	Thousands of US dollars	
Net sales	\$1,673,640	\$1,558,541
Cost of products and services sold	923,850	867,404
	<u>749,790</u>	<u>691,137</u>
Other operating revenue	17,884	10,768
	<u>767,674</u>	<u>701,905</u>
Selling, administrative, research and development expenses	523,810	459,633
Depreciation	64,761	61,884
	<u>179,103</u>	<u>180,388</u>
Share in net income of unconsolidated subsidiaries and associated companies	7,060	400
Financial income		
Dividends	279	163
Interest income	49,348	34,396
	<u>49,627</u>	<u>34,559</u>
Financial expense		
Interest and other financial expense	89,602	83,328
	<u>146,188</u>	<u>132,019</u>
Income before foreign exchange translation differences	146,188	132,019
Foreign exchange translation differences	28,040	45,128
	<u>118,148</u>	<u>86,891</u>
Income before extraordinary items, special adjustments and taxes	118,148	86,891
Extraordinary foreign exchange translation differences	-	27,543
Amount charged against the special reserve for receivables	-	(27,543)
	<u>118,148</u>	<u>86,891</u>
Income before special adjustments and taxes	118,148	86,891
Special adjustments		
		(Note 3)
Transfer to (from) special reserve for accounts receivable and investments outside Sweden (including allocation for future foreign exchange rate variations of \$6,410 (\$6,410))	4,981	(13,966)
Transfer to special inventory reserve	9,771	16,939
Transfer to reserve for future investments	5,053	22,385
Transfer from special reserve for future investments	(46)	(18)
Environmental improvement expense charged against the reserve	(1,430)	(1,583)
	<u>18,329</u>	<u>23,757</u>
Income before taxes	99,819	63,134
Taxes on income	47,195	29,978
	<u>52,624</u>	<u>33,156</u>
Minority interest	11,454	2,177
Net income	<u>\$ 41,170</u>	<u>\$ 30,979</u>

As from 1977 the Consolidated and Parent Company Income Statements and Balance Sheets together with the relevant notes and other information are presented in accordance with the requirements of new laws in Sweden which calls for a presentation different from the one previously given by the company.

Consolidated Balance Sheet

TELEFONAKTIEBOLAGET LM ERICSSON
AND SUBSIDIARY COMPANIES

ASSETS	December 31	
	1977	1976
	Thousands of US dollars	
CURRENT ASSETS		
Cash	\$ 248,078	\$ 192,064
Notes and accounts receivable – trade (<i>less provision for doubtful accounts, 1977: \$8,521; 1976: \$2,365</i>) (Note 4)	729,179	557,923
Inventories (<i>less advance and progress payments, 1977: \$136,456; 1976: \$107,883</i>) (Note 5)	717,604	741,735
Other current assets (Note 6)	91,345	107,871
	<u>1,786,206</u>	<u>1,599,593</u>
RESTRICTED BANK DEPOSITS (Note 3)	15,397	25,049
LONG-TERM ASSETS		
Notes and accounts receivable – trade (Note 4)	142,506	177,709
Other investments (Note 7)	6,716	3,604
Other long-term assets	10,470	9,031
	<u>159,692</u>	<u>190,344</u>
INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES		
Investments (Note 7)	108,321	110,140
Accounts receivable	37,595	26,284
	<u>145,916</u>	<u>136,424</u>
INVESTMENT IN TECHNICAL DEVELOPMENT PROJECTS	3,205	3,162
PROPERTY, PLANT AND EQUIPMENT (Note 8)		
Cost	814,576	724,553
Less—Accumulated depreciation	445,665	377,538
	<u>368,911</u>	<u>347,015</u>
Revaluation, net	78,694	83,425
	<u>447,605</u>	<u>430,440</u>
ASSETS PLEDGED TO SECURE INDEBTEDNESS .. (Note 12)	1977 \$329,815	1976 \$339,371
	TOTAL ASSETS	\$2,558,021
		\$2,385,012

LIABILITIES AND STOCKHOLDERS' EQUITY

 December 31
 1977 1976

		Thousands of US dollars	
CURRENT LIABILITIES			
Bank loans		\$ 192,929	\$ 140,064
Accounts payable—trade		79,427	79,336
Advances from customers		201,731	200,318
Accrued income and other taxes		65,398	53,240
Other current liabilities	(Note 9)	313,822	265,184
		<u>853,307</u>	<u>738,142</u>
LONG-TERM DEBT			
Debentures (<i>net of unrealized exchange differences, 1977: \$40,781; 1976: \$3,506</i>)	(Note 10)	296,730	274,746
Other long-term liabilities		232,644	251,074
		<u>529,374</u>	<u>525,820</u>
PENSION AND SIMILAR PROVISIONS		188,211	155,299
SPECIAL RESERVES (Note 3)			
Special reserve for accounts receivable and investments outside Sweden		75,527	69,831
Special inventory reserve		185,320	175,023
Reserve for future investments		61,150	73,084
Reserve for environmental improvements		10,743	13,187
Special reserve for future investments		192	6,438
		<u>332,932</u>	<u>337,563</u>
MINORITY INTEREST IN STOCKHOLDERS' EQUITY		82,121	74,003
STOCKHOLDERS' EQUITY (Note 11)			
Restricted			
Capital stock		232,783	232,783
Reserves not available for distribution		219,485	208,434
		<u>452,268</u>	<u>441,217</u>
Unappropriated earnings			
Retained earnings		78,638	81,989
Net income for the year		41,170	30,979
		<u>119,808</u>	<u>112,968</u>
		<u>572,076</u>	<u>554,185</u>
CONTINGENT LIABILITIES	(Note 12)	\$47,704	\$47,601
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$2,558,021</u>	<u>\$2,385,012</u>

Source and Application of Funds

	Consolidated		Parent Company	
	1977	1976	1977	1976
Thousands of US dollars				
SOURCE OF FUNDS				
Net income (including minority interest)	\$ 52,624	\$ 33,156	\$25,964	\$ 26,081
Depreciation	64,761	61,884	23,055	20,945
Pension and similar provisions	32,911	14,822	13,305	12,026
Special adjustments (consolidated 1976 after elimination of extraordinary foreign exchange translation differences) ..	18,329	(3,786)	3,466	6,786
	<u>168,625</u>	<u>106,076</u>	<u>65,790</u>	<u>65,838</u>
New stock issue of Parent Company	—	41,079	—	41,079
Decrease in restricted bank deposits	9,651	3,906	7,942	2,937
Sale of stock (on a consolidated basis including minority subscriptions to new issues)	(2,003)	11,099	6,585	1,301
Sale of property, plant and equipment	12,223	11,937	609	3,675
Increase (decrease) in long-term debt	3,554	(7,843)	4,561	13,897
	<u>23,425</u>	<u>60,178</u>	<u>19,697</u>	<u>62,889</u>
	<u>\$192,050</u>	<u>\$166,254</u>	<u>\$85,487</u>	<u>\$128,727</u>
APPLICATION OF FUNDS				
Transfer of pension provisions and special reserves to sub- sidiary companies	\$ —	\$ —	\$ 1,747	\$ 32,600
Additions to property, plant and equipment	117,151	125,248	39,901	47,341
Investment in stock	1,293	(676)	44,284	38,036
Increase (decrease) in long-term assets	(22,454)	39,734	42,652	(4,489)
Dividend paid	24,612	27,049	23,278	23,826
	<u>120,602</u>	<u>191,355</u>	<u>151,862</u>	<u>137,314</u>
Increase (decrease) in working capital	71,448	(25,101)	(66,375)	(8,587)
Increase (decrease) in cash	56,013	(33,589)	57,034	(6,886)
Increase (decrease) in inventories	(24,131)	67,041	17,376	4,825
Increase (decrease) in notes and accounts receivable and other current assets	154,731	(17,398)	(188,087)	57,973
Decrease (increase) in current liabilities	(115,165)	(41,155)	47,302	(64,499)
Increase (decrease) in working capital	<u>\$ 71,448</u>	<u>\$ (25,101)</u>	<u>\$ (66,375)</u>	<u>\$ (8,587)</u>

Parent Company Income Statement

TELEFONAKTIEBOLAGET LM ERICSSON

	1977	1976
	Thousands of US dollars	
Net Sales	\$635,973	\$685,265
Cost of products and services sold	361,598	399,429
	<u>274,375</u>	<u>285,836</u>
Other operating revenue	31,778	24,450
	<u>306,153</u>	<u>310,286</u>
Selling, administrative, research and development expenses	253,907	236,839
Depreciation	23,055	20,945
	<u>29,191</u>	<u>52,502</u>
Financial income		
Dividends	12,428	12,280
Interest income	31,139	21,114
	<u>43,567</u>	<u>33,394</u>
Financial expense		
Interest and other financial expense	42,115	41,261
	<u>30,643</u>	<u>44,635</u>
	Income before extraordinary items	44,635
Extraordinary income	14,030	2,126
Extraordinary expense	5,714	1,073
	<u>38,959</u>	<u>45,688</u>
	Income before special adjustments and taxes	45,688
Special adjustments	(9,940)	(23,144)
Transfer from special reserve for accounts receivable	14,637	13,718
Transfer to special inventory reserve	-	17,094
Transfer to reserve for future investments	(1,231)	(882)
Environmental improvement expense charged against the reserve	<u>3,466</u>	<u>6,786</u>
	Income before taxes	38,902
Taxes on income	9,530	12,821
	<u>\$ 25,963</u>	<u>\$ 26,081</u>
	Net income	\$ 26,081

