ERICSSON

Annual Report 1985

Contents

Annual General Meeting

The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Thursday, May 15, 1986.

Shareholders intending to participate in the Annual General Meeting must be entered as shareholders in the share register kept by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than May 5, 1986. 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 Telefonaktiebolaget LM Ericsson, S-126 25 Stockholm, between 10.00 a.m. and 4.00 p.m. not later than Monday, May 12, 1986 at 4.00 p.m.

Dividend

The Board of Directors has proposed May 21, 1986 as the record day for payment of dividends. Provided this proposal is approved, the dividend is expected to be paid by Värdepapperscentralen VPC AB on May 28, 1986.

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, S-171 18 Solna, Sweden.

Telefonaktiebolaget LM Ericsson

Annual Report 1985

Sales increased 11 percent

Consolidated sales increased slightly less than in the preceding year, due mainly to the weak trend of the market in Information Systems and the declining demand for analog transmission equipment for public networks in the United States.

Large investments in marketing. High costs.

Ericsson's income in 1985 was charged with large development costs and marketing costs in the United States and England, as well as with nonrecurring costs related to a major restructuring of Information Systems.

British Telecom selected AXE

In a large competitive bidding, Ericsson secured a strategically important contract from British Telecom. Deliveries valued at about one billion Swedish kronor will be made during an initial two-year period.

Rapid improvement in Radio Communications and Cables

More efficient organizations and rapid expansion in the field of mobile telephony and optical cable contributed to sharp improvements in earnings in the Radio Communications and the Cables Business Areas.

Increased focus on communications

Ericsson has increased its focus on its basic commercial concept of offering systems and services to handle voice, data, image and text in public and private networks. Large capital gains arose through the sale of operations outside our core business areas.

More efficient use of capital

The rate of turnover of capital tied up in inventories and accounts receivable increased during the latter part of the year. The program to reduce the amount of consolidated capital tied up in operations therefore began to yield results.

Highlights	1985 Skr m.	1984 Skr m.	Change, percent
Net sales	32,496	29,378	11
Order bookings	34,633	33,005	5
Order backlog at year-end	23,055	25,161	−8
Income before appropriations and taxes	878	1,569	−44
Net income per share after taxes paid, Skr	12.62	30.54	−59
Net income per share after paid and estimated deferred taxes on appropriations, Skr	15.15	19.99	−24
Dividend per share, Skr*	9.00	9.00	

*For 1985, proposed by the Board of Directors

Chief Executive Officer's Comments

New marketing conditions
Continued expansion through increased focus on telecommunications

Ericsson is one of the leading companies in the world in developing and marketing products and services for the handling of voice and data in both public and private communications networks.

We are working in a very dynamic market and our ability to adapt rapidly to new conditions, in terms of both customer needs and competition, is decisive for satisfactory growth.

The boundary separating the public and private markets is becoming increasingly blurred and it is highly important for our competitiveness to have a strong program in both areas.

Our objective – to further strengthen our position in both the public and private sectors of the most important market of the future, the United States, while simultaneously enhancing our already strong position in Europe and the rest of the world – has demanded very great resources during 1984 and 1985.

The market for office automation has developed more slowly than the information industry foresaw. Substantial overcapacity has developed in certain product areas, notably personal computers. Against this background, our venture in the field of office automation has proved to be too ambitious, and a program of concentrating on fewer markets and fewer products has been implemented in our Information Systems Business Area.

A number of operations that have no direct link to our communications business have been divested. Marketing of office automation products has been concentrated in Europe. A comprehensive program is under way to reduce costs in the business area.

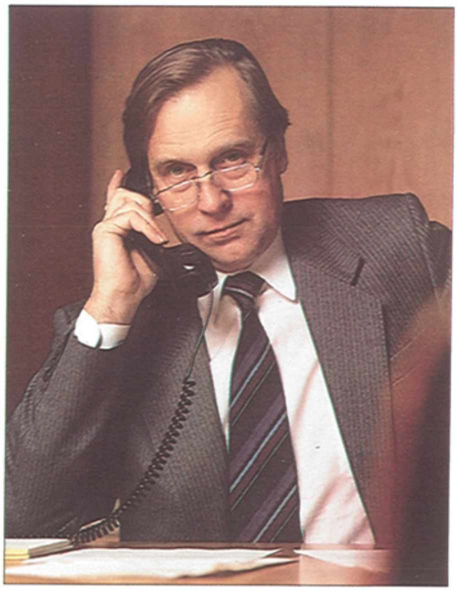
Ericsson's operations are thus being focused to an increasing extent on the more traditional but rapidly growing market for voice and data communications. Our orientation should be viewed in the light of changes in the telecommunications monopolies throughout the world. These changes, combined with advanced technical development, have created rapidly increased demand for new telecommunications services for both public and private use.

Following large investments in new technologies and in new systems development, the Radio Communications, Defense Systems and Cables business areas have developed very favorably. Network Engineering and Construction shows a satisfactory trend of earnings as well. Together with RIFA, our components manufacturing subsidiary, which has been affected adversely by the weak market in the information industry, these business areas account for a third of our sales and thus constitute a highly important asset in our continuing expansion.

The rate of growth in the field of mobile telephony is very rapid; Ericsson scored major successes in this area in 1985 within as well as outside the Nordic market, notably in the United States and Southeast Asia. Optical fiber cable is increasingly replacing traditional telecommunications cable and we have gained substantial shares of the markets where we are active in this business.

Alongside these new growth markets, the successes of our AXE system for large exchanges are continuing. Our strong competitive position was underscored during the year when we were able to win a prestigious and substantial contract with British Telecom.

Growth in the area of both public and private communications will continue to be strong and our objective is to not only maintain but to solidify our position in the world market. New markets and new products are being developed and our future will depend, to a great degree, on our ability to maintain a position of technical leadership. By focusing on product areas in which we have traditionally been strong, we are limiting our risks.



While our own development and production resources will be focused on products of central importance to Ericsson's core operations, we will also increasingly supplement our program with products developed and manufactured wholly or in part outside Ericsson.

We have made large investments in recent years to build up close-to-the-customer research and development operations in such countries as Australia, England, Italy, Mexico, Spain and the United States. Our broad, deeply rooted international base gives us a significant competitive advantage in this area.

The American market accounts for a large part of the growth in volume in the entire area of communications. We are therefore allocating substantial resources to adapt our AXE system and our MD 110 subscriber exchange to American standards. The AXE is already in place in several U.S. long distance networks and in local mobile telephony networks. During 1985 a number of large subscriber exchanges were placed in service and our objective is to begin U.S. deliveries of AXE local exchanges during 1987.

Our operation on the American market will continue to require large investments during 1986 and 1987. These investments are warranted not only by the growth of the market. The most advanced technological and market-driven developments are taking place in the United States. To maintain our strong position in the world market, we have to participate actively in these developments. The increasingly stringent demands being imposed by American customers in both the public and private sectors of telecommunications will set the future standards that are applied in other markets.

Despite significant successes in important areas, Ericsson's profitability in 1984 and 1985 has been unsatisfactory. Large investments in new markets and products have proven burdensome. At the same time, demand for certain data processing products and for analog transmission equipment has developed much more slowly than expected. Ericsson's working capital has risen to an unacceptably high level.

The large and costly programs that have been undertaken to achieve a stable product program and more efficient production have already yielded good results, however, and accounts receivable and inventories had both been reduced somewhat at year-end 1985. The amount of tied-up capital is still unsatisfactory, however, and priority is being given in 1986 to reducing working capital to an acceptable level. Ericsson's controller function has been strengthened and a new financial reporting system has been adopted. This has made it possible to track operations much more closely.

Correcting the problems that arose during 1984 proved to be more complex, and required more resources, than we had reason to expect a year ago. Operations now are being concentrated primarily on rapid improvement of the profitability of Information Systems and of our now wholly-owned American subsidiary, Ericsson, Inc., as well as on a recovery in Public Telecommunications. We have demonstrated in such important areas as Radio Communications and Cables that a turnaround can be achieved in a short period. As a result of the measures taken in 1985 in the other units, a sound basis has been created for favorable growth.

Björn Svedberg
President

Board of Directors' Report

Trend of the economy

The strong growth that had characterized economic conditions in the United States during the past two years weakened during the second half of 1985. The growth rate in Europe increased slightly during the same period. The Latin American countries continued to experience weak economic growth throughout 1985, as well as persistent problems with high levels of debt.

Growth of the Swedish economy was strong throughout the year, but inflation was higher than in most other industrialized countries. Economic trends in Ericsson's other principal markets were generally satisfactory.

The exchange rate for the U.S. dollar declined 15 percent against the Swedish krona during 1985. Excluding Sweden, interest rates in most countries decreased. Ericsson has liabilities and receivables in many different currencies. Consequently, for Ericsson as a whole, the impact of the changes in exchange rates was relatively marginal. Through continuous forward cover of exchange risks, as well as borrowings in dollars, the effect of changes in the dollar rate is being negated.

Major structural changes

The very rapid and deepseated changes in the field of voice and data communications that occurred in recent years continued during 1985. The break-up of the telecom monopoly in the United States and the privatization of the British Telecommunications Administration have vitalized the markets. A comparable development may also be expected in other European countries.

The integration of voice and data communications is proceeding at an undiminished rate. This development foreshadows a competitive environment in which suppliers' resources and ability to design, manufacture and deliver complex systems are decisive. For Ericsson, this is a favorable trend, and well in line with the Company's traditional competence. To a higher degree than before, Ericsson concentrated its operations on its basic business concept of offering systems and services for handling voice, data, image and text in public and private communications networks. Public networks are, in principle, open and available to all who wish to subscribe for telecommunications services, while private networks are closed and restricted to use by the companies or organizations that own them. Our concentration on products and systems for communication is giving us greater opportunities to meet today's high demands for technical development and the increasing competition in, primarily, the market for private telecommunications.

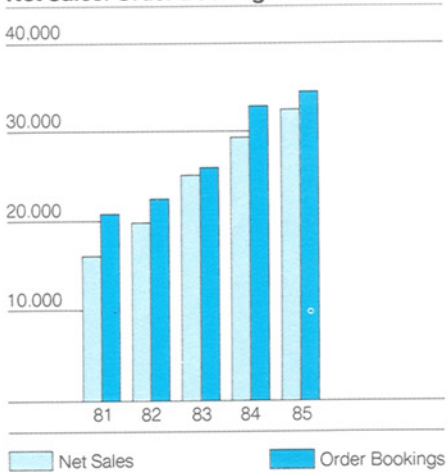
For the manufacturers, the integration of voice and data communications has brought with it large investments in new knowledge and new technology with respect to equipment for both public and private networks. Users' demands for service and performance are increasing rapidly, especially in the United States. During the year many telephone administrations and companies began field tests of Integrated Services Digital Network (ISDN) facilities: applications of integrated transmission of voice, data, image and text in digital networks. This development has resulted in increasingly greater demands in terms of system adaptability to present and future services.

Sales

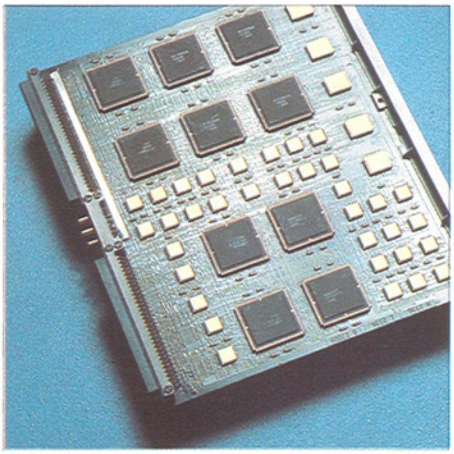
Ericsson's consolidated sales in 1985 amounted to Skr 32,496 m., an increase of 11 percent compared with sales of Skr 29,378 m. in 1984. Orders booked during the year totaled Skr 34,633 m., as against Skr 33,005 m. a year earlier. The order backlog at year-end was Skr 23,055 m., compared with Skr 25,161 m. at year-end 1984. The order backlog was reduced by Skr 2,382 m. as a result of negative changes in exchange rates, mainly in Latin American currencies, and by Skr 1,389 m. through the divestment of companies.

Generally speaking, the trend of sales conformed with market growth in the area of voice and data communication. The successes recorded in such prod-

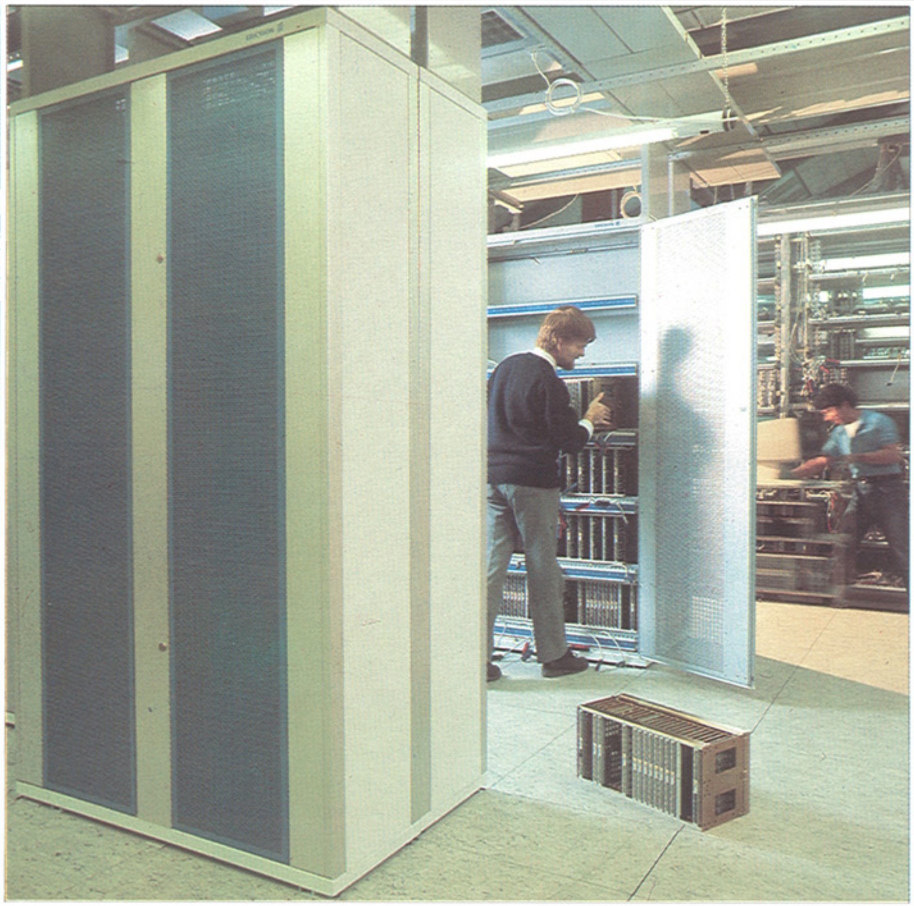
Net Sales / Order Bookings Skr m.

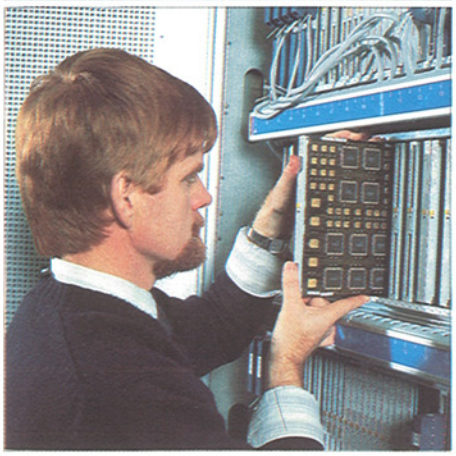


AXE is a leading-edge technology. The system ranks among the foremost in its field, with new applications being developed continuously. Modularity, the basic concept upon which AXE is built, makes it easier to add new functions – without changing the fundamental system structure.



The modular concept is clearly illustrated by the way the AXE system is constructed. It consists of easy-to-handle "building blocks," each with a specific function. The cabinet packaging structure represents the very latest technology. For example, it meets the high demands required to prevent radio disturbances.





High technology is based on people, without which it cannot be developed. AXE has become a world success thanks to the efforts of determined, expert men and women within Ericsson.

uct sectors as AXE exchanges, mobile telephony and defense systems were substantial, while the expansion in information systems was considerably smaller than in 1984. The somewhat lower increase in sales, compared with earlier years, was due mainly to weak growth in the market for information systems and to declining demand in the U.S. for analog transmission equipment used in public networks.

Sales in our major markets showed varying rates of growth. Sales in Sweden were higher, due primarily to our success in the field of office automation. The rest of Europe continues to grow in importance for Ericsson, mainly as a result of successes in marketing such products as subscriber exchanges and data terminals for private networks. This trend is in line with Ericsson's strategy and the percentage of sales in the European market will probably continue to rise during the next few years.

Two power cable companies in the United States were sold at year-end 1984. This, combined with lower order bookings for analog transmission equipment, resulted in a decrease in sales from Skr 3,520 m. in 1984 to Skr 3,024 m. in 1985 in that market. Sales were higher in Latin America, notably in Mexico. Latin America has traditionally been an important market for Ericsson but the percentage of sales there has decreased in recent years, partly as a consequence of major economic problems in the region and partly due to our much greater expansion in other markets. There was, however, some stabilization of the economies in Latin America during 1985.

Asia is rapidly increasing in importance for Ericsson, following intensive cultivation of the markets for public networks, primarily those for mobile telephony and the fully digital version of AXE. The People's Republic of China, where a number of orders were booked, became a large market for Ericsson in 1985. In contrast, deliveries to Middle Eastern countries fell sharply during the year. Lower oil prices and the uncertain political situation in the region have restrained demand.

Ericsson's strong position in such countries as Saudi Arabia and Oman has, however, resulted in substantial new and follow-on orders. Contracts signed during 1985 included approximately Skr 500 m. in orders for projects and deliveries of materials to Saudi Arabia. The Network Engineering and Construction Business Area and the Public Telecommunications Business Area also received a joint order to expand the local network in Oman.

Markets for public telecommunications

AXE maintains a leadership position

During 1985 Ericsson consolidated its position as one of the world's leading suppliers of systems and equipment for public telecommunications.

At year-end, the AXE system had been sold in 63 countries, including four that became customers in 1985. At the same date, we had 14 million lines of AXE equipment installed or on order. Ericsson's system for mobile telephony has been sold in 22 countries. The successes with AXE and mobile telephony give Ericsson a very broad customer base that is important for the future.

In a very large bidding competition, Ericsson secured a contract from British Telecom, the national telecommunications authority. The contract calls for deliveries valued at approximately one billion Swedish kronor during an initial two-year period. British Telecom's selection of AXE provides opportunities for continuing and expanded deliveries in the future. During 1985, the PTT in the Netherlands selected Ericsson, along with AT&T-Philips, as a supplier of digital telephone exchanges to be used in modernization of the Dutch network. Ericsson thereby strengthened its solid market position in that country.

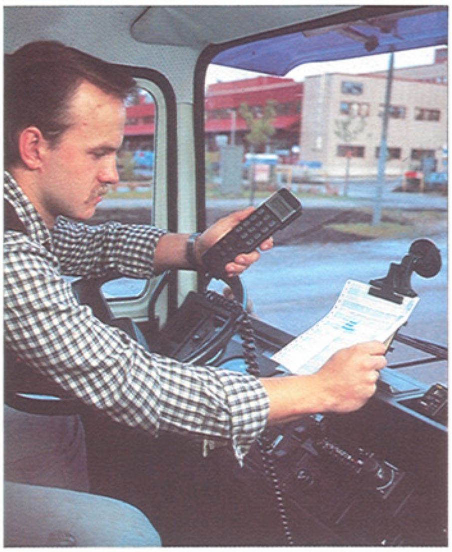
Ericsson continued to record sales successes in growth markets in Asia during the year. Large installations of AXE equipment are under way in South Korea. In Malaysia, 300,000 lines of AXE were delivered during the year and a new plant for the manufacture of AXE equipment was inaugurated in the beginning of the year. A large network construction project to expand local networks in Malaysia was begun.

The People's Republic of China (PRC) supplemented earlier orders with contracts for digital telephone exchanges in Liaoning Province, among other orders. Ericsson is now one of the largest suppliers of telecommunications equipment to the PRC.

In the United States, Ericsson continued its work of adapting the AXE system to American requirements and standards. This program was intensified, in close liaison with potential customers, and is therefore taking longer than was originally estimated. Technical development is taking place in severe competition with other manufacturers. The AXE system has a substantial asset in its modular design and the unique opportunities that this offers for adaptation to new telecommunications services.

From analog to digital transmission

The rapid technical changes in public telecommunications have also accelerated a shift in technology in the markets for transmission equipment. Our deliveries



More than half a million mobile telephones are in service throughout the world, 60 percent of them linked to Ericsson systems. These systems have been installed or are on order in 22 countries. Each delivery is subjected to a series of random tests to assure that all functions meet established standards of quality.

of analog transmission equipment in the U.S. declined sharply as a result of an unexpectedly rapid changeover to digital equipment. In contrast, Ericsson's deliveries of digital equipment have risen successively.

Deliveries of optical cable, which recorded a breakthrough in 1984, increased substantially in 1985. The growth of this market in the U.S. was especially strong. Ericsson received a number of large orders from long distance carriers and is now one of the three largest suppliers of optical cable in the United States. In Sweden, the Telecommunications Administration selected Ericsson as the primary supplier for the first stage of the so-called OPAL project (optical systems in long distance networks). This project will involve large deliveries of optical cable.

Mobile telephony growing rapidly

Mobile telephony has for a number of years been another very fast-growing segment of the market for public networks. During 1985 Ericsson further strengthened its position as the world's leading supplier of systems for mobile telephony (cellular radio).

During the year, in severe competition, we received orders for the construction of mobile telephony systems in San Francisco and Houston in the United States, and in Switzerland, Thailand, New Zealand and Indonesia.

Substantial marketing investments will be required to defend Ericsson's high market shares. As a result of our large customer base, mobile telephony will continue to be one of Ericsson's major growth areas, although there may be a certain decline in demand. Orders received during 1985 included a contract from the Swedish Telecommunications Administration for a test network for digital mobile telephony that will make it possible to obtain basic data for standardizing the next-generation Western European systems.

Markets for private communication systems

Increased integration of voice and data

The markets for private voice and data communication networks have grown rapidly in recent years. The emerging information society is increasing the demands for efficient information handling. Technical developments involving an ever greater integration of voice and data communication are making such efficiency possible. During the 1980s Ericsson has built up a broad product program for office automation and private communications networks.

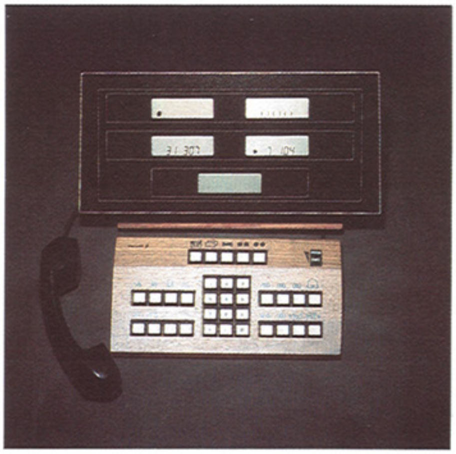
In 1984 and 1985, however, the market for information products was hit by a marked deceleration in its rate of growth. The vision of the "office of the future" that had guided the industry proved to be more remote than many had judged. Among other consequences, there was a considerable reduction in demand for personal computers during the second quarter of 1985, notably in the U.S. This forced most suppliers to curtail production drastically during the year. The competition was hard, with consequent increased pressure on the prices of many products.

Ericsson was affected particularly severely, since development and production problems in such important product areas as the MD 110 subscriber exchange, the Ericsson PC and advanced terminal systems for banks caused serious delays in delivery. Customer confidence in these products was not shaken, however, and we recorded successes in many markets, demonstrating the basic strength of Ericsson's system expertise. During 1985, the MD 110, the market leader in the Nordic countries, strengthened its already substantial market shares in the rest of Europe. Our smaller subscriber exchanges also held their own well in competition and are now the market leaders in Sweden, with large shares in a number of other European markets.

Ericsson's personal computers made their breakthrough in Europe during 1985, despite the tight market situation. Large shares were obtained in such important markets as the Nordic region, the Netherlands and Belgium. Sales through dealers in the United States were discontinued at year-end, however, due to the sharply declining market and as part of the program of concentrating the marketing of private voice and data processing products in Europe. The Alfaskop workstation terminals strengthened their position as the best-selling units of their type in Europe, except for IBM's.

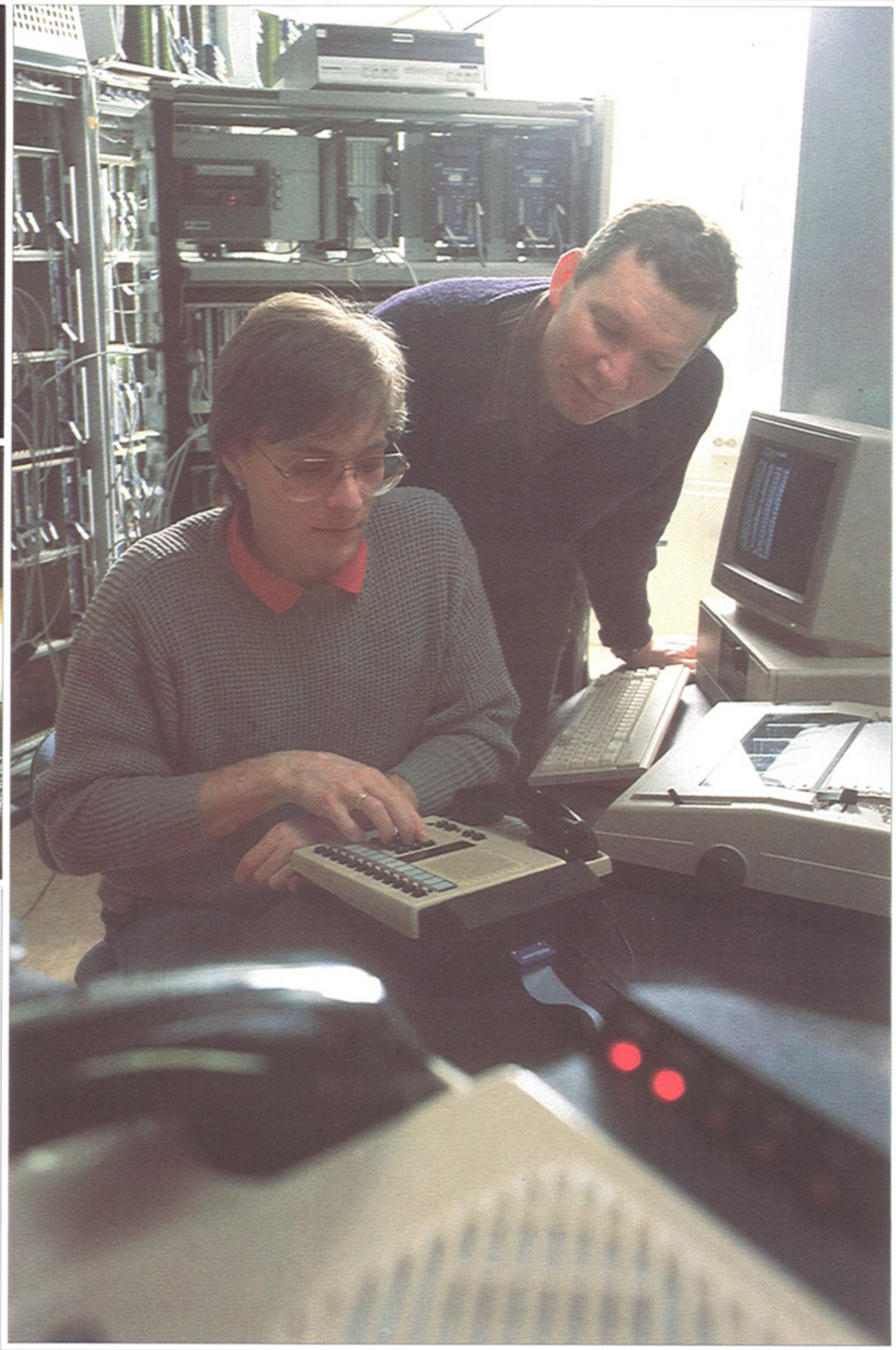
There is good growth in the market for personal pagers. The trend is toward increasingly smaller and "personalized" products that can be integrated in large

Ericsson's MD 110 digital communications system integrates the formerly separate systems used to transmit voice, data, image and text. The system is built up with modules and can handle from 200 to more than 10,000 lines.



Ericsson has developed a broad program of products for office automation and private communications. The Alfaskop 91 terminal is one of a family of high-technology products that make it possible to work with both personal and mainframe computers simultaneously. It also forms part of an integrated communications network for voice and data.

Our MD 110 installations are carefully supervised from both central and local operations-and-maintenance centers throughout the world. Tests, adjustments and changes in software programs can be made quickly via the ordinary telecommunications network.



communications networks. With the large-scale introduction of a new generation of personal pagers during 1985, Ericsson strengthened its market leadership position in Europe.

Defense products – a growing market

The strong rate of growth in the market for defense products continued during 1985. This applied in particular to advanced systems with a high content of electronics, a field in which Ericsson specializes. Our strong position in avionics was confirmed through the receipt of additional orders from the Swedish Armed Forces for the JAS 39 Gripen military aircraft project, and for other airborne tracking radar.

Our weather radar system scored its international breakthrough with an order from Spain. Substantial investments to develop new radar systems will further reinforce Ericsson's position as a supplier of highly advanced electronics for defense systems.

RIFA – a strategically important resource

In order to maintain our leading position in the markets for public and private voice and data communications networks, it is of great strategic importance to develop and produce our own components. This is being done mainly within Ericsson's wholly owned subsidiary, RIFA AB, which during 1985 continued to concentrate primarily on supplying Ericsson companies with components. In the Components Business Area the percentage of external sales was 58 percent, however, and will continue to be high for the foreseeable future.

Sales and order bookings were higher for all products in the Components Business Area except capacitors and power supplies. Orders booked for these products were weak, due primarily to the trend of business in the computer industry. Sales of microcircuits developed favorably during the year. New products and the concentration on more advanced segments of the power equipment field resulted in major marketing successes.

Organization and production

During 1985 Ericsson began a comprehensive restructuring within many sectors. This work is increasingly focused on Ericsson's basic technology and systems expertise in the transmission of voice, data, image and text in public and private communications systems, and on advanced electronic systems for defense applications.

The restructuring program is designed to achieve significant improvements in Ericsson's short-term profitability without disrupting large and important investments in development of the new, future-oriented systems and products that are essential for long-term profitability.