Parent Company Balance Sheet

TELEFONAKTIEBOLAGET LM ERICSSON

ASSETS	December 31	
	1977	1976
	Thousands of US dollars	
CURRENT ASSETS		
Cash	\$ 180,035	\$ 123,000
Notes and accounts receivable—trade		
Subsidiary companies	75,518	263,230
Other (<i>less provision for doubtful accounts, 1977: \$372; 1976: \$562</i>)		
..... (Note 4)	169,905	184,615
Inventories (<i>less advance and progress payments, 1977: \$25,631; 1976: \$19,140</i>)	331,463	314,087
Other current assets	38,895	24,561
	<u>795,816</u>	<u>909,493</u>
RESTRICTED BANK DEPOSITS	8,137	16,079
LONG-TERM ASSETS		
Notes and accounts receivable—trade		
Subsidiary companies	6,804	9,423
Other	102,558	99,877
Other investments	4,186	336
Other long-term assets	796	443
	<u>114,344</u>	<u>110,079</u>
INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES		
Investments		
Subsidiary companies	187,938	146,033
Associated companies	32,379	40,435
Accounts receivable		
Subsidiary companies	58,483	25,271
Associated companies	9,808	784
	<u>288,608</u>	<u>212,523</u>
INVESTMENT IN TECHNICAL DEVELOPMENT PROJECTS	3,205	3,162
PROPERTY, PLANT AND EQUIPMENT		
Cost	290,951	257,052
Less—Accumulated depreciation	189,680	163,746
	<u>101,271</u>	<u>93,306</u>
Revaluation, net	52,225	54,964
	<u>153,496</u>	<u>148,270</u>
ASSETS PLEDGED TO SECURE INDEBTEDNESS .. (Note 12)	1977 \$210,183	1976 \$223,237
	TOTAL ASSETS	
	\$1,363,606	\$1,399,606

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31
1977 1976

Thousands of US dollars

CURRENT LIABILITIES

Bank loans	\$ 2,279	\$ 38,498
Accounts payable—trade	25,444	27,547
Advances from customers	56,082	54,180
Accrued income and other taxes	597	1,539
Accounts payable to subsidiary companies	13,055	6,686
Other current liabilities	142,945	159,254
	<u>240,402</u>	<u>287,704</u>

LONG-TERM DEBT

Debentures (<i>net of unrealized exchange differences, 1977: \$40,781; 1976: \$3,506</i>)	296,730	274,746
Long-term payables to subsidiary companies	11,044	22,367
Other long-term liabilities	60,266	66,365
	<u>368,040</u>	<u>363,478</u>

PROVISION FOR PENSIONS	98,153	84,848
------------------------------	--------	--------

SPECIAL RESERVES

(Note 3)

Special reserve for accounts receivable	65,253	75,193
Special inventory reserve	181,684	167,047
Reserve for future investments	15,651	23,015
Reserve for environmental improvements	9,356	11,521
Special reserve for future investments	—	4,418
	<u>271,944</u>	<u>281,194</u>

STOCKHOLDERS' EQUITY

(Note 11)

Restricted		
Capital stock	232,783	232,783
Reserves not available for distribution	102,710	102,710
	<u>335,493</u>	<u>335,493</u>
Unappropriated earnings		
General reserve	20,801	20,801
Retained earnings	2,810	7
Net income for the year	25,963	26,081
	<u>49,574</u>	<u>46,889</u>
	<u>385,067</u>	<u>382,382</u>

CONTINGENT LIABILITIES	(Note 12)	1977	1976
		\$117,340	\$112,585

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$1,363,606 \$1,399,606

Investments in shares and participations at December 31, 1977

Shares directly owned by Parent Company

		Percentage of owner- ship		Par value in millions	Carrying value in US\$ millions
Subsidiaries in Sweden					
I	Ericsson Telephone Sales Corp. AB (ESS)	100	S.Kr.	—	—
I	LM Ericsson Telemateriel AB (LMS)	100		30.0	6.4
I	AB Rifa (RIF)	100		58.0	10.4
I	Sieverts Kabelverk AB (SKV)	100		140.0	29.9
I	Svenska Radio AB (SRA)	71		33.8	9.6
IV	AB Aulis (AUL)	100		14.0	1.3
IV	Mexikanska Telefon AB Ericsson (MTE)	100		32.4	7.3
V	ELLEMTEL Utvecklings AB (EUA)	50		5.0	1.3

Subsidiaries outside Sweden

Europe					
I	Oy LM Ericsson Ab (LMF)	100	Fmk	25.0	9.4
I	LM Ericsson A/S (LMD)	100	D.Kr.	40.0	8.3
I	Dansk Signal Industri A/S (DSI)	100	D.Kr.	10.0	1.6
I	Ericsson Centrum GmbH (CEH)	100	DM	4.0	1.3
I	LM Ericsson Ltd. (LMI)	100	£	0.3	0.3
I	Ericsson Telefoonmaatschappij B.V. (ETM)	100	Fl.	15.0	7.0
I	RIFA S.A. (RFF)	100	FF	11.0	2.2
I	Ericsson AG (EAS)	100	Sfrs	1.5	0.4
I	Industrias de Telecomunicación S.A. (Intelsa) (ITS)	50*	Ptas	600.0	8.8
I	LM Ericsson S.A. (LES)	100	Ptas	75.0	1.3
I	Soc. Ericsson de Portugal, Lda. (SEP)	100	Esc.	15.0	0.3
IV	Production Control (Ericsson) Ltd. (PCE)	100	£	1.7	3.2
IV	Swedish Ericsson Co. Ltd. (SEL)	100	£	0.8	2.4
IV	SETEMER Soc. per Az. (STM)	51	It.L	6 600.1	6.0
I	Ericsson Belgium sa/nv (ERB)	40*	Bfrs	6.0	0.2

U.S.A. and Canada

I	LM Ericsson Telecommunications, Inc. (LMU)	100	US\$	1.0	0.3
I	LM Ericsson Limited – LM Ericsson Limitée (LMC)	100	Can.\$	No par value	0.5
IV	The Ericsson Corporation (TEC)	100	US\$	No par value	—

Latin America

I	Latinoamericana de Cables S.A. de C.V. (LCM)	58	Mex.P.	51.0	3.6
I	Teléfonos Ericsson S.A. (TEM)	100	Mex.P.	9.9	0.7
I	Teleindustria Ericsson, S.A. (TIM)	60	Mex.P.	171.6	11.4
I	Telequipos S.A. (TEP)	100	US\$	—	—
I	Cía Anónima Ericsson (CEV)	100	Bol.	10.0	2.2
I	Ericsson de Colombia S.A. (EDC)	88*	Col.P.	17.6	0.9
I	Fábricas Colombianas de Materiales Eléctricos Facomec S.A. (FAC)	5*	Col.P.	1.6	0.1
I	Teléfonos Ericsson C.A. (TEE)	100	Sucres	16.9	0.5
I	Cía Ericsson S.A. (CEP)	100	Soles	2.3	0.1
I	Ericsson do Brasil Comércio e Indústria S.A. (EDB)	93	Cruz.	1 087.3	38.2
I	Cía Ericsson de Chile S.A. (CEC)	100	Chil. P.	0.3	0.3
I	Cía Ericsson S.A. (CEU)	100	Urug.P.	0.1	0.3
I	Cía Ericsson S.A.C.I. (CEA)	100	Arg.P.	360.1	0.6
I	Industrias Eléctricas de Quilmes S.A. (IEQ)	100	Arg.P.	2 779.1	1.4

Other countries

I	Ericsson (Zambia), Ltd. (EZZ)	100	Kwacha	0.2	0.2
I	Ericsson India Ltd. (EII)	60	Rs.	0.7	0.1
I	Ericsson Telecommunications Sdn Bhd (ECM)	70	Ringgit	2.1	0.8
	Other				2.7

Total consolidated subsidiary companies 183.8

Telephone Operating Companies

II	Cía Argentina de Teléfonos S.A. (CAT)	78	Arg.P.	3 360.0	2.3
II	Cía Entrerriana de Teléfonos S.A. (CET)	86	Arg.P.	764.6	1.8

Total telephone operating companies 4.1

Total 187.9

Associated companies

I	GNT AUTOMATIC A/S (GNT)	49	D.Kr.	20.1	0.5
I	Fios e Cabos Plásticos do Brasil S.A. (Ficap) (FCB)	45	Cruz.	70.9	10.5
I	Sielte S.A. Instalações Elétricas e Telefônicas (SEB)	7*	Cruz.	1.3	—
I	A/S Elektrisk Bureau (EBN)	25	N.Kr.	14.5	6.1
I	Simco Ericsson Ltd. (SET)	40	Rial	220.0	3.2
I	Société Française des Téléphones Ericsson (STE)	38	FF	24.6	12.1

Total associated companies 32.4

	Percentage of ownership		Par value in millions	Carrying value in US\$ millions
Other Companies				
LMT (Le Matériel Téléphonique)	3	FF	1.8	3.9
Adela Investment Co.		US\$	0.2	0.1
Sifida Investment Co.		US\$	0.1	0.1
Other				0.1
			Total other companies	4.2

Shares indirectly owned by Parent Company

Subsidiaries

I	Kabmatik AB (KAB)	Sweden	100	S.Kr.	3.0
I	Thorsman & Co AB (TCN)	Sweden	100	S.Kr.	9.5
I	AB Transvertex (TRX)	Sweden	100	S.Kr.	1.0
I	Vanadis Entreprenad AB (VEA)	Sweden	100	S.Kr.	0.1
I	Ericsson Telephone Corp. Far East AB (ETS)	Sweden	100	S.Kr.	0.5
I	AB Erifon (ERO)	Sweden	100	S.Kr.	0.1
I	Oy Thorsman & Co Ab (TCH)	Finland	100	Fmk	0.3
I	Thorsman & Co ApS (TCD)	Denmark	100	D.Kr.	0.1
I	I. Bager & Co A/S (BCD)	Denmark	100	D.Kr.	4.0
I	LM Ericsson Radio ApS (SRD)	Denmark	71	D.Kr.	0.2
I	SRA A/S (SRN)	Norway	71	N.Kr.	0.4
I	Thorsman & Co A/S (TCO)	Norway	100	N.Kr.	0.1
I	Thorsman Ireland Ltd. (TII)	Ireland	100	£	0.4
I	FATME Soc. per Az. (FAT)	Italy	51	It.L	7 179.6
I	SIELTE Soc. per Az. (SEI)	Italy	51	It.L	3 589.8
I	Scarfini Soc. per Az. (SCI)	Italy	51	It.L	174.4
I	Rifa GmbH (RFG)	Germany	100	DM	0.1
I	Thorsman & Co GmbH (TCT)	Germany	100	DM	-
I	Telecomponentes Comércio e Indústria S.A. (TCB)	Brazil	93	Cruz.	41.6
I	Telemontaje S.A. de C.V. (TMM)	Mexico	60	Mex.P.	3.9
I	Société Libanaise des Téléphones Ericsson (STL)	Lebanon	100	L£	0.1
I	Ericsson Türk Ticaret Ltd. Şirketi (ETU)	Turkey	100	£ tq\$	0.1
I	LM Ericsson Pty. Ltd. (EPA)	Australia	100	A\$	7.0
I	RIFA Pty. Ltd. (RFA)	Australia	100	A\$	1.8
III	RE.GE. Soc. per Az. (REG)	Italy	51	It.L	115.4
III	Inmobiliaria Securitas S.A. de C.V. (ISM)	Mexico	60	Mex.P.	30.0
IV	Teleric Pty. Ltd. (TLA)	Australia	100	A\$	6.1