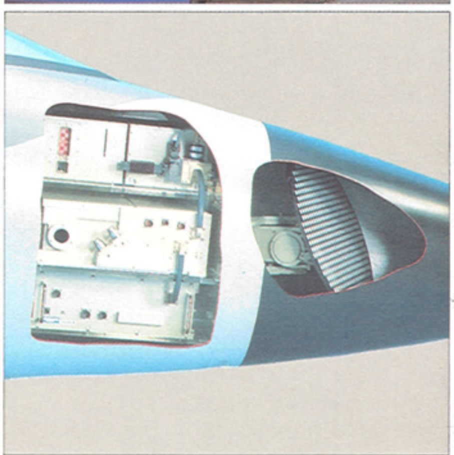
The restructuring involves our concentrating more intensively than before on the products and markets that provide, or offer very good prospects of providing, a satisfactory return. During the year a number of operations that were not strategically important to Ericsson were sold. These included the AutoTank company and the production of time-recording systems and office furniture within the Information Systems Business Area. Ericsson also divested its interests in a cable company in Mexico and one in Australia, its remaining holdings in Thorsmans and Programator, and the greater part of its holding in Elektrisk Bureau in Norway.

The Information Systems Business Area implemented an internal reorganization, forming three new divisions: Communications Systems, Data Systems and Office Equipment. Production, development and marketing are coordinated within each division. A program of corrective measures, involving rationalization of operations and a concentration of marketing and product lines was also begun. Under this program, the number of employees within the Business Area will be reduced by 2,000. The number was cut by about 1,000 during 1985.

A substantial amount of work was done during the year to correct certain technical faults and production problems within Information Systems. All products now meet the performance requirements imposed in the competitive market. It is expected that continuing product development can be carried out at much lower cost.

As a result of the major restructuring of the Cables Business Area that began in 1984, Cables achieved a substantial improvement in earnings in 1985.

Ericsson HARD (Helicopter and Aircraft Radar Detection) is the designation for a new-generation local surveillance radar used in army and navy anti-aircraft defense systems. The system meets the requirements for accurate input and analysis of target data.



Ericsson is developing the radar system for Sweden's JAS 39 Gripen military aircraft. The radar is based on new, advanced technologies, and is constructed with very high-density packing of components.

During the year, primarily through a more efficient organization, the Radio Communications Business Area eliminated production problems that had arisen in earlier years. Operations were concentrated on the more profitable product areas of mobile telephony and personal paging systems, and on certain priority markets. Production costs were reduced sharply. At year-end the radio transmission product area, comprising radio link and space technology operations, was transferred to the Defense Systems Business Area.

The production of components during 1985 was affected by the sharp downturn in the computer market. This applied, in particular, to the manufacture of capacitors and standard components. Production, inventories and the number of employees were adapted to the lower sales volumes and the production of capacitors in Australia was closed down.

Major changes in the U.S.

Major changes occurred in our operations in the United States. Ericsson took over Atlantic Richfield's holding in Ericsson, Inc. at a price of $42 million. The takeover should be viewed against the background of ARCO's increased concentration on its core businesses, chemicals and oil. With Ericsson, Inc. thereby becoming a wholly owned subsidiary, decision-making and follow-up procedures will be easier.

Our product line and our sales program in the private markets in the U.S. were concentrated on the segments in which we are most competitive. This resulted, among other measures, in discontinuing the production of small subscriber exchanges in California and terminating the sale of personal computers through retail dealers. Our activities in the field of private communications were centralized in Ericsson, Inc.'s head office in Richardson, Texas.

Changes in Ericsson's management

During the autumn of 1985 the Chairman of the Board of Directors, Dr. Hans Werthén, as an "operating chairman," increased his involvement in Ericsson's operations. This involvement relates, in particular, to parts of Information Systems' operations and to certain matters affecting subsidiaries.

On December 1, Carl Wilhelm Ros assumed the position of Executive Vice President and Chief Financial Officer of Ericsson. Mr. Ros is a member of the Corporate Executive Committee, with responsibility for financial matters.

On July 1, Jan Stenberg became Head of the Public Telecommunications Business Area. Lars Berg was appointed Head of the Cables Business Area on October 1.

M. Peter Thomas became President of Ericsson, Inc. in the United States on February 1, 1986.

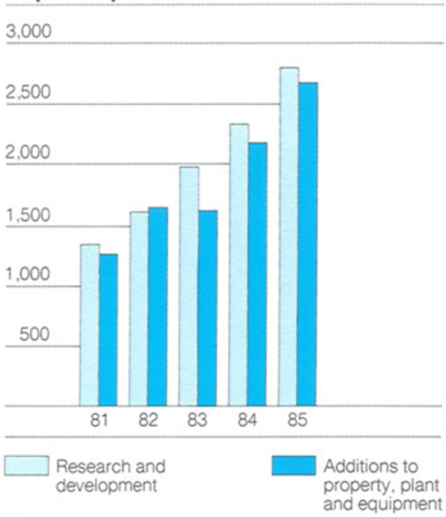
Capital expenditures

Parallel with the restructuring of operations, Ericsson continued its large capital expenditure program during 1985. Our objective is to bring technical development closer to the market and to rapidly update our products to meet customers' demands. As a result, there has been a strong build-up of technical resources, particularly in subsidiaries outside Sweden.

Ericsson's capital expenditures for buildings, machinery and equipment amounted to Skr 2,677 m. (of which Skr 361 m. pertained to procurement of computer equipment, etc. for leasing to customers), compared with Skr 2,192 m. in 1984 and Skr 1,714 m. in 1983.

The largest expenditures were made in Sweden, Skr 1,360 m.; Italy, Skr 218 m.; the United States, Skr 182 m.; Spain, Skr 109 m.; the Netherlands, Skr 101 m.; and Mexico, Skr 95 m.

Research and Development Capital Expenditures Skr m.



Research and development

Research and development costs amounted to Skr 2,798 m. in 1985, as against Skr 2,355 m. in 1984 and Skr 1,973 m. in 1983. R&D costs in 1985 were equal to 9 percent of sales.

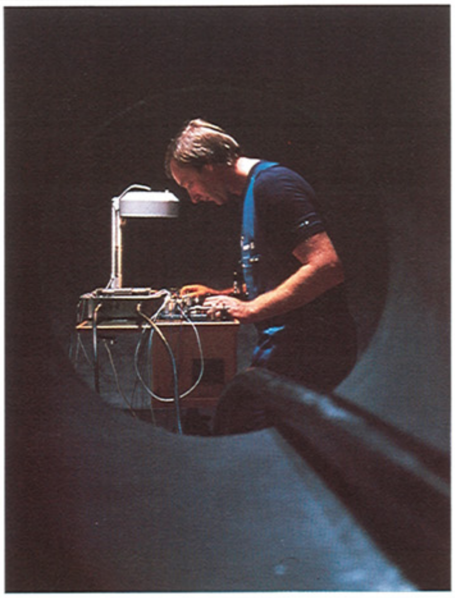
The large investments in research and development are of great strategic importance for Ericsson. Our long-term growth depends on the continued maintenance of high quality and access to competitive leading-edge technology.

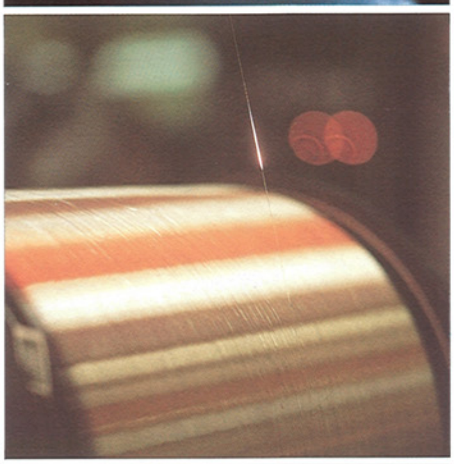
Income

Consolidated operating income in 1985 was Skr 1,637 m., a decrease of 26 percent compared with income of Skr 2,203 m. in 1984. Net capital gains on the sale of shares, buildings and other assets accounted for Skr 333 m. of 1985 income. Product development and marketing costs rose sharply, primarily due to the large future-oriented investments in Public Telecommunications. The rate of increase in these costs leveled off somewhat during the fourth quarter.

Operating income was also charged with large write-downs of inventories of components and analog transmission equipment, and with the costs of termi-

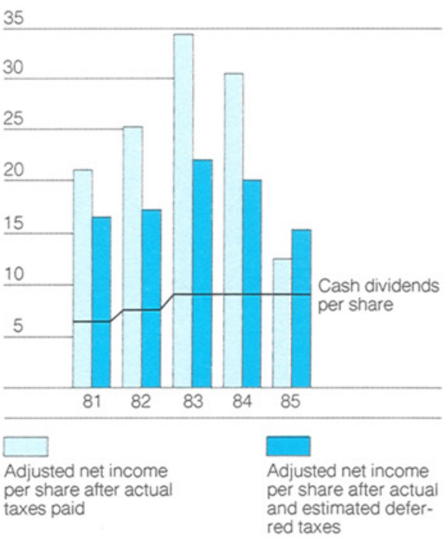
Splicing of the hair-thin fibers in an optical cable requires precision measured in less than thousandths of a millimeter. Splicing equipment developed by Ericsson meets these requirements and, as a result, has become a highly successful product in the world market.





Exceptional cleanliness and precision are required in the production of "preform," the glass used to make optical fibers. Thirty-eight kilometers (24 miles) of single-mode fiber with a 0.01-millimeter-diameter core can be drawn from each kilo (2.2 lbs.) of preform. By means of light signals, these fibers can transmit several thousand telephone calls simultaneously.

Net income per share Skr



nating the sales of personal computers through dealers in the United States.

Net financial expense in 1985 was Skr 953 m., compared with Skr 914 m. in the preceding year.

Ericsson's share of income, after tax, in associated companies declined from Skr 131 m. in 1984 to Skr 35 m. in 1985, primarily due to lower earnings in the associated company in Brazil.

Minority interest in income before appropriations and taxes was a net loss of Skr 159 m. (149), due to continuing losses in Ericsson, Inc. in the United States.

Consolidated income before appropriations and taxes decreased 44 percent, to Skr 878 m.

The continuing program in the U.S. market and the restructuring of operations in that country again resulted in a loss on U.S. operations. Ericsson's share of this loss in 1985 was Skr 349 m., as against Skr 353 m. in the preceding year. Results in 1985 include substantial costs for the write-down of inventories and for the restructuring of operations.

The Information Systems Business Area reported a larger operating loss than in the preceding year, due primarily to very large technical costs related to production problems and the restructuring of operations. The effects of this restructuring began to be visible toward the end of the year and will be of decisive importance for developments in 1986. Income in the fourth quarter was charged with large write-downs of inventories, mainly components.

Operating income of the Public Telecommunications Business Area fell sharply during the year. Large investments in development work and marketing in the United States and England had a negative impact on income. The Business Area experienced a sharp decline in sales of analog transmission systems. A high level of general expenses and increased pressure on prices also contributed to the decrease in earnings.

Despite large investments in development work, the Defense Systems Business Area reported satisfactory income.

The Components Business Area, which was hit by a decline in sales caused by the sharp downturn in the computer market, is implementing a large number of rationalization programs designed to improve earnings.

Income of the Network Engineering and Construction Business Area improved, despite the high costs of ongoing restructuring of the Italian subsidiary.

The Cables and the Radio Communications business areas reported rapid improvements in income, to satisfactory levels. The effects of intensive concentration and rationalization of operations, plus higher sales of fiber optical cable and mobile telephony systems, were primarily responsible for the results obtained.

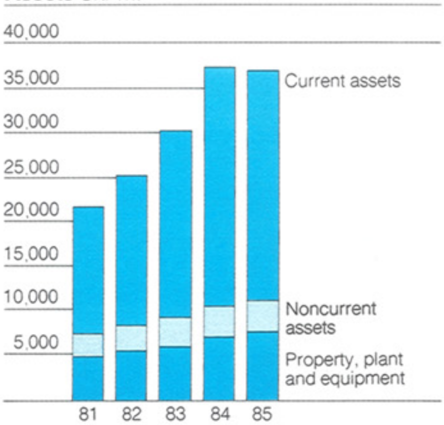
Financing

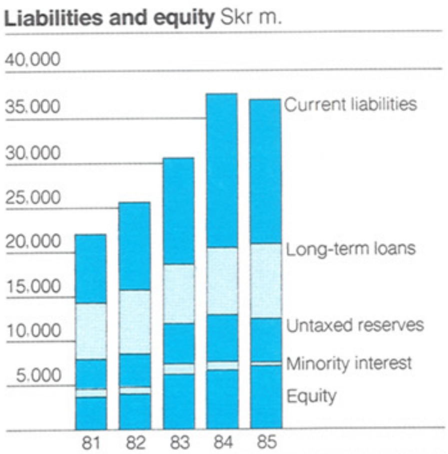
Consolidated return on equity declined sharply as a consequence of the reduced earnings. The rate of capital turnover improved, however, from 0.78 to 0.88. The program carried out during 1985 to reduce the amount of Ericsson's tied-up capital began to yield results during the latter part of the year. Accounts receivable were reduced somewhat during 1985 and, as a percentage of sales, decreased from 37 percent at the first of the year to 33 percent at year-end. Because of the long lead times in production, the effects of the steps taken to reduce inventories were not felt until the fourth quarter of the year. Calculated as a percentage of sales, inventories decreased from 33 to 32 percent. The program to further improve the rate of capital turnover and cash flow is continuing in 1986.

Consolidated equity/assets ratio – with half of the untaxed reserves being treated as a deferred tax liability and the remainder as stockholders' equity – amounted to 26.5 percent, compared with 27.0 percent a year earlier.

From a financial point of view, however, the deferred tax liability in untaxed reserves is not a pertinent factor since there is no reason to assume that

Assets Skr m.





these reserves will be subject to taxation within a foreseeable period. Excluding this deferred tax liability, consolidated equity/assets ratio in 1985 was 32.9 percent, as against 33.7 percent in 1984.

As part of the financing of Ericsson's expansion, and as a means of balancing currency exposure, the Parent Company issued two Eurobond loans. The first is in the amount of $100 million, with a maturity of three years and a fixed interest rate of 10.375 percent. The second, in the amount of 300 million Danish kroner, has a maturity of five years, with a fixed interest rate of 9.875 percent.

In addition, the Parent Company established a commercial paper program in Sweden in the amount of Skr 500 million for short-term financing in Swedish kronor.

Consolidated liquid funds decreased from Skr 3,833 m. to Skr 3,069 m.

Personnel and training

Number of employees	December 31 1985	1984
Sweden		
Parent Company	16,876	16,882
Other companies	23,296	20,576
	40,172	37,458
Europe (excluding Sweden)	20,423	20,310
North America	2,894	3,750
Latin America	11,386	10,605
Other countries	3,284	2,993
Total	78,159	75,116

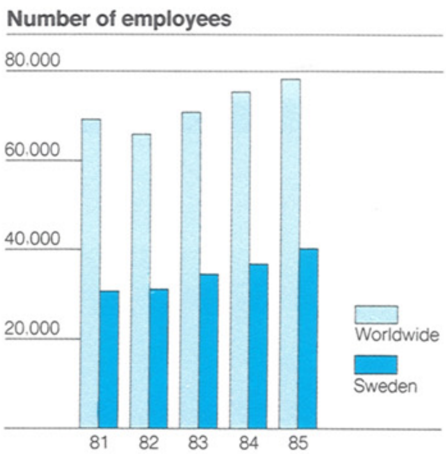
Supplementary information on the average number of employees and on salaries, wages and other remuneration appears in a note to the financial statements.

At year-end 1985, 78,159 persons were employed within Ericsson, an increase of 3,043 compared with the number a year earlier. On the same date, 51 percent of the employees were located in Sweden.

Wages, salaries and social costs amounted to Skr 8,491 m., an increase of 8 percent over the preceding year, compared with an 11-percent increase in sales. Sales per employee amounted to Skr 416,000, as against Skr 391,000 in 1984.

As a result of the ongoing structural change within Swedish industry, combined with favorable economic conditions in manufacturing, there was a continuing serious shortage of well-trained engineers, notably those with advanced degrees. In order to maintain and further strengthen Ericsson's competence and high rate of technical development, it is important for the Company to be able to recruit well-trained engineers. A comprehensive internal training program is being conducted to strengthen Ericsson's competitiveness in an increasingly knowledge-intensive market.

Ericsson also has a major program to train customer personnel to operate and maintain delivered systems. This is a standard element in the Company's delivery contracts. A total of 2,700 persons participated in such training during 1985.



Investments and divestments

In April, 1985 the Parent Company acquired 3,041 shares of Setemer S.p.A., which is listed on the Milan Stock Exchange. Following this acquisition, Ericsson's holding in the Italian company is 86.7 (51.3) percent.

On July 1, 1985, the Parent Company acquired from the Swedish Government 9.5 percent of the shares of Ericsson Information Systems AB, which thereby became a wholly owned subsidiary.

At year-end 1985, the Parent Company acquired Atlantic Richfield's 50-

percent interest in Ericsson, Inc. in the United States, making the latter company a wholly owned subsidiary.

During the year the Parent Company sold slightly more than 90 percent of the shares of AutoTank AB.

The holding in Töcksfors Verkstads AB was increased from 50 to 100 percent during the year. At the same time our 50-percent holding in Kabeldon AB and 25-percent holding in AB Elektrokoppar were sold.

A wholly owned subsidiary, Ericsson Fiber Optics AB, was formed through the transfer of parent company operations in fiber optics.

The manufacturing operations of office furniture and a substantial part of the time-recording systems operations in the Information Systems Business Area were sold.

Following the sale of 40 percent of the shares of Thorsman & Co AB in 1984, the remaining 60-percent holding was sold during 1985.

The entire holding in Programator was sold.

The holding in A/S Elektrisk Bureau in Norway, which amounted to 25 percent at the beginning of the year, was reduced to 10 percent through the sale of shares.

The Parent Company sold 5 percent of the shares of Ericsson do Brasil Comércio e Indústria S.A. in Brazil without affecting its holding of 26 percent of the voting rights in the company.

The 50-percent interest in Pirelli Ericsson Cables Ltd. in Australia was sold.

The holding in Condumex, the Mexican cable company, was sold during the year.

Ericsson, Inc. in the United States reduced its holding in Latinoamericana de Cables S.A. de C.V. in Mexico by 10 percent, to 39 percent.

A reinsurance company was formed in Luxembourg.

The agency operations for Sharp, the Japanese company, in Sweden, Switzerland and Austria were sold.

Seventy percent of the shares of ID-Kort, formerly a wholly owned company, were sold during the year.

Proposed disposition of earnings in the Parent Company

In addition to a General reserve of Skr 100 m., the sum of Skr 577,255,000 is available for distribution by the stockholders at the Annual General Meeting. The Board of Directors and the President propose that these unappropriated earnings be distributed as follows:

To stockholders duly registered on the record date, a dividend of Skr 9.00 per share, totaling	Skr 332,561,000
To be retained in the business	Skr 244,694,000
	Skr 577,255,000

Stockholm, March, 1986

HANS WERTHÉN, Chairman — JAN WALLANDER, Deputy Chairman — PETER WALLENBERG, Deputy Chairman

TORSTEN BENGTSON — LENNART DAHLSTRÖM — PAUL KVAMME

PER LINDBERG — SVEN OLVING — STEN RUDHOLM — SVEN ÅGRUP

BJÖRN SVEDBERG, President

Consolidated Income Statement

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

In millions of kronor
(except per share amounts)

Years ended December 31		1985	1984	1983
Net sales		32,496.3	29,378.3	25,244.2
Cost of sales (exclusive of depreciation shown separately below)		17,595.1	16,070.3	13,806.5
		14,901.2	13,308.0	11,437.7
Other operating revenues	note 1	694.9	321.6	531.9
		15,596.1	13,629.6	11,969.6
Selling, research and development, general and administrative expenses		12,651.1	10,387.2	8,561.5
Depreciation	note 2	1,307.8	1,039.4	944.6
Operating income after depreciation		1,637.2	2,203.0	2,463.5
Financial income	note 3	1,156.6	1,062.1	1,031.5
Financial expenses	note 3	2,109.2	1,976.0	1,833.0
Income after financial income and expenses		684.6	1,289.1	1,662.0
Equity in earnings (after taxes) of associated companies		34.5	130.8	66.3
Minority interest in income before appropriations and taxes		+159.1	+149.4	+29.9
Income before appropriations and taxes		878.2	1,569.3	1,758.2
Appropriations to untaxed reserves				
Depreciation in excess of standard depreciation	note 2	−281.7	−237.1	−77.2
Changes in other untaxed reserves	note 4	+615.5	−497.0	−657.4
Minority interest in appropriations		+37.3	+51.7	+27.1
		+371.1	−682.4	−707.5
Income before taxes		1,249.3	886.9	1,050.7
Income taxes		492.6	524.5	607.2
Minority interest in taxes		+80.7	+81.9	+66.6
Net income		837.4	444.3	510.1
Adjusted net income per share	note 5			
– after actual taxes paid		12.62	30.54	34.46
– after actual and estimated deferred taxes		15.15	19.99	22.05

Consolidated Balance Sheet

In millions of kronor

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

December 31		1985	1984
Assets			
Current assets			
Cash and short-term cash investments		3,069.2	3,832.9
Notes and accounts receivable – trade (less allowance for doubtful accounts, Skr 230.9 at December 31, 1985 and Skr 179.6 at December 31, 1984)	note 6	10,616.0	10,912.5
Inventories (less advance and progress payments, Skr 1,282.3 at December 31, 1985 and Skr 1,240.9 at December 31, 1984)		10,464.3	9,690.0
Other current assets	note 7	2,211.1	2,732.7
		26,360.6	27,168.1
Deposits related to untaxed reserves	note 4	312.5	82.2
Investments and other noncurrent assets			
Notes and accounts receivable – trade	note 6	783.3	673.7
Investments in associated companies, at equity	note 8	625.4	975.1
Other investments, at cost	note 8	203.5	285.9
Other noncurrent assets	note 9	1,287.6	1,303.1
		2,899.8	3,237.8
Property, plant and equipment	note 10		
Cost		12,671.9	11,357.5
Accumulated standard depreciation		5,693.6	4,858.7
		6,978.3	6,498.8
Revaluation adjustments, net of accumulated standard depreciation		570.8	644.8
		7,549.1	7,143.6
Assets pledged as collateral 1985: 3,339.1; 1984: 2,618.2	note 17		
Total assets		37,122.0	37,631.7

December 31		1985	1984
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable – trade		2,435.0	2,813.3
Advances from customers		2,277.5	2,296.4
Accrued taxes		256.6	544.4
Short-term borrowings	note 11	5,917.5	6,534.5
Current maturities of long-term debt	note 13	759.9	641.4
Other current liabilities	note 12	4,684.2	4,471.4
		16,330.7	17,301.4
Long-term liabilities			
Debentures (after unrealized foreign exchange differences, net, Skr +73.7 at December 31, 1985 and Skr –128.0 at December 31, 1984)	note 13	2,288.8	1,238.5
Convertible debentures	note 14	190.4	192.1
Pension liabilities	note 15	2,740.8	2,642.8
Other long-term liabilities	note 13	3,345.4	3,584.2
		8,565.4	7,657.6
Untaxed reserves			
Reserve for accounts receivable and intercompany profits		916.7	1,073.8
Inventory reserve		2,100.5	2,114.7
Reserves for future capital expenditures		394.8	745.1
Accumulated depreciation in excess of standard depreciation	note 10	1,382.4	1,096.7
		4,794.4	5,030.3
Minority interest in equity of consolidated subsidiaries		530.3	1,082.8
Stockholders' equity	note 16		
Capital stock		1,847.6	1,845.2
Reserves not available for distribution		3,933.0	3,850.7
Cumulative translation adjustments		38.4	181.7
		5,819.0	5,877.6
Retained earnings		1,082.2	682.0
		6,901.2	6,559.6
Contingent liabilities 1985: 4,675.9; 1984: 5,180.9	note 18		
Total liabilities and stockholders' equity		37,122.0	37,631.7

Statements of Changes in Financial Position

In millions of kronor

Years ended December 31	Consolidated[1)] 1985	1984	1983	Parent Company[2)] 1985	1984	1983
Cash at January 1	3,832.9	3,026.1	2,797.3	2,686.9	2,082.2	2,078.0
Cash provided from operations						
Net income	837.4	444.3	510.1	408.8	390.8	335.1
Minority interest in net income	−277.1	−283.1	−123.6	–	–	–
Standard depreciation	1,307.8	1,039.4	944.6	207.9	227.4	211.2
Gains(−)/losses on sale of property, plant and equipment	−73.8	146.5	27.3	13.2	42.7	9.2
Increase(−)/decrease in bank deposits related to untaxed reserves	−230.3	−16.2	−11.7	−196.8	2.2	1.9
Appropriations from(−)/to untaxed reserves and parent company contributions to subsidiary companies	−333.8	734.1	734.6	611.3	927.5	881.9
	1,230.2	2,065.0	2,081.3	1,044.4	1,590.6	1,439.3
Translation adjustments not affecting income statement	−147.4	22.6	−26.7	–	–	–
Sales of property, plant and equipment	878.5	361.0	372.1	164.0	137.0	73.9
	731.1	383.6	345.4	164.0	137.0	73.9
Changes in working capital (excl. cash)						
Notes and accounts receivable – trade	296.5	−2,301.6	−2,387.9	1,295.9	−1,619.9	−930.8
Inventories	−774.3	−2,231.5	−856.5	−413.6	−320.0	215.4
Other current assets	521.6	−544.8	−804.2	−38.4	27.9	−120.2
Current liabilities, non interest-bearing	−472.2	1,669.4	2,058.0	−314.9	−391.4	476.5
	−428.4	−3,408.5	−1,990.6	529.0	−2,303.4	−359.1
Changes in other assets						
Additions to property, plant and equipment	−2,676.9	−2,191.6	−1,714.5	−395.3	−474.0	−324.1
Translation adjustments in property, plant and equipment	168.6	−45.0	11.6	–	–	–
Investments, net	432.1	−78.7	−230.0	−502.0	−111.2	−861.5
Other noncurrent assets	−94.1	−78.3	8.8	−2,446.9	−247.2	−167.5
	−2,170.3	−2,393.6	−1,924.1	−3,344.2	−832.4	−1,353.1
Contributions to subsidiary companies	–	–	–	−794.9	−411.4	−845.3
Dividends paid	−356.7	−345.7	−256.6	−332.6	−331.8	−245.1
Cash provided from financial transactions						
Changes in short-term liabilities	−442.5	3,471.0	326.8	−421.0	2,358.2	−339.3
Changes in long-term liabilities	907.8	984.3	−556.5	2,494.4	392.0	−188.2
Stock issue	–	–	1,793.8	–	–	1,793.8
Conversion of debentures	7.2	5.9	27.3	7.2	5.9	27.3
Additional capital contributed by minority	−242.1	44.8	382.0	–	–	–
	230.4	4,506.0	1,973.4	2,080.6	2,756.1	1,293.6
Cash at December 31	3,069.2	3,832.9	3,026.1	2,033.2	2,686.9	2,082.2

1) Telefonaktiebolaget LM Ericsson and consolidated subsidiaries
2) Telefonaktiebolaget LM Ericsson

Parent Company Income Statement

Telefonaktiebolaget LM Ericsson

In millions of kronor

Years ended December 31		1985	1984	1983
Net sales		8,435.7	7,909.0	6,805.5
Cost of sales (exclusive of depreciation shown separately below)		4,853.3	4,179.8	3,397.3
		3,600.4	3,729.2	3,408.2
Other operating revenues	note 1	736.8	556.5	469.1
		4,337.2	4,285.7	3,877.3
Selling, research and development, general and administrative expenses		2,970.0	2,589.9	2,221.8
Depreciation	note 2	207.9	227.4	211.2
Operating income after depreciation		1,159.3	1,468.4	1,444.3
Financial income	note 3	1,010.9	612.1	702.4
Financial expenses	note 3	1,090.3	607.5	659.8
Income before appropriations and taxes		1,079.9	1,473.0	1,486.9
Appropriations to untaxed reserves				
Depreciation in excess of standard depreciation	note 2	−190.0	−63.7	−38.2
Changes in reserve for accounts receivable and intercompany profits		+178.1	−172.5	−100.9
Changes in inventory reserve		−180.0	+42.7	+205.8
Changes in other untaxed reserves		+375.6	−322.6	−103.3
		+183.7	−516.1	−36.6
Contributions to subsidiary companies		794.9	411.4	845.3
Income before taxes		468.7	545.5	605.0
Income taxes		59.9	154.7	269.9
Net income		408.8	390.8	335.1

Parent Company Balance Sheet

Telefonaktiebolaget LM Ericsson

In millions of kronor

December 31		1985	1984
Assets			
Current assets			
Cash and short-term cash investments		2,033.2	2,686.9
Notes and accounts receivable – trade	note 6		
Subsidiary companies		1,143.9	2,550.6
Other (less allowance for doubtful accounts, Skr 23.5 at December 31, 1985 and Skr 15.1 at December 31, 1984)		2,715.1	2,604.3
Inventories (less advance and progress payments, Skr 68.8 at December 31, 1985 and Skr 66.7 at December 31, 1984)		2,648.0	2,234.4
Other current assets	note 7	577.1	538.7
		9,117.3	10,614.9
Deposits related to untaxed reserves	note 4	225.0	28.2
Investments and other noncurrent assets			
Notes and accounts receivable – trade	note 6		
Subsidiary companies		1.8	30.5
Other		233.9	285.4
Other accounts receivable			
Subsidiary companies		2,608.0	312.2
Associated companies		0.3	0.3
Investments, at cost	note 8		
Subsidiary companies		3,295.9	2,734.3
Associated companies		156.6	215.9
Other investments		38.9	39.2
Other noncurrent assets		864.7	633.4
		7,200.1	4,251.2
Property, plant and equipment	note 10		
Cost		2,664.3	2,635.2
Accumulated standard depreciation		1,236.2	1,195.2
		1,428.1	1,440.0
Revaluation adjustments, net of accumulated standard depreciation		305.4	321.1
		1,733.5	1,761.1
Assets pledged as collateral 1985: 850.3; 1984: 845.2	note 17		
Total assets		18,275.9	16,655.4

December 31		1985	1984
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable — trade		443.4	589.9
Advances from customers		511.2	525.7
Accrued taxes		18.2	103.3
Short-term borrowings		1,968.3	2,355.2
Current maturities of long-term debt	note 13	127.6	161.7
Accounts payable to subsidiary companies		1,069.3	1,041.5
Other current liabilities	note 12	1,223.6	1,320.1
		5,361.6	6,097.4
Long-term liabilities			
Debentures (after unrealized foreign exchange differences, net, Skr +73.7 at December 31, 1985 and Skr −128.0 at December 31, 1984)	note 13	2,258.1	1,205.6
Convertible debentures	note 14	190.4	192.1
Pension liabilities	note 15	990.9	946.9
Payables to subsidiary companies		1,210.5	41.0
Other long-term liabilities	note 13	850.9	620.8
		5,500.8	3,006.4
Untaxed reserves			
Reserve for accounts receivable and intercompany profits		686.2	864.5
Inventory reserve		1,307.1	1,127.1
Reserves for future capital expenditures		158.8	534.4
Accumulated depreciation in excess of standard depreciation	note 10	560.2	407.8
		2,712.3	2,933.8
Stockholders' equity	note 16		
Capital stock		1,847.6	1,845.2
Reserves not available for distribution		2,176.4	2,171.6
		4,024.0	4,016.8
General reserve		100.0	100.0
Retained earnings		168.4	110.2
Net income		408.8	390.8
		4,701.2	4,617.8
Contingent liabilities 1985: 2,018.1; 1984: 1,838.6	note 18		
Total liabilities and stockholders' equity		18,275.9	16,655.4

Notes to the Financial Statements

General

In this Annual Report, the Company has given due consideration to the recommendations given in the "Declaration and Decisions on International Investment and Multinational Enterprises" of the Organization for Economic Cooperation and Development (OECD). The Company also follows the guidelines relative to multinational companies and the labor market developed by the International Labor Organization (ILO), the United Nations organization dealing with labor matters.