Associated Companies

I	Bjurhagens Fabrikers AB (BFA)	Sweden	50	S.Kr.	7.5
I	Bofa Kabel AB (BOF)	Sweden	50	S.Kr.	5.0
I	Kabeldon AB (KDA)	Sweden	50	S.Kr.	3.5
I	AB Elektrokoppar (EKS)	Sweden	25	S.Kr.	5.0
I	AB Norrköpings Kabelfabrik (NKF)	Sweden	50	S.Kr.	0.8
I	Regina Intressenter AB (RIA)	Sweden	50	S.Kr.	2.5
I	Svenska Elgrossist AB, SELGA (SEG)	Sweden	34	S.Kr.	16.0
I	Vanadis Finans AB (VFA)	Sweden	50	S.Kr.	4.0
I	A/S Telesystemer (ATN)	Norway	25	N.Kr.	2.3
I	NERA A/S (NAN)	Norway	25	N.Kr.	0.3
I	A/S Norsk Kabelfabrik (NKD)	Norway	25	N.Kr.	4.0
I	United Marine Electronics A/S (UMN)	Norway	25	N.Kr.	0.5
I	Thorn-Ericsson Telecommunications (Sales) Ltd. (SEE)	United Kingdom	49	£	0.3
I	Thorn-Ericsson Telecommunications (Mfg) Ltd. (TME)	United Kingdom	49	£	0.2
I	Thorn-Ericsson Telecommunications (Rentals) Ltd. (CRL)	United Kingdom	49	£	-
I	Cobres de Colombia, S.A. (CDC)	Colombia	33	Col.P.	5.0
I	Conqueror Cables Pty. Ltd. (CCA)	Australia	40	A\$	4.0
IV	Thorn-Ericsson Telecommunications Ltd. (TEL)	United Kingdom	49	£	1.7

Other Companies

Svensk Interkontinental Lufttrafik AB	Sweden	2	S.Kr.	2.4
---	--------	---	-------	-----

KEY TO FUNCTIONS OF COMPANIES:

- I Manufacturing and distributing companies
- II Telephone operating companies
- III Real estate companies
- IV Holding and other non-operating companies
- V Development companies

The above list of shares and participations is an extract from that prepared in accordance with the Swedish Companies Act. A complete listing may be obtained upon request to Group Headquarters.

*Through holdings in subsidiaries, the Group owns 51 % of ITS, 42 % of SEB and 100 % of ERB, EDC and FAC.

Notes to the Financial Statements

(All amounts in millions, unless otherwise indicated)

ACCOUNTING PRINCIPLES

Principles of consolidation

The consolidated financial statements include the Parent Company and all subsidiaries except the two telephone operating companies in Argentina whose accounts are stated in accordance with the equity method of accounting. Because of the special character of the telephone operating companies' activities, compared with other Group units, only the equity in their earnings is shown in the Group accounts; this is done so that consolidated income statement and balance sheet items will reflect the Group's basic operations in an adequate manner.

Associated companies in which the Group owns between 20 and 50 percent of the voting rights are shown in the accounts in accordance with the equity method of accounting. This means that the investments are shown as the Group's share of the companies' equity after adjustments for unrealized intercompany profits and unamortized goodwill. In computing the equity of associated companies, reserves arising from special appropriations are added back to equity after provision for deferred tax. ELLEMTEL Utvecklings AB, in which the Group owns 50 percent of the voting rights and capital stock is, however, consolidated.

Translation of amounts in foreign currency

In translating the financial statements of foreign subsidiaries, property, plant and equipment and depreciation thereon are translated at exchange rates at date of acquisition. In those cases where there have been write-ups of fixed assets in foreign subsidiaries, the assets have in certain cases been translated at year-end exchange rates (See Note 8). Other assets and liabilities have been translated at year-end exchange rates with the exception of inventories and advances from customers of the consolidated subsidiaries in Argentina, Australia, Brazil, Italy, Mexico and Spain, which have been translated at historical rates of exchange.

Parent Company receivables in foreign currencies—principally US dollars—which fall due during 1978 have been translated at year-end exchange rates, while those which fall due in 1979 and later years have, as in prior years, been translated at historical exchange rates. The US dollar receivables and cash balances of the Parent Company which are included in the consolidated accounts amounted to \$85.5 million and are stated at a book value of S.Kr. 384.7 million. Parent Company loans in foreign currencies which fall due for repayment in 1978 have been stated at year-end exchange rates. For loans falling due for repayment in 1979 and later years, a plan has been prepared for the amortization of unrealized exchange differences, based on year-end exchange rates and the maturities of the loans. The loans are shown at year-end exchange rates, less the unamortized exchange differences in accordance with the amortization plan, which is revised at the end of each accounting period.

Note 1 Dividends received

	Parent Company	
	1977	1976
From subsidiaries	\$10.8	\$10.1
From other companies	1.6	2.2
	<u>\$12.4</u>	<u>\$12.3</u>

Note 2

	Parent Company	
	1977	1976
Extraordinary income		
Profits on sale of fixed assets	\$ 0.4	\$1.7
Contributions from Group companies	12.4	0.1
Other	1.2	0.3
	<u>\$14.0</u>	<u>\$2.1</u>
Extraordinary expenses		
Losses on sale of fixed assets	\$0.3	\$ —
Contributions to Group companies	5.2	—
Other	0.2	1.1
	<u>\$5.7</u>	<u>\$1.1</u>

Note 3

The following provides additional information on the Special adjustments, Restricted bank deposits and Special reserves, as shown in the financial statements.

The Reserve for receivables and investments outside Sweden consists principally of write-downs of receivables in the Parent Company which are deductible for tax purposes and which, upon recovery, are taxed at the then current rate. The 1978 rate is estimated at 56 percent.

In accordance with Swedish tax regulations, appropriations to inventory reserves are, within specified limits, deductible for tax purposes. In principle, the inventory reserve may amount to 60 percent of the value of inventory, calculated in accordance with the first-in, first-out (FIFO) method. To the extent that the inventory reserve is released, it becomes taxable income.

Swedish corporations have the right to transfer a certain part of profits to a reserve for future investments. Appropriations to the reserve are deductible for tax purposes but 46 percent of the amount set aside must be deposited in a non-interest-bearing account with the Bank of Sweden. Upon obtaining permission of the authorities, the investment reserve may be utilized and the proportionate amount placed on deposit may be withdrawn. When the approved investments in fixed assets have been completed, the cost of such assets, to the extent covered by funds from the reserve for future investments, may be written down by a corresponding transfer from the reserve. As a result of this nonrecurring depreciation, normal depreciation of the assets is eliminated and taxable income increases proportionately during the normal depreciation period of the assets.

In 1974 regulations were adopted in Sweden requiring compulsory appropriations for that year to a reserve for environmental improvements and a special reserve for future investments. The appropriations were based on a certain percentage of income before taxes. Amounts equal to the total appropriation were required to be deposited in non-interest-bearing accounts with the Bank of Sweden. Conditions relating to the utilization of these reserves and withdrawals of funds deposited with the Bank are largely the same as those applying to the older, voluntary investment reserves described above. However, employee approval must be obtained for the use of the reserves for environmental improvements. In the case of the special investment reserve, the employees' views must be sought.

Details of the utilization of these reserves for purposes of depreciation during 1977 are shown in Note 8. The Group utilized \$1.4 m. (\$1.6 m.) from the reserves for environmental improvements for projects of a non-capital nature, of which \$1.2 m. (\$0.9 m.) related to the Parent Company. Of the Parent Company's reserve for future investments, \$1.4 m. (\$21.4 m.) was transferred to AB Rifa, and of the reserve for environmental improvements \$0.3 m. (-) was transferred to AB Rifa and \$43,000 (-) to Sieverts Kabelverk AB.

Restricted bank deposits

	Group		Parent Company	
	1977	1976	1977	1976
Reserve for future investments	\$ 8.4	\$ 7.5	\$2.1	\$ 0.2
Special reserve for future investments	0.1	5.7	—	5.3
Reserve for environmental improvements	6.9	11.8	6.0	10.6
	<u>\$15.4</u>	<u>\$25.0</u>	<u>\$8.1</u>	<u>\$16.1</u>

Note 4

	Group		Parent Company	
	1977	1976	1977	1976
Short-term notes and accounts receivable — trade				
Subsidiaries—				
Accounts receivable ...			\$74.7	\$262.9
Notes receivable			0.8	0.3
			<u>\$75.5</u>	<u>\$263.2</u>
Other —				
Accounts receivable ...	\$712.8	\$539.5	\$155.1	\$168.3
Notes receivable	16.4	18.4	14.8	16.3
	<u>\$729.2</u>	<u>\$557.9</u>	<u>\$169.9</u>	<u>\$184.6</u>

Long-term notes and accounts receivable — trade

	Group		Parent Company	
	1977	1976	1977	1976
Subsidiaries—				
Accounts receivable ...			\$5.6	\$9.2
Notes receivable			1.2	0.2
			<u>\$6.8</u>	<u>\$9.4</u>
Other —				
Accounts receivable ...	\$117.3	\$151.2	\$ 77.4	\$73.4
Notes receivable	25.2	26.5	25.2	26.5
	<u>\$142.5</u>	<u>\$177.7</u>	<u>\$102.6</u>	<u>\$99.9</u>

Note 5

Inventories are stated at standard cost, which approximates cost on a first-in, first-out (FIFO) basis. Write-downs have been made in cases where the sales value of goods, after deduction of estimated selling costs, is lower than historical cost.

Intra-Group profits that were not realized through the sale of goods to customers outside the Group have been eliminated entirely, even in respect of companies in which there are minority interests.

Profits on large contracts are stated in accordance with the "percentage of completion" method. If costs required to complete such contracts are estimated to exceed remaining revenues, provision is made for estimated losses.