Generally, the same prices established for sales to external customers are applied in intercompany sales, except that consideration is given to the absence of certain costs in intercompany transactions.

Accounting Policies

The consolidated financial statements of Telefonaktiebolaget LM Ericsson and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in Sweden. These accounting principles differ in certain important respects from accounting principles generally accepted in the United States. For a description of the differences and the approximate related effect on the consolidated financial statements, see Note 20.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and all of its subsidiary companies. All significant intercompany transactions have been eliminated.

The consolidated financial statements have been prepared in accordance with the purchase method, whereby consolidated stockholders' equity includes equity in subsidiary and associated companies arising following their acquisition only.

Material investments in associated companies and a joint venture (see Note 19) in which the Company's voting stock interest is at least 20 % but not over 50 % are accounted for on the equity basis. Immaterial investments in associated companies are accounted for as Other investments, and all other investments are carried at the lower of cost or net realizable value.

Material investments in associated companies are shown at equity after adjustments for unrealized intercompany profits and unamortized goodwill or negative goodwill (see (b) below). In determining the equity of associated companies, untaxed reserves are added back to equity after provision for deferred taxes.

Companies acquired during the year are generally shown as if they had been subsidiary companies during the full year. The portion of income relating to the period prior to acquisition is included in Minority interest in income before appropriations and taxes.

(b) Goodwill and Negative Goodwill

Goodwill (excess of cost over net assets of acquired companies) and negative goodwill (excess of net assets acquired over cost) are amortized over a ten-year period. The negative goodwill which originated from the acquisition in 1980 of a 50 percent interest in Anaconda-Ericsson, Inc. (now Ericsson, Inc.), has been utilized to cover research and development costs and start-up costs during 1981 – 1983 of the communications division of the company, with the remainder being credited to income in equal amounts over seven years starting in 1984.

(c) Sales recognition

Sales are recorded upon shipment of products and represent amounts realized, excluding value added tax, and are net of goods returned, trade discounts and allowances.

Income from long-term contracts is accounted for in accordance with the percentage-of-completion method. If costs required to complete such contracts are estimated to exceed remaining revenues, a provision is made for estimated losses.

(d) Translation of Amounts in Foreign Currency

As from January 1, 1983, the Company applies the Statement of Financial Accounting Standards No. 52 issued by the Financial Accounting Standards Board of the United States (SFAS 52), for the translation to Swedish kronor of foreign subsidiary and associated companies' financial statements.

For many subsidiary and associated companies, generally those with manufacturing operations, located in Western Europe, the United States, Australia, Malaysia and Venezuela, the currency in which those companies primarily generate and expend cash is their functional (business) currency. Their assets and liabilities are translated to Swedish kronor at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. The resulting translation adjustments are accumulated under stockholders' equity.

The financial statements of all subsidiary and associated companies operating in highly inflationary economies and companies, generally without manufacturing operations, having such close relations with the Swedish operations that their functional currency is considered to be the Swedish krona, have been included in the consolidated financial statements to give approximately the same results as if their activities had been carried out in a Swedish enterprise. The adjustments arising from the remeasurement of these subsidiary and associated companies' financial statements are included in the determination of net income. Both these adjustments and the gains and losses on foreign currency transactions are recorded as Gains and losses on foreign exchange.

Gains and losses on foreign exchange are divided into operational and financial gains and losses on foreign exchange. Net operational gains and losses on foreign exchange, mainly related to accounts receivable and payable and advances from customers, and certain financial liabilities when these have been considered to be hedges of accounts receivable and sales contracts, are included in Cost of sales.

Net financial gains and losses on foreign exchange are included in financial expenses (see Note 3).

Sale amounts under contracts for which Ericsson has entered into forward exchange contracts are translated to Swedish kronor at the rate of the forward exchange contracts.

Receivables of the Parent Company in foreign currencies – principally U.S. dollars – which fall due in 1986 have been translated at year-end exchange rates, while those which fall due in 1987 and later years have been translated at historical rates. At December 31, 1985, an unrealized gain on foreign exchange in the amount of Skr 109.2 million had accrued relating to the receivables due by outside debtors and falling due in 1987 and later years (at December 31, 1984 Skr 215.9 million relating to receivables falling due in 1986 and later years).

Parent Company loans in foreign currencies which fall due for repayment in 1986 have been stated at year-end exchange rates. Loan installments covered by forward exchange contracts have been stated at the commitment rate. For loans falling due in 1987 and later years, a plan has been prepared for the amortization of unrealized exchange losses, based on year-end exchange rates and the maturities of the loans. However, long-term loans raised in 1985 and falling due in 1987 and later years have been stated at the historical rates of exchange. At December 31, 1985 there was an unrealized gain on foreign exchange, net, of Skr 89.1 million (at December 31, 1984 an unrealized loss on foreign exchange of Skr 144.0 million), on these loans.

The rates of forward exchange contracts are used for valuing assets and liabilities covered by such contracts.

For translation of convertible debentures, see Note 14.

(e) Research and Development Costs

Research and development costs are expensed as incurred.

(f) Inventories

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

Intercompany profits that were not realized through the sale of goods to customers have been eliminated as well as for associated companies which are accounted for by the equity method.

(g) Taxes and Untaxed Reserves
In accordance with accounting principles generally accepted in Sweden, no provision has been made for deferred taxes, except in certain foreign subsidiaries (see Note 4).

The Company is allowed to claim tax deductions by developing appropriations and accumulating them in accounts for untaxed reserves; such amounts are taxed only when the untaxed reserves are reduced. For additional information on untaxed reserves, see Note 4.

(h) Leases
Revenue from non-cancellable lease contracts are generally accounted for under the operating method whereby revenues are recorded as earned over the lease term and the related costs are amortized over the rental equipment life. Service revenues are recognized pro rata over contractual periods or as services are performed.

(i) Property, Plant and Equipment
Property, plant and equipment are stated at cost except for revaluation adjustments of certain land and buildings. The revaluation adjustments are allowed under certain circumstances in accordance with accounting principles generally accepted in Sweden and in certain other countries.

(j) Depreciation
The Company normally claims the maximum depreciation deduction allowable for tax purposes, using accelerated techniques applicable in various countries, thus minimizing the use of corporate funds for tax payments.

The annual depreciation is reported on two levels of the income statement: (1) standard depreciation, generally on the straight-line method, using estimated useful lives of, in general, 40 years on buildings, 25 years on telephone plants, 20 years on land improvements, 5 to 10 years on machinery and equipment, and up to 5 years on rental equipment, which is reported as an operating expense, and (2) depreciation in excess of standard depreciation which is reported under Appropriations to untaxed reserves.

(k) Net Income per Share
Net income per share is based upon the average weighted number of common shares outstanding during each year. The conversion of all convertible debentures would not result in a material dilution of net income per share.

The calculation of net income per share is not based on reported net income, the amount of which is influenced by appropriations deductible for tax purposes, but on income before appropriations and taxes less either of the following:

(1) Actual taxes paid as reported.

(2) Actual taxes paid as reported and less deferred taxes determined as an estimated tax on appropriations to untaxed reserves, which tax is adjusted for minority interests.

The effect of these methods is that two amounts of income per share are shown:

(1) Adjusted net income per share after actual taxes paid.

(2) Adjusted net income per share after actual and estimated deferred taxes.

For reference to income per share in accordance with accounting principles generally accepted in the United States, see Note 20.

Note 1 Other Operating Revenues

In millions

Consolidated	1985	1984	1983
Gains/losses(−) on sales of property, plant and equipment	73.8	−146.5	−27.3
Gains on sales of investments	259.6	172.9	–
Commissions, license fees and other operating revenues	361.5	295.2	559.2
	694.9	321.6	531.9

Parent Company	1985	1984	1983
Gains on sales of property, plant and equipment	2.8	–	–
Gains on sales of investments	167.8	97.8	36.7
Commissions, license fees and other operating revenues	566.2	458.7	432.4
	736.8	556.5	469.1

Note 2 Depreciation

In millions

Consolidated	1985	1984	1983
Total depreciation			
Land improvements	2.9	1.3	1.7
Buildings	108.3	110.9	119.0
Telephone plants	40.9	39.3	36.8
Machinery and equipment	1,403.7	1,165.7	885.4
Revaluation adjustments	34.1	58.0	18.8
	1,589.9	1,375.2	1,061.7
Less − Depreciation in excess of standard depreciation related to assets sold	0.4	98.7	39.9
	1,589.5	1,276.5	1,021.8
Standard depreciation			
Land improvements	1.9	2.6	2.3
Buildings	64.3	72.8	75.3
Telephone plants	40.9	37.7	34.1
Machinery and equipment	1,166.6	868.3	814.1
Revaluation adjustments	34.1	58.0	18.8
	1,307.8	1,039.4	944.6
Depreciation in excess of standard depreciation	281.7	237.1	77.2

Parent Company	1985	1984	1983
Total depreciation			
Land improvements	0.4	0.3	0.5
Buildings	15.9	39.4	40.6
Machinery and equipment	373.6	275.1	207.9
Revaluation adjustments	14.0	15.7	15.8
	403.9	330.5	264.8
Less − Depreciation in excess of standard depreciation related to assets sold	6.0	39.4	15.4
	397.9	291.1	249.4
Standard depreciation			
Land improvements	0.8	0.8	0.8
Buildings	16.6	22.6	23.5
Machinery and equipment	176.5	188.3	171.1
Revaluation adjustments	14.0	15.7	15.8
	207.9	227.4	211.2
Depreciation in excess of standard depreciation	190.0	63.7	38.2

Note 3 Financial Income and Expenses

In millions

Consolidated	1985	1984	1983
Financial Income			
Dividends	41.0	–	8.7
Interest income	1,115.6	1,062.1	1,022.8
	1,156.6	1,062.1	1,031.5
Financial expenses			
Interest expenses	2,311.0	2,237.7	1,908.0
Gains and losses on foreign exchange, net	–283.9	–306.5	–105.4
Other financial expenses	82.1	44.8	30.4
	2,109.2	1,976.0	1,833.0

Parent Company	1985	1984	1983
Financial Income			
Dividends from subsidiaries	175.3	101.9	168.5
Dividends from others	32.6	26.9	23.4
Interest income	803.0	483.3	510.5
	1,010.9	612.1	702.4
Financial expenses			
Interest expenses	967.0	604.2	598.8
Gains and losses on foreign exchange, net	86.8	–16.7	28.9
Other financial expenses	36.5	20.0	32.1
	1,090.3	607.5	659.8

The Parent Company's as well as the other Swedish companies' interest on the pension liabilities are included in the interest expenses shown above.

Note 4 Income Taxes, Appropriations and Untaxed Reserves

Income Taxes

As explained under Accounting Policies (g), the Company has not, in accordance with accounting principles generally accepted in Sweden, provided for deferred income taxes. However, when foreign subsidiaries provide for deferred income taxes, such provisions are maintained on consolidation. Under tax regulations in Sweden, the Company is allowed to claim tax deductions by developing appropriations to certain reserves, and the provision for income taxes is determined by taking such tax relief into account.

The municipal tax on corporations in Sweden was abolished in 1985, and at the same time the national tax rate was increased from 32 percent to 52 percent. (For further information see Appropriations and Untaxed Reserves, below.)

The profit-sharing tax is a corporate tax that was levied in Sweden for the first time in 1984. The tax, borne by legal entities individually, is based on nominal income readjusted to income in real terms. Thus, in determining the profit-sharing base, the rate of inflation is taken into account. The tax is 20 percent of the profit-sharing base, and the tax is deductible the following year in determining both the corporate income tax and the profit-sharing tax. The provision for taxes in the consolidated income statement includes profit-sharing tax for certain Swedish subsidiaries.

Certain subsidiaries, mainly based in the United States and Argentina, had at December 31, 1985 tax loss carry-forwards, that can be utilized to reduce future taxable income, amounting to approximately Skr 1,702.0 million. Such loss carry-forwards expire as follows (in millions).

Year of expiration	Amount
1986	54.1
1987	15.5
1988	20.4
1989	45.7
1990	66.6
1991	63.2
1992	6.4
1993	32.1
1994	68.1
1995 or later	1,329.9
	1,702.0

In addition, the Parent Company had at Decemer 31, 1985 unutilized tax deduction benefits related to its dividend payments. The benefits may be utilized during a period ending on December 31, 2005. According to Swedish law, deductions are allowed in determining taxable income, provided that a certain dividend level is attained. If the proposed dividend for the year 1985 is applied to the unutilized benefits on December 31, 1985, an amount of Skr 325 million may be deducted in determining taxable income during the period ending on December 31, 2005.

Appropriations and Untaxed Reserves

The reserve for accounts receivable and intercompany profits principally represents appropriations based on certain receivables and intercompany profits.

Appropriations to the inventory reserves are, within specified limits, deductible for income tax purposes. The inventory reserve may amount to 50 percent of the inventory value, determined according to the first-in, first-out (FIFO) method. To the extent that the inventory reserve is released, it becomes taxable income.

Swedish corporations are entitled to appropriate up to half of the year's income determined under special rules to a General reserve for future capital expenditures. Such appropriations are deductible for tax purposes, but 75 percent of the appropriation amount must be deposited in a non-interest-bearing account for capital expenditures with the Bank of Sweden. The employees must be consulted before application is made to utilize the reserve. When permission to utilize the reserve has been granted by the authorities, the reserve may be utilized and the proportional amount placed on deposit may be withdrawn. When approved capital expenditures have been made, the cost of the assets, to the extent covered by amounts from the General reserve for future capital expenditures, may be written down by a transfer from the reserve.

In 1985, the Swedish Ericsson companies have utilized amounts from the General reserve for future capital expenditures for additions to property, plant and equipment and for research and development expenses.

In Sweden, temporary regulations were in force concerning appropriations of 1983 and 1984 income to a Compulsory reserve for future capital expenditures. An amount equivalent to 20 percent of the annual income, determined in the same way as for appropriations to the General reserve for future capital expenditures, had to be deposited on a special non-interest-bearing account in the Bank of Sweden. The Compulsory reserve for future capital expenditures may be utilized only for certain specified purposes. In principle, these purposes are similar to those for which the General reserve for future capital expenditures may be utilized. However, in the regulations for release of reserve amounts, the Swedish government has permitted a broader utilization of the Compulsory reserve for future capital expenditures. In 1985, the Swedish Ericsson companies have utilized the Compulsory reserve for future capital expenditures for additions to machinery and equipment.

In respect of income for 1985, a new temporary disposition is in force in Sweden dealing with appropriations to a Development reserve. Swedish corporations are required to deposit 10 percent of the annual income, determined in the same way as for appropriations to the General reserve for future capital expenditures, on a non-interest-bearing development account in the Bank of Sweden. The Development reserve may be utilized to cover employee training expenses and for research and development activities. The company's employees must be given the opportunity to express their view on applications to utilize fonds from the reserve.