Note 6

Other current assets

	Group		Parent Company	
	1977	1976	1977	1976
Prepaid expenses and accrued income	\$14.9	\$ 12.4	\$ 6.0	\$ 6.5
Advances to suppliers ...	11.0	7.9	6.3	4.0
Receivables from subsidiaries	—	—	12.4	—
Other receivables	65.4	87.6	14.2	14.1
	<u>\$91.3</u>	<u>\$107.9</u>	<u>\$38.9</u>	<u>\$24.6</u>

Note 7

Details of certain shares and participations owned directly and indirectly by the Parent Company are given on pages 26–27. A complete listing of shares and participations, prepared in accordance with the Swedish Companies Act and filed with the Swedish Patent and Registration Office, may be obtained upon request to Group Headquarters.

Note 8

The Parent Company and its Swedish subsidiaries generally depreciate land improvements and buildings at rates of 2 to 5 percent on historical cost, and machinery and equipment at either 20 percent of historical cost or 30 percent of book value. In addition, nonrecurring write-downs are made through utilization of investment reserves. Subsidiary companies outside Sweden use depreciation methods adapted to local practices.

Revaluations of land and buildings occurred in connection with stock dividends declared in the Parent Company and Sieverts Kabelverk AB. To the extent that they relate to buildings, the revaluations—which do not exceed tax assessment values—are depreciated at a rate of 5 percent per year.

Write-ups of fixed assets were effected in several foreign subsidiaries to adjust the book value of the assets in local currency to a more realistic level. That portion of these write-ups which, when the assets are translated at year-end exchange rates, substantially exceeds the earlier book value in kronor is included in Revaluation under the Group heading in the table below. In 1976 such write-ups amounted to \$15.8 m. while no write-up was made in 1977. Depreciation on the write-up values has been charged to the 1977 operations.

Fixed assets and accumulated depreciation at December 31, 1977 were distributed as follows, by categories:

	Group		Parent Company	
	Cost	Accum. deprec.	Cost	Accum. deprec.
Land	\$ 27.2	\$ —	\$ 6.6	\$ —
Land improvements	4.5	3.4	3.3	2.3
Buildings	258.4	151.0	97.2	79.3
Machinery and equipment	452.6	291.3	154.5	108.1
Construction in progress	71.9	—	29.4	—
	<u>\$814.6</u>	<u>\$445.7</u>	<u>\$291.0</u>	<u>\$189.7</u>
Book value	<u>\$368.9</u>		<u>\$101.3</u>	

	Group		Parent Company	
	Cost	Accum. deprec.	Cost	Accum. deprec.
<i>Revaluation and accumulated depreciation on the same:</i>				
Land	\$ 17.2	\$ —	\$14.4	\$ —
Buildings	84.6	23.1	54.8	17.0
	<u>\$101.8</u>	<u>\$23.1</u>	<u>\$69.2</u>	<u>\$17.0</u>
Book value	<u>\$78.7</u>		<u>\$52.2</u>	

Tax assessment values: Parent Company, land and land improvements: \$24.4 m., buildings: \$74.4 m., other Swedish companies, land and land improvements: \$9.7 m., buildings: \$35.4 m.

	Group		Parent Company	
	1977	1976	1977	1976
<i>Depreciation</i>				
Land improvements	\$ 0.1	\$ 0.1	\$ 0.1	\$ —
Buildings: Cost	7.6	7.6	1.3	1.2
Revaluation ..	4.3	3.7	2.7	2.7
Machinery and equipment	52.8	50.5	19.0	17.0
	<u>\$64.8</u>	<u>\$61.9</u>	<u>\$23.1</u>	<u>\$20.9</u>

Acquisitions during the year that have been fully depreciated against investment reserves and reserve for environmental improvements

	Group	Parent Company
	1977	1976
Land improvements	\$ 0.4	\$ 0.5
Buildings	21.3	12.2
Machinery and equipment	2.7	0.7
	<u>\$24.4</u>	<u>\$13.4</u>

	Group	Parent Company
	1977	1976
<i>Reserves utilized</i>		
Investment reserves ...	\$23.4	\$11.6
Reserve for environmental improvements	1.0	1.8
	<u>\$24.4</u>	<u>\$13.4</u>

Note 9 Other current liabilities

	Group		Parent Company	
	1977	1976	1977	1976
Accrued expenses and prepaid income	\$105.2	\$ 97.3	\$ 53.9	\$ 57.4
Short-term loans	127.2	99.0	56.3	67.2
Other current liabilities ..	81.4	68.9	32.7	34.7
	<u>\$313.8</u>	<u>\$265.2</u>	<u>\$142.9</u>	<u>\$159.3</u>

Note 10 Debentures

Parent Company	
3½ % Debentures of 1950, due July 1, 1980, S.Kr.	13.3 \$ 2.8
6½ % Debentures of 1966, due 1979 to 1986, US\$	9.6 9.6
6½ % Debentures of 1968, due 1979 to 1988, S.Kr.	48.9 10.4
5½ % Debentures of 1968, due 1979 to 1983, Sfrs	25.0 12.5
9¼ % Debentures of 1970, due 1979 to 1985, US\$	19.2 19.2
7½ % Debentures of 1971, due 1979 to 1991, S.Kr.	59.8 12.8
7¼ % Debentures of 1972, due 1979 to 1992, S.Kr.	62.2 13.3
6¾ % Debentures of 1972, due 1979 to 1987, DM	95.0 45.1
6 % Debentures of 1973, due 1984 to 1988, Sfrs	80.0 39.8
9¼ % Debentures of 1975, due 1979 to 1990, S.Kr.	80.1 17.1
8½ % Debentures of 1975, due 1979 to 1990, Sfrs	40.0 19.9
9¼ % Debentures of 1976, due 1979 to 1991, S.Kr.	86.7 18.5
8½ % Debentures of 1976, due September 15, 1983, US\$	35.0 35.0
9¼ % Debentures of 1976, due 1979 to 1991, US\$	31.5 31.5
8½ % Debentures of 1977, due 1980 to 1989, US\$	30.0 30.0
9¾ % Debentures of 1977, due 1979 to 1992, S.Kr.	93.4 20.0
	<u>337.5</u>
Less: Unrealized exchange differences to be amortized in future years	40.8
Total	<u>\$296.7</u>

Installments due in 1978 on the above debentures are included under current liabilities, net of debentures held in the treasury.

The following year-end exchange rates have been used in preparing the consolidated accounts: S.Kr. 4.68=US\$ 1.00; S.Kr. 2.33=Sfr 1.00; S.Kr. 2.22=DM 1.00.

The due dates of the above loans are as follows, by type of currency:

	Swedish kronor	US dollars	Swiss francs	German marks
1978	19.6	4.0	55.0	5.0
1979	29.2	4.5	5.5	10.0
1980	43.2	6.6	6.0	10.0
1981	30.4	6.0	6.0	10.0
1982	31.2	6.0	6.0	10.0
1983	32.1	41.1	6.5	10.0
1984 and later	278.3	61.1	115.0	45.0
	<u>464.0</u>	<u>129.3</u>	<u>200.0</u>	<u>100.0</u>

Note 11

Capital stock of the Parent Company

2,485,677 Class A shares	\$ 26.6
19,302,821 Class B shares	206.2
21,788,498	<u>\$232.8</u>

All shares have a par value of Swedish kronor 50 and carry equal rights to participation in the net assets and profits of the Company. Class A shares are entitled to cast one vote and Class B shares are entitled to cast 1/1,000th of a vote at stockholders' meetings.

Changes in equity

Group	Restricted equity		Unre- stricted equity	Total
	Capital stock	Legal reserves		
January 1, 1977	\$232.8	\$208.4	\$113.0	\$554.2
Appropriations to legal reserves and stock dividends		11.1	(11.1)	—
Parent Company dividend			(23.3)	(23.3)
Net profit for 1977			41.2	41.2
December 31, 1977	<u>\$232.8</u>	<u>\$219.5</u>	<u>\$119.8</u>	<u>\$572.1</u>

Of the Group's unappropriated earnings, \$19.5 m. will be transferred to legal reserves in accordance with proposals of the respective companies' boards of directors. In evaluating the Group's financial position, it should be noted that profits in the Group's foreign companies may in certain cases be subject to tax when transferred to Sweden and that, in some instances, such transfers of profits may be limited by currency restrictions.

Parent Company	Restricted equity		Unre- stricted equity*	Total
	Capital stock	Legal reserves		
January 1, 1977	\$232.8	\$102.7	\$46.9	\$382.4
Dividend			(23.3)	(23.3)
Net profit for 1977			26.0	26.0
December 31, 1977	<u>\$232.8</u>	<u>\$102.7</u>	<u>\$49.6</u>	<u>\$385.1</u>

* including a general reserve of \$20.8 m.

SUPPLEMENTARY INFORMATION REQUIRED UNDER THE SWEDISH COMPANIES ACT**Average number of employees and remuneration paid**

	Group		Parent Company	
	Average number of employees	Salaries, wages and fees	Average number of employees	Salaries, wages and fees
Sweden	26,990	\$323.9	19,830	\$231.9
Other countries	41,830	260.5	920	12.8
	<u>68,820</u>	<u>\$584.4</u>	<u>20,750</u>	<u>\$244.7</u>

Paid to Board of Directors, President and Executive Vice Presidents \$0.6

Salaries, wages and other remuneration paid in foreign currency was translated to Swedish kronor at average exchange rates for the year.

A detailed table showing the average number of employees and the amounts of salaries, wages and other remuneration paid out, prepared in accordance with the requirements of the Swedish Companies Act, is filed with the Swedish Patent and Registration Office. The table is available upon request to the Parent Company's Headquarters.

Special loans and commitments by the Parent Company

Three loans totaling \$14,500 have been made to board members and managing directors within the Group.

Three pledges of assets totaling \$33,100 and five guarantees totaling \$64,700 have been made as security for loans obtained by board members and managing directors in Group companies.

Pledges of assets totaling \$427,400 have been made as security for 3,195 bank loans obtained by Group employees for the purchase of stock in the Company, and loans totaling \$349,600 have been made to these employees, representing part of the interest on said bank loans, in accordance with the Company's "stock loan" offers of 1973 and 1976.