Appropriations to Other Untaxed Reserves In millions

Consolidated	1985	1984	1983
Appropriations to Reserve for receivables and intercompany profits	–258.9	165.4	179.8
Appropriations to Inventory reserve	–16.3	–86.1	304.9
Appropriations to General and Compulsory reserves for future capital expenditures, net	–340.3	417.7	172.7
	–615.5	497.0	657.4

Changes in General Reserve for Future Capital Expenditures, Compulsory Reserve for Future Capital Expenditures and Development Reserve In millions

	Consolidated			Parent Company		
	1985	1984	1983	1985	1984	1983
Appropriations to Reserves						
General reserve for future capital expenditures	66.8	328.9	46.0	25.0	289.6	–
Compulsory reserve for future capital expenditures	3.1	254.6	193.6	–	210.8	149.5
Development reserve	109.0	–	–	49.3	–	–
	178.9	583.5	239.6	74.3	500.4	149.5
Transfers from Reserves						
General reserve for future capital expenditures	275.6	22.1	66.5	201.8	21.6	31.6
General reserve for future capital expenditures transferred to Swedish subsidiaries	–	–	–	21.3	22.7	8.2
Compulsory reserve for future capital expenditures	243.6	143.7	0.4	226.8	133.5	6.4
	519.2	165.8	66.9	449.9	177.8	46.2
Appropriations, net	–340.3	417.7	172.7	–375.6	322.6	103.3

Bank Deposits in the Bank of Sweden Related to Untaxed Reserves In millions

	Swedish companies consolidated December 31		Parent Company December 31	
	1985	1984	1985	1984
Account for future capital expenditures	254.1	76.1	225.0	28.2
Compulsory account for future capital expenditures	58.4	6.1	–	–
	312.5	82.2	225.0	28.2

Note 5 Adjusted Net Income per Share

(Skr millions except per-share amounts)

Consolidated	1985	1984	1983
Income before appropriations and taxes	878.2	1,569.3	1,758.2
Actual income taxes paid as reported	–492.6	–524.5	–607.2
Minority interest in taxes paid	+80.7	+81.9	+66.6
Adjusted net income (after actual taxes paid)	466.3	1,126.7	1,217.6
Per share	12.62	30.54	34.46

Consolidated	1985	1984	1983
Adjusted net income (after actual taxes paid)	466.3	1,126.7	1,217.6
Estimated deferred taxes on appropriations	+80.1	–407.3	–454.6
Minority interest	+13.3	+18.1	+16.0
Adjusted net income (after actual and estimated deferred taxes)	559.7	737.5	779.0
Per share	15.15	19.99	22.05

Weighted average number of shares outstanding:
1985 – 36,951,261
1984 – 36,898,591
1983 – 35,330,601

Note 6 Notes and Accounts Receivable – Trade

In millions

	Consolidated December 31		Parent Company December 31	
	1985	1984	1985	1984
Due within 12 months				
Subsidiary companies				
Accounts receivable	–	–	1,047.8	2,442.6
Notes receivable	–	–	96.1	108.0
	–	–	1,143.9	2,550.6
Other				
Accounts receivable	10,413.9	10,552.6	2,662.3	2,556.9
Notes receivable	202.1	359.9	52.8	47.4
	10,616.0	10,912.5	2,715.1	2,604.3

Due after 12 months				
Subsidiary companies				
Accounts receivable	–	–	–7.9	–
Notes receivable	–	–	9.7	30.5
	–	–	1.8	30.5
Other				
Accounts receivable	783.3	673.7	217.3	285.4
Notes receivable	–	–	16.6	–
	783.3	673.7	233.9	285.4

The allowance for doubtful accounts which has reduced the amounts shown above includes allowances for estimated losses based on commercial risk evaluations. The allowance does not include provisions for potential losses of a political nature.

Note 7 Other Current Assets

In millions

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
Prepaid expenses and accrued revenues	514.9	406.8	122.6	127.3
Temporary cash investments	415.1	709.0	–	–
Other current assets	1,281.1	1,616.9	454.5	411.4
	2,211.1	2,732.7	577.1	538.7

Note 8 Investments

The following listing shows certain shares of stock owned directly and indirectly by the Parent Company.

A complete listing of shareholdings, prepared in accordance with the Swedish Companies Act and filed with the Swedish Patent and Registration Office, may be obtained upon request to Company headquarters.

Investments at December 31, 1985
Shares directly owned by Parent Company

				Percentage of ownership		Par value in millions	Carrying value in Skr m.
Subsidiaries							
Sweden	I	Ericsson Cables AB (ECA)	*Sweden*	100	SEK	140.0	140.0
	I	Ericsson Information Systems AB (EIS)	*Sweden*	100	SEK	360.0	348.9
	I	Ericsson Radio Systems AB (ERA)	*Sweden*	100	SEK	50.0	51.6
	I	Ericsson Network Engineering AB (ENS)	*Sweden*	100	SEK	25.0	26.1
	I	Ericsson Signal Systems AB (ENR)	*Sweden*	100	SEK	10,0	11.1
	I	RIFA AB (RIF)	*Sweden*	100	SEK	58.0	48.9
	IV	ELLEMTEL Utvecklings AB (EUA)	*Sweden*	50	SEK	5.0	6.0
		Other	*Sweden*		SEK		253.7
Europe (exclusive of Sweden)	I	LM Ericsson A/S (LMD)	*Denmark*	100	DKK	90.0	73.1
	I	Oy LM Ericsson Ab (LMF)	*Finland*	100	FIM	65.0	85.9
	I	RIFA S.A. (RFF)	*France*	100	FRF	15.0	15.2
	I	Ericsson Telefoonmaatschappij bv (ETM)	*The Netherlands*	100	NLG	20.0	32.8
	I	Ericsson S.A. (EMS)	*Spain*	100	ESP	375.0	23.7
	I	Industrias de Telecomunicación S.A. (Intelsa) (ITS)	*Spain*	50*	ESP	1,300.0	62.6
	I	Ericsson Information Systems GmbH (EID)	*Germany*	100	DEM	50.0	110.6
	III	Swedish Ericsson Company Ltd. (SEL)	*United Kingdom*	100	GBP	6.0	51.3
	III	LM Ericsson Holdings Ltd. (LHI)	*Ireland*	100	IEP	1.9	13.8
	III	SETEMER S.p.A. (STM)	*Italy*	87	ITL	18,598.6	118.2
		Other					7.3
U.S.A.	IV	Ericsson North America Inc. (EAU)	*United States*	100	USD	173,0	1,317.6
	I	Facit Inc. (FTU)	*United States*	100	USD	10.0	80.1
		Other					1.2
Latin America	II	Cía Argentina de Teléfonos S.A. (CAT)	*Argentina*	78	ARP	4.1	10.6
	II	Cía Entrerriana de Teléfonos S.A. (CET)	*Argentina*	86	ARP	0.9	8.5
	I	Cía Ericsson S.A.C.I. (CEA)	*Argentina*	100	ARP	0.4	2.6
	I	Ericsson de Colombia S.A. (EDC)	*Colombia*	92*	COP	220.9	26.9
	I	Teleindustria Ericsson S.A. (TIM)	*Mexico*	92	MXP	4,047.0	212.7
	I	Cía Anónima Ericsson (CEV)	*Venezuela*	100	VEB	10.0	10.1
		Other					14.7
Other Countries	I	Ericsson Telecommunications Sdn Bhd (ECM)	*Malaysia*	70	MYR	2.1	3.8
	III	Teleric Pty. Ltd. (TLA)	*Australia*	100	AUD	20.0	99.3
		Other					27.0
						Total	3,295.9
Associated Companies	I	Ericsson do Brasil Comércio e Indústria S.A. (EDB)	*Brazil*	59**	BRC	101,000.9	113.8
	I	Oriental Telecommunication Company Ltd (OTK)	*Republic of Korea*	50	KRW	3,000.0	29.4
	I	Perwira Ericsson Sdn Bhd (PEM)	*Malaysia*	40	MYR	1.6	5.2
		Other					8.2
						Total	156.6
Other Companies						Total	38.9

Shares indirectly owned by the Parent Company

Subsidiaries				
Sweden	I	Bofa Kabel AB (BOF)	*Sweden*	100
	I	Ericsson Information Systems Sverige AB (EIV)	*Sweden*	100
	I	Ericsson Radio Systems Sverige AB (ERS)	*Sweden*	100
	I	Facit Data Products AB (FTS)	*Sweden*	100
	I	Svenska Elgrossist AB, SELGA (SEG)	*Sweden*	67
Europe (Excluding Sweden)	I	Dansk Signal Industri A/S (DSI)	*Denmark*	100
	I	Ericsson Information Systems A/S (EIK)	*Denmark*	100
	I	Ericsson Information Systems A/S (EIO)	*Norway*	100
	I	Ericsson Information Systems GmbH (EIA)	*Austria*	100
	I	Ericsson Information Systems Ltd (EIG)	*United Kingdom*	100
	I	Ericsson Information Systems S.A. (EIF)	*France*	100
	I	Facit S.A. (FTF)	*France*	100
	I	LM Ericsson Ltd. (LMI)	*Ireland*	100
	I	A.R.E. S.p.A. (ARE)	*Italy*	59
	I	Ericsson Sistemi S.p.A. (EII)	*Italy*	87
	I	FATME S.p.A. (FAT)	*Italy*	87
	I	FIAR S.p.A. (FII)	*Italy*	51
	I	Scarfini S.p.A. (SCI)	*Italy*	87
	I	SIELTE S.p.A. (SEI)	*Italy*	87
	I	Ericsson Information Systems bv (EIN)	*The Netherlands*	100
	I	Ericsson Information Systems NV/SA (EIB)	*Belgium*	100
U.S.A. and Canada	I	Ericsson, Inc. (EUS)	*United States*	100
	I	Ericsson Communications Inc. (LMC)	*Canada*	100
Latin America	I	Industrias Eléctricas de Quilmes S.A. (IEQ)	*Argentina*	100
	I	Fios e Cabos Plásticos do Brasil S.A. (FCB)	*Brazil*	93
	I	Facit S.A. (FTR)	*Brazil*	100
	I	Fábricas Colombianas de Materiales Eléctricos Facomec S.A. (FAC)	*Colombia*	95***
Other Countries	I	LM Ericsson Pty. Ltd. (EPA)	*Australia*	100
Associated Companies	I	Oy DAVA Ab (DVF)	*Finland*	40
	I	Thorn Ericsson Telecommunications Ltd. (SEE)	*United Kingdom*	49
	I	Conductores Latincasa S.A. de C.V. (LCM)	*Mexico*	39

Key to functions of companies

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

*Through subsidiary holdings, total holdings amount to 51% of ITS and 100% of EDC.
**The voting shares total 26%.
***In addition, 1% owned by LME.

Note 9 Other Noncurrent Assets

Other noncurrent assets includes negative goodwill, net of accumulated amortization, of Skr −33.2 million (credit) at December 31, 1985, and goodwill, net of accumulated amortization, of Skr 72 million (debit) at December 31, 1984.

Note 10 Property, Plant and Equipment

Property, plant and equipment is recorded at cost, including freight, customs duties and construction or installation costs (including labor and related overhead). However, revaluation adjustments have been made to certain assets in accordance with accounting principles generally accepted in Sweden and in certain other countries.

Standard depreciation is based on historical cost and revaluation adjustments. Such depreciation is based on the estimated useful lives of the assets and the accumulated amounts are deducted from the value of the assets.

Total accumulated depreciation, including accelerated depreciation, in excess of the accumulated standard depreciation, is reported under Untaxed reserves in the balance sheet.

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
	(in millions)			
Cost				
Land	153.5	174.5	27.6	27.7
Land improvements	59.9	61.2	21.3	21.3
Buildings	2,208.3	2,194.2	669.3	662.9
Telephone plants	1,000.9	902.1	–	–
Machinery and equipment	8,793.8	7,371.9	1,788.0	1,750.4
Construction in progress	455.5	653.6	158.1	172.9
	12,671.9	11,357.5	2,664.3	2,635.2
Accumulated standard depreciation				
Land improvements	19.9	18.5	9.2	8.5
Buildings	612.1	563.5	246.9	231.9
Telephone plants	354.7	319.6	–	–
Machinery and equipment	4,706.9	3,957.1	980.1	954.8
	5,693.6	4,858.7	1,236.2	1,195.2
Net carrying value	6,978.3	6,498.8	1,428.1	1,440.0

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
	(in millions)			
Accumulated total depreciation				
Land improvements	40.4	41.4	16.3	16.1
Buildings	1,020.8*	963.5*	294.9*	283.0*
Telephone plants	354.2	310.0	–	–
Machinery and equipment	5,660.6	4,640.5	1,485.2	1,304.0
	7,076.0	5,955.4	1,796.4	1,603.1
Accumulated depreciation in excess of standard depreciation	1,382.4	1,096.7	560.2	407.9
*After transfer of accumulated depreciation in excess of standard depreciation to revaluation reserve of	386.3	386.3	303.3	303.3
Revaluation adjustments				
Land	179.8	184.9	150.8	151.3
Buildings	641.5	675.0	339.0	341.8
Machinery and equipment	98.5	106.1	–	–
	919.8	966.0	489.8	493.1
Less – Accumulated depreciation				
Buildings	264.3	237.6	184.4	172.0
Machinery and equipment	84.7	83.6	–	–
	349.0	321.2	184.4	172.0
Net carrying value	570.8	644.8	305.4	321.1
Tax assessment values (Sweden)				
Land and land improvements	277.1	324.7	185.6	186.3
Buildings	1,107.7	1,206.3	635.5	615.2

Note 11 Short-Term Borrowings

Short-term borrowings consist of bank overdrafts, bank loans and other short-term financial loans.

Unused portion of lines of credit for the Company amounted to Skr 3,992.6 million at December 31, 1985. Furthermore, the Parent Company had unused long-term lines of credit amounting to Skr 1,262.0 million at December 31, 1985.

Note 12 Other Current Liabilities

In millions

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
Accrued expenses and prepaid revenues	3,056.4	2,763.6	716.3	675.3
Other	1,627.8	1,707.8	507.3	644.8
	4,684.2	4,471.4	1,223.6	1,320.1

Note 13 Debentures and Other Long-Term Liabilities

In millions

Debentures and other long-term liabilities, except convertible debentures and pension liabilities, include the following:

Parent Company	December 31 1985	1984
(excl. liabilities to subsidiary companies)		
Debentures (maturing from 1986 to 2004) bearing interest from 6.5% to 13.0% at December 31, 1985.	2,336.3	1,314.9
Mortgage and other collateralized loans (maturing from 1986 to 1994) bearing interest from 11.75% to 14.35% at December 31, 1985	172.8	214.7
Other long-term loans (maturing from 1986 to 2000), bearing interest from 7.3% to 13.2% at December 31, 1985	403.2	392.8
Other long-term liabilities	324.3	65.7
	3,236.6	1,988.1
Less – Current maturities	127.6	161.7
	3,109.0	1,826.4

Subsidiaries	December 31 1985	1984
Mortgage and other collateralized loans (maturing from 1986 to 2017), bearing interest from 4.0% to 17.1% at December 31, 1985	1,021.6	1,695.0
Other long-term loans (maturing from 1986 to 2004) bearing interest from 2.5% to 49.0% at December 31, 1985	1,903.0	1,446.6
Other long-term liabilities	111.0	334.4
	3,035.6	3,476.0
Less – Current maturities	510.4	479.7
	2,525.2	2,996.3
Total	5,634.2	4,822.7

Maturities of consolidated long-term debenture loans and other long-term loans, excluding other long-term liabilities in subsidiaries, at December 31, 1985 were as follows (in millions):

1987	632.9
1988	1,358.3
1989	876.3
1990	755.9
1991	527.6
1992 and thereafter through 2017	1,372.2
	5,523.2

At December 31, 1985 debentures and other long-term loans, excluding other long-term liabilities in subsidiaries, were repayable in the following currencies (in millions):

Swedish kronor	1,273.1
United States dollars	2,189.1
Italian lira	356.6
Mexican pesos	298.1
Australian dollars	287.1
Danish kronor	247.4
Other currencies	871.8
	5,523.2

Note 14 Convertible Debentures

In December 1981, the Company issued 15 year 9.5 % convertible debentures in the amount of U.S.$40 million. The debentures are convertible from February 16, 1982 through February 5, 1997 into fully paid B shares at a conversion price, subject to adjustment in certain cases, of Skr 226 per B share (with a fixed rate of exchange, applicable on conversion of, U.S.$1.00 = Skr 5.57875). Following the stock dividend in 1982 the conversion price was adjusted to Skr 150 per B share.

In 1985, debentures with a par value of U.S.$1.3 million were converted to shares. The number of shares outstanding thereby increased by 47,789. At December 31, 1985, U.S.$32.8 million (Skr 190.4 million) of principal amount remained which, if converted on that date, would have increased the number of outstanding B shares by 1,219,143. The conversion of all convertible debentures would not result in a material dilution of net income per share.

As from 1985, the loss on foreign exchange relating to these convertible debentures is amortized over the remaining contractual time of the loan.

Note 15 Pension Liabilities

The pension liabilities, Skr 2,740.8 million, include the Swedish companies' obligation in the amount of Skr 1,191.7 million at December 31, 1985 and Skr 910.2 million at December 31, 1984 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, Skr 990.9 million, include an obligation in the amount of Skr 911.4 million at December 31, 1985 and Skr 866.4 million at December 31, 1984 in accordance with its agreement with PRI.

Note 16 Stockholders' Equity

Capital Stock at December 31, 1985 consisted of the following:

	Number of shares outstanding	Aggregate par value (Skr millions)
A shares (par value Skr 50)	3,728,515	186.4
B shares (par value Skr 50)	33,222,746	1,661.2
	36,951,261	1,847.6

The capital stock of the Company is divided into two classes: Class A shares (par value Skr 50) and Class B shares (par value Skr 50). Both classes have the same rights of participation in the net assets and earnings of the Company; however, Class A shares are entitled to one vote per share while Class B shares are entitled to 1/1000th of one vote per share.

Reserves not available for distribution
In accordance with statutory requirements in Sweden and certain other countries in which the Company is operating, the Parent Company and its subsidiaries and associated companies maintain reserves that are not available for distribution.

Generally, investments in subsidiaries and associated companies and property, plant and equipment may be revalued in accordance with the Swedish Accounting Act. Revaluation adjustments to property, plant and equipment must be depreciated when required under accounting principles generally accepted in Sweden. Land and buildings may be revalued up to a maximum of the tax assessed value of the assets if the value of the assets is considerably higher than their underlying carrying value. The Swedish Companies Act requires that revaluations are to be credited to capital stock or to reserves not available for distribution and that they may be used for necessary write-downs of other items of property, plant and equipment and other noncurrent assets. Reserves not available for distribution have been increased by Skr 8.8 million due to the fact that revaluation adjustments in foreign subsidiary and associated companies, where the local currency is considered as the functional currency, have been translated to Swedish kronor.

The appropriations of retained earnings to legal reserves in 1985 include earnings in associated companies amounting to Skr 34.5 million.

Increases or decreases in reserves not available for distribution have no effect on net income.

Cumulative translation adjustments
This component of stockholders' equity consists of translation adjustments resulting from the translation to Swedish kronor of financial statements of subsidiaries and associated companies to the extent that the local currencies of such companies are considered to be functional currencies in accordance with Statement No. 52 of the Financial Accounting Standards Board of the U.S.A. (SFAS 52).

Changes in Stockholders' Equity (in millions)

Consolidated	Capital stock	Reserves not available for distribution	Cumulative translation adjustments	Available retained earnings	Total
Balance, January 1, 1985	1,845.2	3,850.7	181.7	682.0	6,559.6
Appropriations to legal reserves	–	68.7	–	–68.7	–
Conversion of debentures	2.4	4.8	–	–	7.2
Dividends	–	–	–	–332.6	–332.6
Changes in Cumulative translation adjustments	–	–	–143.3	–	–143.3
Revaluation of property, plant and equipment	–	8.8	–	–	8.8
Transfer to untaxed reserves of amounts arising from differences between local and Ericsson accounting principles	–	–	–	–35.9	–35.9
Net income for 1985	–	–	–	837.4	837.4
Balance, Dec. 31, 1985	1,847.6	3,933.0	38.4	1,082.2	6,901.2

Of the retained earnings, Skr 32.7 million will be appropriated to reserves not available for distribution in accordance with the proposals of the respective companies' boards of directors. In evaluating the consolidated financial position, it should be noted that earnings in the foreign companies may in certain cases be subject to taxation when transferred to Sweden and that, in some instances, such transfers of earnings may be limited by currency restrictions.

Details of changes in cumulative translation adjustments (in millions):

	1985	1984
Balance, January 1	181.7	164.7
Aggregate translation adjustments	–153.9	32.2
Gains and losses from hedges of investments in foreign entities	+10.6	–15.2
Balance, December 31	38.4	181.7

Parent Company	Capital stock	Reserves not available for distribution	Available retained earnings	Total
Balance, January 1, 1985	1,845.2	2,171.6	601.0	4,617.8
Conversion of debentures	2.4	4.8	–	7.2
Dividends	–	–	–332.6	–332.6
Net income for 1985	–	–	408.8	408.8
Balance, December 31, 1985	1,847.6	2,176.4	677.2	4,701.2

Note 17 Assets Pledged as Collateral

In millions

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
Real estate mortgages	1,257.6	1,119.0	253.3	266.3
Other mortgages	1,508.6	1,192.4	355.0	345.0
Shares	549.4	282.3	234.0	233.9
Accounts receivable – trade	9.9	17.8	–	–
Bank deposits	13.6	6.7	8.0	–
	3,339.1	2,618.2	850.3	845.2

At December 31, 1985 and 1984, the Parent Company had pledged no assets in favor of subsidiaries.

Note 18 Contingent Liabilities

In millions

	Consolidated December 31 1985	1984	Parent Company December 31 1985	1984
Discounted notes receivable	149.8	418.3	105.1	136.2
Receivables sold with recourse	972.0	1,246.0	307.3	334.2
Other guarantees	3,554.1	3,516.6	1,605.7	1,368.2
	4,675.9	5,180.9	2,018.1	1,838.6

Of the guarantees assumed by the Parent Company, Skr 1,048.7 million at December 31, 1985 and Skr 803.4 million at December 31, 1984 related to subsidiary companies.

Note 19 Investments in Associated Companies and Joint Venture

The Company has interests in associated companies which are accounted for under the equity method. Details of such investments are given in Note 8.

The Company also has a 50 % interest in a joint venture in Saudi Arabia with Philips Gloeilampenfabrieken NV of Holland for the expansion of the telephone system in Saudi Arabia.

Intercompany profits arising on transactions between the Company and associated companies and the joint venture have been eliminated in the consolidated financial statements.

Dividends received from companies accounted for under the equity method were Skr 39.7 million in 1985, Skr 23.2 million in 1984 and Skr 26.6 million in 1983.

Undistributed earnings of associated companies included in consolidated equity were Skr 292.7 million at December 31, 1985 and Skr 496.8 million at December 31, 1984.

Note 20 United States Generally Accepted Accounting Principles

Elements of the Company's accounting policies which differ significantly from generally accepted accounting principles in the United States (U.S. GAAP) are described below:

(a) Revaluation of assets
Certain property, plant and equipment has been revalued at an amount in excess of cost. This procedure, under certain circumstances, is allowed under Swedish accounting practice. Accounting principles generally accepted in the United States do not permit the revaluation of assets in the primary financial statements.

(b) Appropriations and Untaxed Reserves
As described in Note 2 and Note 4, the Company is allowed to make appropriations to untaxed reserves which are used principally to defer income taxes. For financial reporting purposes, these appropriations are deducted in determining income before taxes. Accounting principles generally accepted in the United States would not allow such appropriations to be charged to income.

(c) Capitalization of Interest Expenses
In accordance with Swedish accounting principles, the Company has not capitalized interest costs incurred in connection with the financing of expenditures for the construction of property, plant and equipment. Such costs are required to be capitalized in accordance with accounting principles generally accepted in the United States.

(d) Business Combination Adjustments
In accordance with Swedish accounting practice, the Company shows negative goodwill as a deferred credit which is released as income over a period not exceeding ten years (also see Accounting Policies (b) and Note 9). Under accounting principles generally accepted in the United States, negative goodwill should be applied as a reduction of noncurrent assets acquired and be amortized over the economic life of each asset.

In accordance with Swedish accounting practice, the Company has recognized the tax benefits deriving from the utilization of loss carry-forwards of purchased subsidiaries as a reduction of current tax expense. Under accounting principles generally accepted in the United States, the tax effect of loss carry-forwards of purchased subsidiaries is recognized as an asset at the date of purchase when realization is assured beyond any reasonable doubt. Furthermore, due to the purchase of certain subsidiaries, the net income for 1985 has been reduced. The reduction is a result of the tax benefits of subsidiaries purchased in 1985 not being reflected as an asset on acquisition, since the realization of the tax benefit was not assured beyond any reasonable doubt based on the tax law existing at the date of purchase.

Under accounting principles generally accepted in the United States, a premium or discount should be imputed for a loan which bears an interest rate materially above or below the current yield for an otherwise comparable loan. It is not normal under Swedish accounting practice to adjust the face value of a loan for imputed interest. In connection with the acquisition of Datasaab AB (now Ericsson Information Systems AB), non-interest-bearing extended credit terms were received from the former owners. In computing the required adjustments to arrive at net income and stockholders' equity under United States generally accepted accounting principles the interest-free characteristic of the extended credit terms has been taken into account.

(e) Tax Effects on Intercompany Transactions
Under accounting principles generally accepted in the United States, income taxes paid by a selling company on intercompany profit eliminated in consolidation is deferred as a prepaid income tax. No such deferral is made under Swedish accounting practice since deferred income tax accounting is not applied in Sweden.

(f) Income Taxes on Undistributed Earnings of Associated Companies
It is not Swedish accounting practice to provide for income taxes on undistributed earnings of companies accounted for in accordance with the equity method. Under accounting principles generally accepted in the United States, an investor should accrue for the tax effects resulting from distribution of earnings.

(g) Translation of Noncurrent Receivables and Long-Term Liabilities
Under accounting principles generally accepted in the United States, all assets and liabilities denominated in foreign currencies are translated at the current exchange rate. Under Swedish accounting practice, exchange gains relating to noncurrent receivables and payables denominated in foreign currencies may not be recorded as income until realized, and exchange losses relating to long-term liabilities de-

nominated in foreign currencies may be amortized over the remaining lives of the long-term loans.

Under accounting principles generally accepted in the United States, convertible debentures denominated in a foreign currency should be translated at the current rate. As explained in Note 14, the loss on foreign exchange arisen on the convertible debentures is amortized over the remaining contractual period of the loan.

(h) Research and Development Expenses
Under accounting principles generally accepted in the United States, research and development expenses are to be expensed as incurred. Under Swedish accounting practice, such expenses may be capitalized under certain circumstances. The Company abandoned in 1983 the principle of capitalizing certain research and development expenses.

(i) Stock Issue Costs
The costs incurred by the Company relating to the issue of new shares in 1983 have been charged to income in accordance with accounting principles generally accepted in Sweden. Accounting principles generally accepted in the United States require that such costs be debited to stockholders' equity.

(j) Sale of Property
In 1984, a subsidiary sold a property which was being leased to two other subsidiaries under a contract which expires in 1990. Under accounting principles generally accepted in the United States, the gain on a sale of this nature is reduced by the present value of future rental payments, and the present value of future rental payments shall be deferred and amortized over the remaining term of the contract. Due to the short lease term, compared with the estimated useful life of the property, the Company considers that, under Swedish accounting practice, the gain on the sale should not be reduced.

(k) Deferred Income Taxes
There is no provision for deferred income taxes under Swedish accounting practice. Accounting principles generally accepted in the United States require comprehensive deferred tax allocation on all significant timing differences.

(l) Net Income per Share
As previously described under Accounting Policies (k), net income per share, in accordance with accounting principles generally accepted in Sweden is not based upon net income. Accounting principles generally accepted in the United States require that net income be utilized in the computation of per-share amounts.

Calculation of net income per share has been based on 36,951,261 shares as the weighted average number of shares outstanding in 1985. The weighted average number of shares outstanding in 1984 was 36,898,591 and in 1983 35,330,601. No fully diluted earnings per share data is presented, since the conversion of outstanding convertible debentures would not result in a material dilution of net income per share.

The application of accounting principles generally accepted in the United States, as described above, would have had the following approximate effect on consolidated net income and stockholders' equity. It should be noted that, in arriving at the individual items increasing or decreasing reported net income, consideration has been given to the effect of minority interests.

	For the years ended December 31, 1985	1984	1983
(Skr millions, except per-share amounts)			
Net income as reported in the consolidated income statements	837.4	444.3	510.1
Items increasing reported income			
Depreciation on revaluation adjustments including effect on sale	53.4	79.2	18.9
Capitalization of interest expenses	38.6	21.7	13.9
Tax effects of intercompany transactions	168.3	93.4	60.3
Translation of noncurrent receivables and long-term liabilities	164.9	29.1	−12.0
Research and development expenses	–	–	20.0
Stock issue costs	–	–	19.0
Sale of property	7.9	−40.8	–
Income taxes on undistributed earnings of associated companies	6.1	−18.3	5.2
	439.2	164.3	125.3
Items decreasing reported income			
Business combination adjustments	12.0	−24.1	7.3
Appropriations, including depreciation in excess of standard depreciation	371.1	−682.4	−707.5
Deferred income taxes	158.0	595.8	460.9
	541.1	−110.7	−239.3
Net decrease(−)/increase in reported net income	−101.9	275.0	364.6
Approximate net income in accordance with accounting principles generally accepted in the United States	735.5	719.3	874.7
Approximate net income per share in accordance with accounting principles generally accepted in the United States	19.90	19.49	24.76

(m) Stockholder's Equity

	December 31, 1985	1984
Approximate stockholders' equity in accordance with accounting principles generally accepted in the United States	8,091.5	7,811.0

Supplementary Information required under the Swedish Companies Act
Average Number of Employees and Remuneration in 1985

	Consolidated		Parent Company	
	Average number of employees	Remuneration (in Skr millions)	Average number of employees	Remuneration (in Skr millions)
Sweden	37,314	4,322.3	14,924	1,624.1
Other countries	37,378	4,169.1	664	107.1
	74,692	8,491.4	15,588	1,731.2
Paid to Board of Directors, President and Corporate Executive Vice Presidents				5.7

Remuneration in foreign currency has been translated to Swedish kronor at average exchange rates for the year.

The Parent Company has operational units with 20 employees or more in 14 Swedish municipalities and has operations in 23 countries. On a consolidated basis there are 48 operational units in Sweden and operations in 58 countries.