Note 12

	Group		Parent Company	
	1977	1976	1977	1976
Assets pledged				
Real estate mortgages	\$ 98.9	\$ 85.1	\$ 27.5	\$ 27.3
Chattel mortgages	139.6	151.2	98.3	98.3
Shares	50.4	50.1	50.0	50.0
Trade receivables	33.9	48.0	33.9	47.5
Restricted bank deposits	7.0	5.0	0.5	0.1
	<u>\$329.8</u>	<u>\$339.4</u>	<u>\$210.2</u>	<u>\$223.2</u>
Contingent liabilities				
Discounted bills	\$ 3.1	\$ 3.1	\$ —	\$ —
Sureties	44.6	44.5	117.3	112.6
	<u>\$47.7</u>	<u>\$47.6</u>	<u>\$117.3</u>	<u>\$112.6</u>

Of the sureties assumed by the Parent Company, \$100.0 m. (\$96.7 m.) pertained to subsidiaries.

Telefonaktiebolaget LM Ericsson
Audit Report

We have examined the annual report, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the President for the year 1977 in accordance with generally accepted auditing standards.

The annual report and the consolidated financial statements present the financial position, the results of operations and changes in financial position of the Company and of the Group in accordance with good accounting practice in Sweden, as described in the notes to the financial statements, and comply with the Swedish Companies Act.

The separate statement of loans, pledged assets and guarantees called for by the Swedish Companies Act has been prepared.

We recommend

that the Company's statement of income and balance sheet be adopted,

that the Group's statement of income and balance sheet be adopted,

that the unappropriated earnings be dealt with in accordance with the proposal in the administration report, and

that the Board of Directors and the President be discharged from responsibility for their administration in respect of the year 1977.

Stockholm, April 5, 1978

Jörgen Eskilson
Swedish Authorized Public Accountant
Partner in Price Waterhouse & Co.

N.-A. Frisk

David Jones
Chartered Accountant
Partner in Price Waterhouse & Co.

The above audit report refers to the Annual Report and the financial statements (pages 6 to 31) but expressed in Swedish kronor.

Consolidated net sales By product groups and markets

Thousands of US dollars

GROUP SALES BY PRODUCTS		1977	%	1976	%
		\$		\$	
	Public telephone exchanges	\$ 829,541	49.6	\$ 804,700	51.6
	Subscriber exchanges, instruments and intercom systems	222,018	13.3	214,785	13.8
	Transmission equipment and radio communications systems	109,814	6.5	120,577	7.8
	Other systems and products	190,700	11.4	151,431	9.7
	Electronic equipment and development projects for the military	66,125	3.9	59,422	3.8
	Cable, wire and network equipment	215,350	12.9	172,990	11.1
	Other products	40,092	2.4	34,636	2.2
	Total	\$1,673,640	100.0	\$1,558,541	100.0

OVERALL GEOGRAPHIC DISTRIBUTION OF SALES		1977	%	1976	%
		\$		\$	
	Sweden	\$ 274,267	16.4	\$ 252,072	16.2
	Europe (excluding Sweden)	607,970	36.3	496,260	31.8
	Latin America	497,957	29.8	550,426	35.3
	Africa, Asia and Australia	258,489	15.4	238,866	15.3
	U.S.A. and Canada	34,957	2.1	20,917	1.4
	Total	\$1,673,640	100.0	\$1,558,541	100.0

DISTRIBUTION OF SALES IN EUROPE (EXCLUDING SWEDEN)		1977	1976
		\$	\$
	Italy	\$185,341	\$139,765
	Denmark	106,477	77,179
	Spain	73,571	70,427
	Finland	41,233	51,624
	The Netherlands	40,223	27,372
	Great Britain	36,997	31,154
	Norway	35,333	32,991
	Ireland	18,266	15,962
	Other countries	70,529	49,786
	Total	\$607,970	\$496,260

DISTRIBUTION OF SALES IN LATIN AMERICA		1977	1976
		\$	\$
	Brazil	\$267,178	\$330,320
	Mexico	115,911	94,701
	Colombia	26,160	26,175
	Venezuela	25,830	53,440
	Argentina	21,246	19,722
	Other countries	41,632	26,068
	Total	\$497,957	\$550,426

DISTRIBUTION OF SALES IN AFRICA, ASIA AND AUSTRALIA		1977	1976
		\$	\$
	Near East	\$ 80,204	\$ 44,978
	Africa	77,550	100,534
	Australia	51,216	43,782
	Asia (excluding Near East)	49,519	49,572
	Total	\$258,489	\$238,866

All amounts translated at the rate of S.Kr. 4.68 to US \$1.00.



Mr. Bertil Bjurel, then Director General of the Swedish Telecommunications Administration, and Provincial Governor Nils Hörjel inaugurate the new AXB 20 computer-controlled telex exchange in Malmö.

SWEDEN

Group order bookings in the Swedish market amounted to \$307.3 m. in 1977, an increase of 12 percent over bookings of \$274.5 m. in 1976, when there had been a decrease of 8 percent. Invoiced sales rose 9 percent, from \$252.1 m. to \$274.3 m. In 1976, invoicing had increased 12 percent. The order backlog at year-end was \$285.0 m., compared with \$252.1 m. a year earlier.

During the year, the first AXE and AXB systems—for a local telephone exchange in Södertälje and a telex exchange in Malmö, respectively—to be delivered by the Parent Company to the Swedish Telecommunications Administration were placed in service. Substantial parts of these systems were designed by ELLEMTEL, the development company owned jointly with the Administration.

In January, 1978 the Administration placed its largest single order to date with the Parent Company. The contract covered AXE exchanges and transmission equipment for the modernization of the Swedish telecommunications network.

Large orders were received during the year for automatic train control systems for the Swedish State Railways and radar systems for the Swedish Armed Forces. As a result, orders from Government agencies other than the Telecommunications Administration were higher than in 1976.

Towards the end of the year the move to the Parent Company's newly constructed facilities at Kungens Kurva, south of Stockholm, was begun.

As a consequence of the low level of investments in Sweden and severe international competition, Sieverts Kabelverk AB (SKV) had lower orders for power cable. This decrease was largely offset, however, by higher orders for telecommunications cable. Intensive marketing enabled SKV to maintain its share of the Swedish market and register successes in the export market for telecommunications cable.

Svenska Radio AB recorded good order bookings again in 1977. Higher export sales compensated for most of the small decrease in bookings in Sweden. Substantial orders for mobile radio systems were received from Swedish municipalities as part of programs to improve the efficiency of community services. Series deliveries of electronic equipment for the fighter version of the Viggen aircraft got under way.

Despite the weak economic conditions, LM Ericsson Telemateriel AB (LMS) was able to retain—and in some cases increase—its market shares. Orders in the domestic market were higher and export sales more than doubled, compared with 1976, primarily due to intensive sales ef-

forts involving complete “packages”: combinations of systems for various services. LMS’ alarm communications system scored an international breakthrough with the receipt of orders from the Dutch post and telegraph authorities for a nationwide system for post offices, commercial banks and other subscribers. LMS’ invoiced sales increased 17 percent.

Primarily due to the Parent Company’s lower bookings of orders for crossbar exchanges, AB Rifa was hit by production change-over problems. Demand from the Parent Company for capacitors fell sharply. However, thanks to successful sales efforts, orders from customers other than Group companies rose nearly 30 percent, as a result of which total orders booked in 1977 were higher than in 1976. The changed order mix caused low utilization of parts of the company’s production capacity, however, so that profitability was unsatisfactory. The new facilities in Kista, outside Stockholm, were partially occupied during the year.

Despite the low level of construction activity in Sweden, Thorsman & Co AB had slightly higher order bookings and was thereby able to strengthen its dominant position in the market for electric mouldings and ducts.

Vanadis Entreprenad AB, acquired at the close of 1976, whose operations consist primarily of advanced conduit and tube installations for companies in basic industries, had order bookings of nearly \$23.5 m. in 1977.

EUROPE (excluding Sweden)

Group order bookings in European markets outside Sweden amounted to \$655.3 m., an increase of 12 percent over bookings of \$584.0 m. in 1976, when there had been a decrease of 4 percent.

Invoiced sales totaled \$608.0 m., or 22 percent higher than the \$496.2 m. invoiced in the preceding year. The order backlog in this region at year-end amounted to \$660.0 m., compared with \$566.5 m. at the 1976 year-end.

Sales were distributed by country as follows:

(\$ Millions)	1977	1976
Italy	\$185.4	\$139.8
Denmark	106.5	77.2
Spain	73.6	70.4
Finland	41.2	51.6
The Netherlands	40.2	27.4
Great Britain	37.0	31.1
Norway	35.3	33.0
Ireland	18.3	15.9
Rest of Western Europe	49.1	32.9
Eastern Europe	21.4	16.9
	\$608.0	\$496.2

Italy

Despite the continued political and economic difficulties in Italy, with stagnating industrial production and rising unemployment, there was some improvement in the strength of the lira, as a result of which certain import and credit restrictions were eased. FATME’s order bookings from SIP, the telephone operating company, were slightly higher than in 1976 and included an additional computer-controlled (AKE) trunk exchange for the city of Padua as well as a number of large crossbar exchanges. The sharply increased order bookings from ASST, the Government-owned company responsible for trunk traffic, included two large trunk exchanges. Early in 1978, FATME

received its first contract from the Italian State Railways for a CTC (Centralized Traffic Control) system.

SIELTE also recorded higher order bookings, primarily involving installations of network and transmission equipment for ASST.

Denmark

Order bookings in the Danish market were high, although they did not reach the record level of 1976. LM Ericsson A/S received from Jydsk Telefon A/S the first contract in Denmark for an AXE exchange with fully electronic digital group selectors. The telephone administration in Copenhagen decided to modernize the telephone exchanges in that city with computer-controlled registers. Two additional AKE exchanges were delivered. Six AKE systems are now in operation in Denmark and two are under construction.

The first fully electronic subscriber exchange of the ASD 551 type was placed in service in Denmark.

Dansk Signal Industri A/S compensated for a slow-down and new priorities in the Danish State Railways’ investment program by intensifying its export activity. The company succeeded in obtaining an order for a new design that can result in establishing a foothold in the European Community market. Order bookings were unchanged from the preceding year.

Spain

The Spanish telephone administration began the introduction of computer-controlled telephone exchanges during 1977. INTELSA, the Group subsidiary, received orders for a 10,000-line AXE exchange in Madrid and for exchanges of the ARE type. INTELSA’s order bookings were higher than in 1976 and the company maintained—and, in the case of certain products, improved—its market shares.

Despite the fact that the most important customers of LM Ericsson S.A., the Spanish State Railways and the subway administrations, scaled down their investment programs, the company succeeded in increasing its order bookings. A significant initial contract for a technically highly advanced CTC system was received from the State Railways.

Finland

The rate of growth of the Finnish telecommunications network has gradually declined and in 1977 was estimated at about half the rate recorded in the early 1970s. Simultaneously, competition has stiffened substantially as a result of the establishment of a sales and development company with Government ties. However, Oy LM Ericsson Ab (LMF) achieved the same level of order bookings as in 1976.

In a depressed market for subscriber exchanges, LMF received orders for six ASD 551 electronic exchanges, and in January, 1978 the company received from the Finnish State Railways its largest order ever for subscriber exchanges. The contract covers a major network with 14 electronic exchanges. Orders for telephone instruments increased.

An AXE system was placed in service in Turku with good results. A large number of ARE exchanges were also cut into service during the year.

The Netherlands

A continuing high rate of growth in the number of subscribers in The Netherlands resulted in a substantial increase in the orders booked by Ericsson Telefoonmaatschappij bv (ETM), primarily for telephone instruments but also involving the enlargement of AKE exchanges. An increased number of traffic route testers were delivered as part of the post and telegraph administration's program for more efficient maintenance.

Under ETM's auspices, a sales company jointly owned by the Parent Company and ETM was established in Belgium.

Great Britain

Despite severe competition, Thorn-Ericsson Telecommunications (Sales) Ltd. was well able to defend its market position. SRA's paging system was introduced with great success.

Norway

The Norwegian Telecommunications Administration decided to utilize the crossbar system for the continuing automation of the country's rural telephone service.

This will enable A/S Elektrisk Bureau (EBN) to maintain a substantial share of the market. Additional orders were received for computer-controlled AKE trunk exchanges and six such stations with a capacity of 30,000 lines are now in operation or on order. The Telecommunications Administration announced its intention to purchase an AXB 20 telex exchange to be installed in Oslo. During the year EBN acquired A/S Nera, a company with 660 employees, whose radio link department was integrated as a division within EBN.

Despite rising imports of cable, A/S Norsk Kabelfabrik increased its share of the market while expanding its export sales.

Rest of Europe

The French telecommunications authorities ordered an additional 10 local telephone exchanges with AXE systems to serve a total of more than 96,000 subscriber lines.

The largest orders ever booked from Iceland in a single year were received during 1977. The contracts covered an international exchange and a local exchange, both equipped with the ARE system.

The telecommunications authorities in Ireland placed an order for another trunk exchange. The new plant in Athlone owned by the Group's Irish subsidiary, LM Ericsson Ltd., was inaugurated in November.

Installation of pair cable system for the Swedish State Railways. It will be used for remote control of shunting yards, among other purposes.



A contract was signed with the Yugoslavian company, Nikola Tesla, to expand the former technical-and-manufacturing agreement to also cover the AX systems.

As one step in the strengthening of its communications network in preparation for the 1980 Olympic Games in Moscow, the Soviet Union placed a large order for an AXB 20 telex exchange.

LATIN AMERICA

Orders booked in the Latin American markets increased 30 percent, from \$413.5 m. in 1976 to \$537.3 m. in 1977. In 1976 orders had declined 6 percent.

Invoiced sales amounted to \$497.9 m., compared with \$550.4 m. a year earlier. The order backlog at year-end was \$538.5 m. as against \$518.6 m. at the close of 1976.

The distribution of sales in the major markets was as follows:

(\$ Millions)	1977	1976
Brazil	\$267.2	\$330.3
Mexico	115.9	94.7
Colombia	26.2	26.2
Venezuela	25.8	53.4
Argentina	21.2	19.7
Other countries	41.6	26.1
	\$497.9	\$550.4

Brazil

Orders booked by Ericsson do Brasil, consisting mainly of crossbar exchanges and subscriber and transmission equipment, were slightly higher than in the preceding year.

Substantial efforts were made to adjust operations to the lower level of demand and production was concentrated in a smaller number of plants.

Exchange equipment equivalent to 700,000 subscriber lines was delivered during the year.

Mexico

Following the difficult situation which developed when the value of the Mexican peso was halved at the end of 1976, the authorities—by means of moderate measures and with a good response by the various parties in the nation's economic structure—succeeded in virtually stabilizing the economy during the second half of 1977.

Teleindustria Ericsson S.A. had larger order bookings for telephone exchange equipment than in the preceding year. The rate of expansion of long distance service was high, resulting in good bookings of orders for transmission equipment.

Deliveries of most types of products were higher. The number of subscriber lines delivered exceeded the 1976 total by more than 50 percent.

The operations of LATINCASA, the cable manufacturing company, continued to expand. Export shipments went to six countries and increased to 8 percent of total deliveries. Construction of a new factory was begun in San Luis Potosí.

Colombia

Sharply rising world market prices for coffee ended the recent years' stagnation in the local economy. This contributed to a nearly threefold increase in Group order bookings in Colombia, compared with 1976. The millionth subscriber line based on Ericsson switching systems was ordered during the year. The first crossbar exchange with a computer-controlled register to be installed in South America was placed in service in Bogotá.

Despite the delayed recovery in the construction field and in the expansion of the electric power network, FACOME, the Group cable manufacturing company, was able to record sharply increased orders. Nearly 10 percent of the deliveries were for export.

Venezuela

As the result of an agreement with CANTV, the Venezuelan telephone operating company, covering deliveries of exchange equipment, orders booked in 1977 were considerably above those in 1976. Operations proceeded according to plan but competition stiffened noticeably.

Argentina

The Argentine economy in 1977 was characterized by comparatively more restrained development, with a substantially lower rate of inflation than in 1976 and a stronger currency. Orders were received from ENTEL, the Government telephone operating company, for exchanges to handle national and international traffic.

The Group's telephone operating companies obtained increases in tariffs that were on a level with the higher labor costs. As a result, earnings were better than in the immediately preceding years. An expansion program for the telephone facilities was approved during the year and is to get under way in 1978.

Drastic cuts in Government investments caused sharply reduced order bookings by the cable manufacturing company in Quilmes. Despite low utilization of capacity, the company showed a profit.

Other countries

The Parent Company and the Brazilian subsidiary, Ericsson do Brasil, were both able to strengthen their positions in the Bolivian market through additional orders for local and trunk exchanges.

In the beginning of 1978, the Government telephone operating company in Panama placed the first order in the Western Hemisphere for an AXB 20 telex exchange. In addition, the telephone administration ordered an international exchange of the ARE type.

AFRICA, ASIA AND AUSTRALIA

Orders booked in these three regions rose 40 percent, from \$238.0 m. in 1976 to \$332.1 m. in 1977. In 1976, bookings had declined 8 percent.

The order backlog at year-end amounted to \$341.0 m., compared with \$249.8 m. a year earlier.

Invoiced sales increased 8 percent, from \$238.9 m. to \$258.5 m. In 1976, invoicing rose 13 percent.

The distribution of sales in the respective areas was as follows:

(\$ Millions)	1977	1976
Near East	\$ 80.2	\$ 45.0
Africa	77.6	100.5
Australia	51.2	43.8
Asia (excluding Near East)	49.5	49.6
	\$258.5	\$238.9

Near East

Saudi Arabia and Kuwait accounted for 75 percent of the orders booked in the Near East, with the remaining 25 percent being distributed among more than 15 other countries.

The authorities in Saudi Arabia placed follow-on orders with the Parent Company amounting to approximately \$21.4 m. and covering the Company's full range of products.

The largest Swedish subsidiaries also scored substantial sales successes in Saudi Arabia, booking contracts valued at a total of more than \$8.5 m.

In January, 1978, the largest single contract in the Parent Company's history was signed with the telecommunications administration in Saudi Arabia. LM Ericsson and Philips of The Netherlands will jointly install, within a

period of three years, half a million subscriber lines throughout Saudi Arabia. During the period of the contract the entire telephone network will be operated and maintained by a third partner, Bell Canada.

The telecommunications administration of Kuwait, which was one of the first purchasers of computer-controlled crossbar exchanges of the ARE type, also became the first non-European purchaser of the Group's AXE exchanges with digital group selectors in the switching network. Following an international bidding competition the administration placed an order for 30,000 subscriber lines to be serviced by three exchanges. The first international installations of ARE systems were placed in operation in Kuwait.

Africa

Orders booked in Africa during 1977 were more than twice as large as in the preceding year.

Libya purchased a complete turnkey network installation for an area covering 30 percent of the total network in Tripoli, as well as extensions of existing exchanges, at a total cost of close to \$64.1 m.

The telephone administrations in Algeria, Egypt and Nigeria signed substantial contracts covering expansions and new installations of telephone exchange equipment.

Installation of a local network in the village of Damnoen Sadauk in Thailand.



A wholly new market was opened in Guinea-Bissau when the administration in that country ordered a nationwide telephone network with 12 exchanges, network installations and equipment.

Sieverts Kabelverk AB, Svenska Radio AB and LM Ericsson Telemateriel AB registered major successes in their sales efforts in Africa and received large orders from Algeria, Kenya, Libya, Nigeria, Zambia and other countries.

Australia

In an international competition in which all the technically advanced suppliers of telecommunications equipment participated, the Government of Australia—following detailed evaluations within Telecom Australia, the telecommunications administration—selected Ericsson's AXE system as the only standard system for future local exchanges in the country. This success, which was due to a high degree to the good efforts of the Group's Australian subsidiary, LM Ericsson Pty. Ltd., attracted widespread international attention.

Deliveries of equipment for the comprehensive up-dating of crossbar exchanges through the use of computer-controlled registers were begun during the year.

The Overseas Telecommunications Commission, the authority responsible for international telecommunications service, placed an additional order for an AKE exchange.

The successes of the new telephone and telex systems in the Group's markets have been a spur that offers high hopes for the future. Exchanges for public networks account for more than half of the Group's sales and it is natural that the contracts won by Ericsson should have attracted the special attention of the outside world. It may be noted, however, that the development efforts also made with respect to other products mean that the Group is well equipped in its primary area of operations—telecommunications—and in other areas.

The past year has been one in a series during which production in Group factories in many places had to be restructured as the result of economic conditions and changing technology. To achieve the efficient organization of our sales departments and laboratories that is essential if the Group is to survive in the face of hard competition and

Asia (excluding Near East)

Orders booked in this market were approximately 70 percent higher than in 1976.

The telecommunications authority in Thailand ordered three new trunk exchanges and equipment for the introduction of automatic direct dialing of trunk traffic. Orders booked and invoiced sales in this market were both the highest for any year to date.

Large orders for the expansion of local and trunk exchanges were received from the telecommunications administration in Malaysia.

Orders from the Indonesian authorities included an installation contract valued at approximately \$6.4 m.

The Group recorded higher order bookings in most of the other markets in the area.

U.S.A. AND CANADA

Strong selling measures resulted in increased orders for subscriber exchanges in the very difficult market in the United States.

Higher sales were recorded for several products in Canada, despite the severe competition. Delivery of the marine cable to Prince Edward Island was completed during the year.

rapid technical development, the necessity for restructuring work assignments has been imposed on staff personnel as well, and will continue to be imposed during the current year.

The goodwill shown in helping to effect these changes provides assurance, together with our product program, that the Group has good prospects of holding its own in its markets in the future.

The capacity for cooperation that has always characterized relations between various sectors of the Group will play a decisive role in our handling of the increasing number of complex business transactions. These transactions are distinguished by the fact that they span deliveries from a number of Group companies and are often carried out under political and economic conditions that are difficult to cope with.

Stockholm, March, 1978



Björn Svedberg
President

THE ERICSSON GROUP including associated companies* and representatives

	SWEDEN	EUROPE (excluding Sweden)	
SALES COMPANIES WITH MANUFACTURING OPERATIONS	<p>Stockholm Telefonaktiebolaget LM Ericsson AB Rifa Sieverts Kabelverk AB Svenska Radio AB AB Transvertex Kabmatik AB</p> <p>Nyköping Thorsman & Co AB</p> <p>Växjö Widells Metallprodukter AB</p> <p>Alingsås *Kabeldon AB</p> <p>Kungsbacka *Bofa Kabel AB</p> <p>Malmö *Bjurhagens Fabrikers AB</p> <p>Norrköping *AB Norrköpings Kabelfabrik</p>	<p>DENMARK Copenhagen I Bager & Co A/S Dansk Signal Industri A/S *GNT AUTOMATIC A/S</p> <p>FINLAND Jorvas Oy LM Ericsson Ab</p> <p>FRANCE Boulogne sur Mer RIFA S.A.</p> <p>Colombes *Société Française des Téléphones Ericsson</p> <p>IRELAND Athlone LM Ericsson Ltd.</p> <p>Drogheda Thorsman Ireland Ltd.</p>	<p>ITALY Rome FATME Soc. per Az. Scarfini Soc. per Az.</p> <p>THE NETHERLANDS Rijen Ericsson Telefoonmaatschappij B.V.</p> <p>NORWAY Drammen *A/S Norsk Kabelfabrik</p> <p>Nesbru *A/S Elektrisk Bureau</p> <p>SPAIN Madrid Industrias de Telecomunicación S.A. (Intelsa) LM Ericsson S.A.</p> <p>UNITED KINGDOM Horsham *Thorn-Ericsson Telecommunications (Mfg) Ltd.</p>
SALES AND INSTALLATION COMPANIES	<p>Stockholm LM Ericsson Telemateriel AB *Svenska Elgrossist AB SELGA *Holm & Ericsons Elektriska AB *Mellansvenska Elektriska AB *SELGA Mellansverige AB</p> <p>Gävle Vanadis Entreprenad AB</p> <p>Göteborg *SELGA Västsverige AB</p> <p>Malmö *SELGA Sydsverige AB</p> <p>Norrköping *SELGA Östsverige AB</p> <p>Sundsvall *SELGA Norrland AB</p>	<p>BELGIUM Brussels Ericsson Belgium sa/nv.</p> <p>DENMARK Copenhagen LM Ericsson A/S Thorsman & Co ApS</p> <p>Tåstrup LM Ericsson Radio ApS</p> <p>FINLAND Helsinki Oy Thorsman & Co Ab</p> <p>FRANCE Marseille *Établissements Ferrer-Auran S.A.</p> <p>ITALY Rome SIELTE Soc. per Az.</p> <p>NORWAY Oslo SRA Radio A/S Thorsman & Co A/S *A/S Telesystemer *A/S Installator</p> <p>Nesbru *United Marine Electronics A/S</p> <p>PORTUGAL Lisbon Sociedade Ericsson de Portugal Lda</p>	<p>SWITZERLAND Zurich Ericsson AG</p> <p>UNITED KINGDOM Chorley Thorsman & Co. (UK) Ltd.</p> <p>Horsham *Thorn-Ericsson Telecommunications (Sales) Ltd. *Thorn-Ericsson Telecommunications (Rentals) Ltd.</p> <p>London *United Marine Leasing Ltd. *United Marine Electronics (UK) Ltd.</p> <p>WEST GERMANY Frankfurt-am-Main Rifa GmbH</p> <p>Hamburg *UME Marine Nachrichtentechnik GmbH</p> <p>Hanover Ericsson Centrum GmbH</p> <p>Lüdenscheid Thorsman & Co GmbH</p>
REPRESENTATIVES		Austria, Greece, Iceland, Luxembourg, Yugoslavia	
OTHER COMPANIES	<p>Stockholm ELLEMTEL Utvecklings AB</p>	<p>ITALY Rome SETEMER Soc. per Az.</p>	<p>UNITED KINGDOM Horsham Swedish Ericsson Company Ltd. *Thorn-Ericsson Telecommunications Ltd.</p>
TECHNICAL OFFICES		<p>POLAND Warsaw Telefonaktiebolaget LM Ericsson</p>	

TIN AMERICA		AFRICA AUSTRALIA ASIA OCEANIA		U.S.A. CANADA
<p>ARGENTINA Buenos Aires Ericsson S.A.C.I. Industrias Eléctricas de Quilmes</p> <p>BRAZIL Paulo Ericsson do Brasil Comércio e Indústria S.A.</p> <p>Rio de Janeiro Industrias de Cabos Plásticos do Brasil</p> <p>José dos Campos Componentes Comércio e Indústria S.A.</p>	<p>COLOMBIA Bogotá Ericsson de Colombia S.A.</p> <p>Cali Fábricas Colombianas de Materiales Eléctricos Facomec S.A.</p> <p>ECUADOR Quito Teléfonos Ericsson C.A.</p> <p>MEXICO Mexico D.F. Teleindustria Ericsson S.A. Latinoamericana de Cables S.A. de C.V.</p> <p>VENEZUELA Caracas Cía Anónima Ericsson</p>	<p>AUSTRALIA Melbourne LM Ericsson Pty. Ltd. RIFA Pty. Ltd.</p> <p>Sydney *Conqueror Cables Ltd.</p> <p>INDIA New Delhi Ericsson India Limited</p> <p>IRAN Teheran *Simco Ericsson Ltd.</p> <p>MALAYSIA Shah Alam Ericsson Telecommunications Sdn Bhd</p>		
<p>BRAZIL Paulo Ericsson S.A., Instalações Eléctricas Telefónicas EPLAN, Projetos e Planejamento de Telecomunicações S.A.</p> <p>CHILE Santiago Ericsson de Chile S.A.</p> <p>MEXICO Mexico D.F. Teléfonos Ericsson S.A. Montaje, S.A. de C.V.</p>	<p>PANAMA Panama City Telequipos S.A.</p> <p>PERU Lima Cía Ericsson S.A.</p> <p>URUGUAY Montevideo Cía Ericsson S.A.</p>	<p>INDONESIA Jakarta Ericsson Telephone Sales Corp. AB**</p> <p>IRAN Teheran Aktiebolaget Erifon** Ericsson Telephone Sales Corporation AB**</p> <p>LEBANON Beirut Société Libanaise des Téléphones Ericsson</p> <p>NIGERIA Lagos LM Ericsson (Nigeria) Ltd.</p>	<p>THAILAND Bangkok Ericsson Telephone Corp. Far East AB**</p> <p>TURKEY Ankara Ericsson Türk Ticaret Ltd. Şirketi</p> <p>ZAMBIA Lusaka Ericsson (Zambia) Limited Telefonaktiebolaget LM Ericsson Installation Branch</p>	<p>UNITED STATES Woodbury, N.Y. LM Ericsson Telecommunications Inc.</p> <p>CANADA Montreal LM Ericsson Limitée/Limited</p>
<p>Angola, Costa Rica, Dominican Republic, French Guiana, Guadeloupe, Guatemala, Guyana, Honduras, Mauritania, Netherlands Antilles, Paraguay, Panama, Paraguay, Salvador, Surinam, Trinidad and Tobago</p>		<p>Angola, United Arab Emirates, Bahrain, Bangladesh, Benin, Botswana, Burma, New Caledonia, Cameroon, Central African Empire, Chad, Congo, Cyprus, Egypt, Ethiopia, Gabon, Hong-Kong, Indonesia, Iran, Iraq, Ivory Coast, Jordan, Kenya, Kuwait, Lebanon, Lesotho, Liberia, Libyan Arab Republic, Macao, Madagascar, Malawi, Mali, Malta, Mauritania, Morocco, Mozambique, Namibia, Nepal, Niger, Nigeria, Oman, Pakistan, Philippines, Qatar, Réunion, Saudi Arabia, Senegal, Singapore, South Africa, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Tahiti, United Republic of Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaire, New Zealand</p>		
<p>ARGENTINA Buenos Aires Argentina de Teléfonos S.A. Entrerriana de Teléfonos S.A.</p>		<p>AUSTRALIA Melbourne Teleric Pty. Ltd. LM Ericsson Finance Pty. Ltd.</p>		<p>UNITED STATES New York, N.Y. The Ericsson Corporation</p>
<p>GUATEMALA La Paz Telefonaktiebolaget Ericsson</p> <p>COSTA RICA San José Telefonaktiebolaget Ericsson</p> <p>SALVADOR San Salvador Telefonaktiebolaget Ericsson</p>	<p>GUATEMALA Guatemala City Telefonaktiebolaget LM Ericsson</p> <p>HAITI Port-au-Prince LM Ericsson</p> <p>PANAMA Panama City Telefonaktiebolaget LM Ericsson</p>	<p>ALGERIA Algiers Telefonaktiebolaget LM Ericsson</p> <p>EGYPT Cairo Telefonaktiebolaget LM Ericsson</p> <p>IRAQ Baghdad Telefonaktiebolaget LM Ericsson</p> <p>KUWAIT Kuwait Telefonaktiebolaget LM Ericsson</p>	<p>LIBYA Tripoli Telefonaktiebolaget LM Ericsson</p> <p>OMAN Muscat Telefonaktiebolaget LM Ericsson</p> <p>SAUDI ARABIA Riyadh Telefonaktiebolaget LM Ericsson</p> <p>TUNISIA Tunis Telefonaktiebolaget LM Ericsson</p>	

**Branch office

Public Telephone Exchanges

LM Ericsson is one of the world's leading manufacturers of automatic telephone exchanges for public networks. Ericsson systems are used for local, intercity and international traffic in many parts of the world.

The Ericsson crossbar system, introduced in the early 1950s, has been approved as standard equipment in a large number of countries and has proved to be one of the most economical and reliable systems ever developed in the field of telecommunications. Ericsson can also deliver computerized control of both new and previously installed crossbar exchanges.

The advanced AXE exchange system, which is available with analog as well as digital group selectors, is unusually flexible and easy to handle and has, as a result, attracted substantial interest on the part of telephone administrations throughout the world. So far, about a dozen administrations have chosen the AXE system for the development of their networks.

Ericsson also manufactures manual exchanges, including electronic versions, for private and public use, along with portable exchanges and special booking systems.

Transmission Equipment

Ericsson occupies an advanced position in the field of telecommunications transmission equipment. Its most important products are terminal equipment for conventional carrier frequency systems (FDM) and pulse code modulation (PCM) systems, and amplifying equipment for coaxial cable and radio link systems.

Cable

Sieverts Kabelverk AB, a subsidiary, is Northern Europe's largest manufacturer of power and telecommunications cable. The product program also includes installation and connection wire. The cable currently attracting the greatest interest is the XLPE plastic-insulated high-voltage cable with crosslinked polyethylene insulation. Sieverts Kabelverk is a leader in the world market for this type of cable.

Subscriber Equipment

Ericsson manufactures two basic types of telephone exchanges for use in private systems. PABXs (Private Automatic Branch Exchanges) are used to connect the public network with the subscriber's own extension instruments, and to handle traffic between the latter. PAXs (Private Automatic Exchanges), the second basic type, are used in internal telephone systems that are not linked to the public network. Exchanges of this type are used in offices, hospitals, industrial plants, etc.

Ericsson also produces special telephone systems for use in hotels, railway systems, electric utilities and by companies and organizations with their own national telecommunications networks, so-called private network groups.

The Group manufactures various types of telephone instruments, as well as loudspeaking telephones and a number of other types of instruments for special applications. Ericsson's version of the picture telephone is currently being field tested in Sweden.

Network

Network products include cable cabinets, terminal boxes, protector equipment, jointing materials and special purpose tools and machines. Activities also include the planning of networks through the use of advanced computer programs and the implementation of network projects.

Data Communications

The Parent Company's Data Communications Department markets systems for telex and other data communications services. The latest generation of Ericsson data and telex switching systems includes fully electronic computer-controlled exchanges.

Intercom Systems

A subsidiary, LM Ericsson Telemateriel AB, is one of the world's leading suppliers of loudspeaking intercom systems for anywhere from five to 5,000 extensions. Paging systems, time recording devices and various types of security systems are also marketed.

Defense Electronics

Ericsson plays an important role as supplier of electronic systems for military defense purposes. The MI Division of the Parent Company develops and manufactures radar and optronic systems, both airborne and landbased. A subsidiary, Svenska Radio AB, also develops and produces avionic equipment.

Railway and Street Signaling

In the railway sector the Parent Company's MI Division develops centralized traffic control (CTC), automatic train control (ATC), interlocking installations, automatic and manual block systems, marshaling yard equipment and train describer systems. Signaling systems are developed for highway and street traffic, ranging from the simplest devices for ordinary street intersections to the most complicated systems of traffic control for entire sections of a city.

Radio Communications

Svenska Radio AB and other Group companies develop a broad range of radio communications systems and equipment. This includes mobile radio equipment for various civilian and defense purposes, marine radio equipment, etc.

Components

Substantial development and production of electronic components occur within the Ericsson Group, primarily through AB Rifa, a subsidiary, Scandinavia's largest manufacturer in this field.

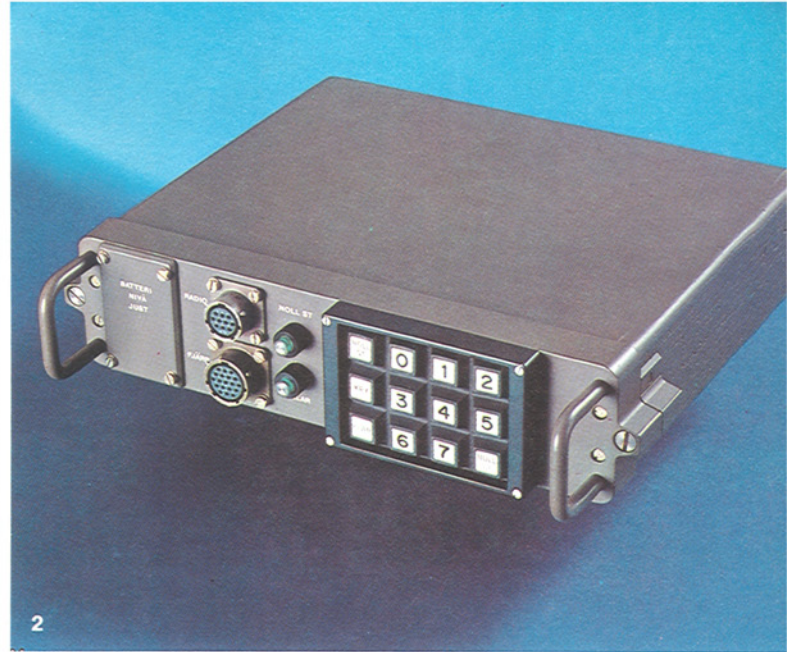
Power Supply Equipment

The Parent Company's Power Supply Department develops and designs all the systems and devices such as rectifiers, converters and signaling equipment which go into modern telecommunications facilities.

Other Products

In the space communications field the Parent Company is developing satellite antennas and transponder equipment for communications satellites.

Other Group products include equipment for ciphering speech and written and data communication, which is developed and marketed by AB Transvertex, a subsidiary.

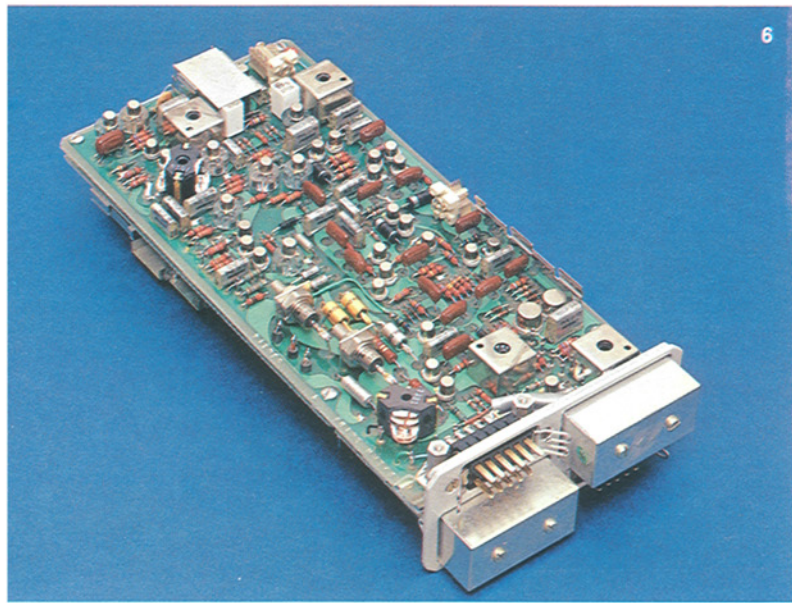
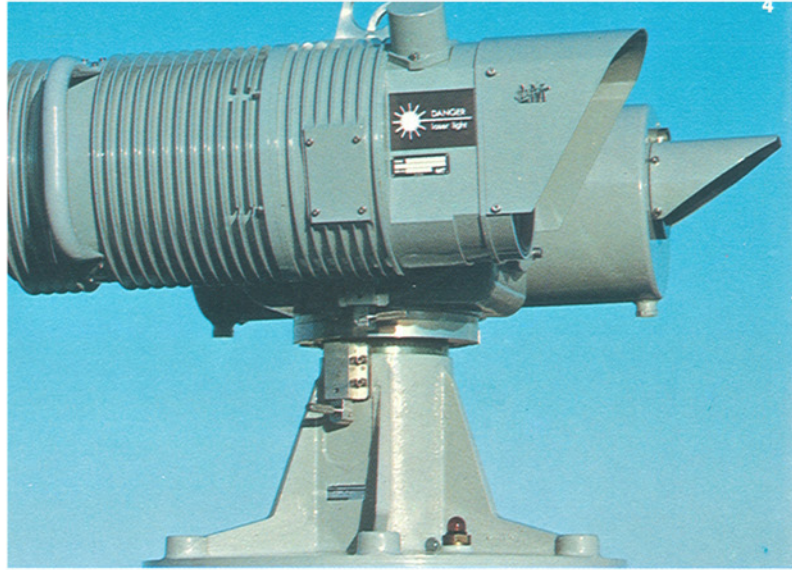


1. ASE 462 electronic intercom exchange produced by LM Ericsson Telemateriel AB.

2. Equipment made by Transvertex for ciphering speech in radio communications.

3. Pushbutton car telephone from Svenska Radio AB. It includes a figure display showing the channel in use.





4. Laser equipment for measurement of distances.

5. FLIR (Forward Looking Infra Red) equipment that utilizes infrared light (heat rays from the landscape and manmade objects) in reconnaissance and detection.

6. Regenerator for PCM systems, with a capacity of 120 channels (8 Mb/s).

7. Operator's console for the ASB 100 electronic subscriber exchange for up to 100 extensions.

Right: Final testing of a computer-controlled ARE 11 telephone exchange in Bogotá, Colombia.