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

Special Information regarding the Parent Company
Sales of the Parent Company amounted to Skr 8,454 million (Skr 7,909 million), of which exports accounted for 75 (78) percent. Con-

solidated companies were customers for 47 (45) percent of the Parent Compay's sales, while 41 (46) percent of the Company's total purchases of goods and services were from such companies.

Loans totaling Skr 0.01 million have been made to board members and company presidents.

Guarantees totaling Skr 0.00 (0.00) million have been issued as security for loans obtained by board members and company presidents.

Loans totaling Skr 18.8 million have been made to a total of 6,910 employees for the purchase of shares in LM Ericsson's Share Saving Fund. Assets totaling Skr 17.2 million have been pledged as collateral for loans obtained by employees for the purchase of housing.

Investor Publications

Financial publications, such as the annual report, interim reports and Form 20-F (filed with The Securities and Exchange Commission, U.S.A. no later than June 30 every year) may be obtained without charge upon request to: Telefonaktiebolaget LM Ericsson, Corporate Relations, S-126 25 Stockholm.

Definitions of terms used in "Ten-Year Summary" on page 50

Operating income. Takes into account standard depreciation in the years 1980 through 1985, total depreciation in the years 1976 through 1979.

Financial income less financial expenses. Financial expenses include translation adjustments in the years 1976 through 1981. Financial expenses in 1982 through 1985 include gains less losses on foreign exchange as explained in Note (d) under Accounting Policies.

Working capital. Current assets less non-interest-bearing current liabilities.

Property, plant and equipment. Stated net of accumulated standard depreciation at December 31, 1980 – 1985, and net of total depreciation at December 31, 1976 – 1979.

Adjusted net income per share. See Note (k) under Accounting Policies, and Note 5.

Current ratio. Current assets divided by current liabilities.

Return on equity. Defined as net income (after actual taxes paid and estimated deferred taxes) expressed as a percentage of average adjusted stockholders' equity. Average adjusted stockholders' equity is defined as stockholders' equity as shown in the balance sheet plus 50 percent of untaxed reserves (assuming 50 percent of deferred taxes).

Return on capital employed. Defined as the total of income after financial income and expenses, financial expenses and equity in earnings of associated companies as a percentage of capital employed. Capital employed is defined as total assets less non-interest-bearing debts (inclusive of estimated deferred taxes related to untaxed reserves).

Equity ratio I. Defined as the total of stockholders' equity, 50 percent of untaxed reserves, and minority interest in equity of consolidated subsidiaries, expressed as a percentage of total assets.

Equity ratio II. Defined as the total of stockholders' equity, untaxed reserves and minority interest in equity of consolidated subsidiaries, expressed as a percentage of total assets.

Debt-equity ratio. Defined as total interest-bearing liabilities expressed as a percentage of the total of stockholders' equity, 50 percent of untaxed reserves, and minority interest in equity of consolidated subsidiaries.

Audit Report

Telefonaktiebolaget LM Ericsson

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 1985 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 Parent Company and of the Parent Company and consolidated subsidiaries 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 consolidated 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 1985.

Stockholm, March 16, 1986

David Jones	Nils-Axel Frisk	Jörgen Eskilson
Chartered Accountant		*Swedish Authorized Public Accountant*
Price Waterhouse		*Price Waterhouse*

Jan Stenberg

29.9% of total sales

Public Telecommunications

Large marketing investments and reduced sales in U.S. hurt earnings

The Business Area designs, manufactures and installs:

- *Telephone Exchanges* for public networks (73 percent of sales),
- *Transmission Equipment* (14 percent of sales), and
- *Telex and Data Equipment* (3 percent of sales).

In addition, telephone operations and other activities account for 10 percent of sales.

Sales of analog transmission systems declined sharply

Sales of the Public Telecommunications Business Area amounted to Skr 10,593 m. in 1985, an increase of 9 percent compared with 1984 sales. Order bookings, which rose 11 percent, totaled Skr 11,991 m. As a result of a sharp decline in demand for analog transmission equipment, primarily in the United States, sales did not meet expectations. New digital technology with high-capacity optical systems will gradually replace the analog technology.

As in prior years, the Business Area's largest market was Western Europe, which accounted for 37 percent of total sales in 1985, compared with 36 percent in 1984. The Far East and Australia became much more important markets and contributed 26 percent of sales, an increase from 21 percent a year earlier. Sales in the U.S. declined from 8 percent in 1984 to 5 percent in 1985.

AXE in 63 countries

AXE successfully maintained its position as one of the world's foremost telecommunications switching systems and has now been sold in 63 countries. With 14 million lines installed or on order, the AXE system is one of the world's best-selling systems, and the one that is most widely distributed, by far, in terms of geography. Our competitors include the world's largest manufacturers of telephone exchange equipment: AT&T in the U.S., Siemens of West Germany, Northern Telecom of Canada, ITT in the U.S., and NEC and Fujitsu in Japan.

When a telephone administration selects a system, it is as a rule the beginning of a relationship between supplier and customer extending over many years. Expansion of telecommunications networks in years following the selection of a system often results in orders substantially larger in volume than the original contract. Obtaining the first order when a system choice is being made is thus of great importance and usually involves very hard competitive bidding among the largest international suppliers.

British Telecom selected Ericsson

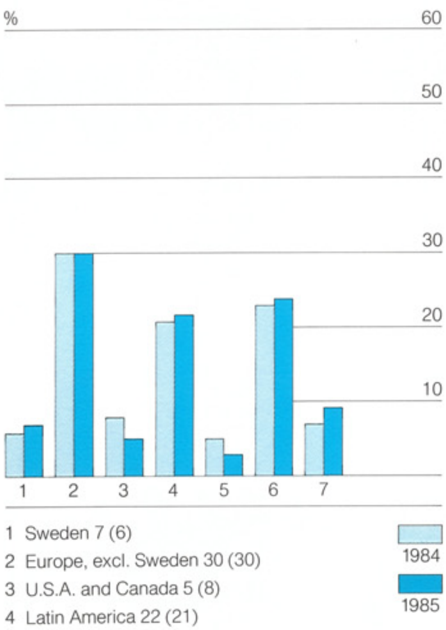
Two important competitions of this type were decided in Ericsson's favor during 1985. In England, British Telecom, the national authority, selected AXE to supplement System X supplied by a domestic manufacturer. The selection followed a very demanding evaluation, notably with respect to technical reliability and delivery capacity. Competitive bidders included AT&T, Northern Telecom and ITT. During the first two years of the contract, Ericsson will deliver up to 600,000 lines of local exchange equipment valued at about one billion Swedish kronor. The deliveries are being made at an increasing rate by Thorn Ericsson in England, jointly owned with Thorn EMI. Thorn Ericsson's production capacity is now being expanded rapidly.

The second system choice was made in the Netherlands, where the PTT is increasing its orders of AXE by allocating Ericsson a larger share of the market in connection with the modernization of the Dutch telephone network. Deliveries of 500,000 lines of equipment will be made during the next five years.

Telecommunications networks being expanded rapidly in Asia

The strong rate of expansion of telephone networks in Asia continued during 1985. Substantial deliveries were made to customers in South Korea, Thailand and Malaysia. Ericsson inaugurated a new plant in Malaysia at the beginning of the year, during which 300,000 lines of AXE were installed in that country.

Geographic distribution of sales



1 Sweden 7 (6)
2 Europe, excl. Sweden 30 (30)
3 U.S.A. and Canada 5 (8)
4 Latin America 22 (21)
5 Africa 3 (5)
6 Asia 24 (23)
7 Australia, New Zealand and Oceania 9 (7))

In the People's Republic of China (PRC), a new market, the first AXE exchanges were placed in service in 1985. Six delivery agreements were signed in the PRC, including a framework agreement covering delivery of AXE exchanges worth Skr 235 m. in Liaoning Province.

Successes in Australia continued during 1985. The AXE system has now been introduced for all applications in the telecommunications network and has also been selected for use in mobile telephony systems.

Weak economic growth in Latin America

Economic development in Latin America continued to be weak in 1985. A number of telecom administrations have been forced to defer orders due to lack of funds or access to hard currencies. Mexico increased its purchases substantially, however, and deliveries from our Mexican subsidiary rose sharply. The Latin American authorities, to a greater degree than formerly, are imposing demands for financing arrangements in which the Parent Company and/or a number of Ericsson's large subsidiaries are participating with joint bids.

In the Nordic countries, there were large deliveries of equipment for expansion of the mobile telephony network, for data communications and telex, and for digital multiplexing equipment used in fiber optical networks. Deliveries of AXE equipment continued to be substantial and the system's position in the Danish market was further strengthened.

The market in the United States is dominated by the seven regional former Bell operating companies. An evaluation of AXE is presently under way within Bellcore, the technical research facility jointly owned by the Bell companies. AXE is the first switching system developed outside of North American to be so evaluated. The work of adapting the system has been intensified and will accordingly take longer than originally estimated. Digital transmission technology is gaining ground rapidly in the U.S. Ericsson, one of the leading suppliers in this sector, placed in operation the first U.S. fiber optical transmission system for 565 mb/s and a capacity of 8,000 channels.

Stiffer competition depressed prices

Operating income of the Business Area, Skr 1,282 m. after depreciation, was substantially lower than expected and was equal to 63 percent of 1984 income. The large investments in marketing and the sharp drop in sales of profitable analog transmission equipment were the primary reasons for the decline. All of the Business Area's products faced stiffer competition in the world market, with prices under pressure in many markets.

Major investment in research and development

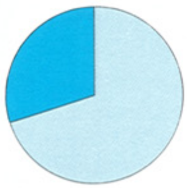
Because of its modular design, AXE has unique prerequisites for holding its own in the development of new ISDN (Integrated Services Digital Network) functions. There has been a strong build-up of technical development resources in a number of subsidiaries in various countries and 17 percent of the Business Area's 29,000 employees were engaged in developing and custom-tailoring products and systems in 1985.

The Business Area in brief Skr millions and percentages of Ericsson totals

	1985		1984		1983	
Sales	10,593	29.9%	9,718	31.8%	8,491	32.2%
Order bookings	11,991	31.8%	10,800	31.1%	8,785	32.4%
Employees	29,594	37.9%	28,352	37.7%	27,808	39.3%
Operating income after depreciation	1,282	–	1,930	–	1,653	–

Stig Larsson

29.8% of total sales



Information Systems

Large nonrecurring costs for investments in technology and restructuring

The Business Area consists of three divisions:

– *Communications Systems* (large MD 110 subscriber exchanges, Eripax data networks, modems, small subscriber exchanges, intercom systems, telephone instruments), 34 percent of sales.

– *Data Systems* (data terminals, personal computers, small business systems/minicomputers, bank terminal systems), 39 percent of sales.

– *Office Equipment* (printers, typewriters, calculators and office furniture), 25 percent of sales.

– Other operations accounted for 2 percent of sales.

The demand for efficient information handling and communications is increasing rapidly, offering the Business Area substantial potentials for growth. Many products in this field have growth rates of 10 to 30 percent per year.

Excess capacity in the industry following weak rise in demand

The year 1985 was a difficult one for the entire industry. Demand was lower than expected in a number of product areas and many manufacturers had excess capacity. Financially weak companies are being eliminated.

Information Systems has been operating under a new management team for more than a year and a comprehensive restructuring plan is being implemented. It involves, among other elements, a concentration of the product line and the marketing program.

Sales of the Business Area in 1985 amounted to Skr 10,561 m., 14 percent higher than in the preceding year.

Large market shares in Europe

Competition in Information Systems' markets was severe during 1985, with pressure on prices in some product areas. Despite this, our products met the challenge and we have large shares of the market for certain products, notably in the Nordic countries but also in other parts of Western Europe. Ericsson's workstation terminals are second only to IBM's in sales in Western Europe. After only two years in the market, our personal computer has an established position as one of the leaders in this region.

Facit printers have about 10 percent of the world market for dot matrix printers. The comparable figure for Facit typewriters is 8 percent, with a market share of 55 percent in Sweden.

Order bookings for our large MD 110 subscriber exchange, the core unit around which private communications networks are built, were firm. The MD 110 is a leader in the Nordic countries and has large market shares in Austria, Italy, the Netherlands and Spain. Our smaller subscriber exchanges also sold well.

Rapid rate of change made control difficult

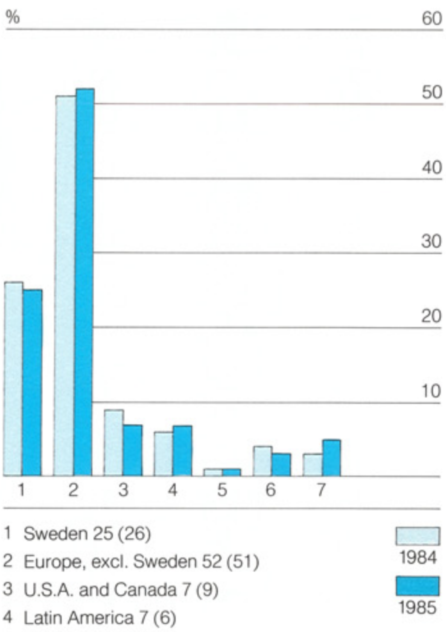
The causes of the Business Area's problems lie in its very rapid growth during the 1980s, product development carried out under severe time pressure, and an unexpectedly fast decline in demand during 1985. The control systems for product development and logistics were inadequate in the face of the rapid rate of change.

Faults in MD 110 software corrected

The first step in the restructuring plan now being carried out was to "stabilize" the Business Area's products. The software faults that caused problems with the MD 110 were corrected and all exchanges, on order and in service, have been updated. Customers have confidence in the product. We have delivered 500 MD 110 exchanges and have orders for another 350.

The "2500" minicomputer system had certain software deficiencies in the beginning of 1985 and there were delivery problems related to the hardware.

Geographic distribution of sales



1 Sweden 25 (26)
2 Europe, excl. Sweden 52 (51)
3 U.S.A. and Canada 7 (9)
4 Latin America 7 (6)
5 Africa 1 (1)
6 Asia 3 (4)
7 Australia, New Zealand and Oceania 5 (3)

Since July 1, the software has been fully stabilized and delivery reliability is very good.

Sales of personal computers concentrated in Europe

Production of personal computers was affected by problems with materials at the beginning of the year. These problems have been solved and we now have a very fine product. However, as a consequence of the sharp decline in the computer market, notably in the U.S., we had excessively large inventories of components and finished products. Marketing through dealers in the U.S. was terminated at year-end.

Restructuring plan involved large nonrecurring costs

The restructuring plan also involved a review of the Business Area's administrative routines. We have improved our forecasting, have developed a new and faster accounting system, and have tightened up logistics routines. Rigid cost control and a series of austerity measures will reduce the number of employees by approximately 2,000. The number was cut by about 1,000 during 1985.

The restructuring also involved focusing more sharply on the core element of our business concept: to provide systems and services for handling voice, data, image and text, primarily for large and medium-size customers in Europe. The restructuring program involved large nonrecurring costs that were charged against 1985 income.

New organization

To strengthen this market orientation, the Business Area was reorganized during the year. A divisional structure with three units – Communications Systems, Data Systems and Office Equipment – replaced the former matrix organization. Each of the three divisions is responsible for development, production and marketing of its products. Operations that did not fit strategically with the Business Area's core businesses were sold during the year. They included the AutoTank company, time-recording systems, and the manufacture of office furniture.

Concentration on communications and electronic systems

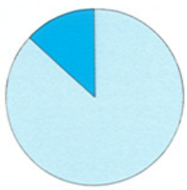
Ericsson's systems know-how in telecommunications and advanced electronic systems provides the base for the Business Area's operations. Customers are giving priority to manufacturers who have both know-how and the capacity to deliver complete systems.

The Business Area in brief Skr millions and percentages of Ericsson totals

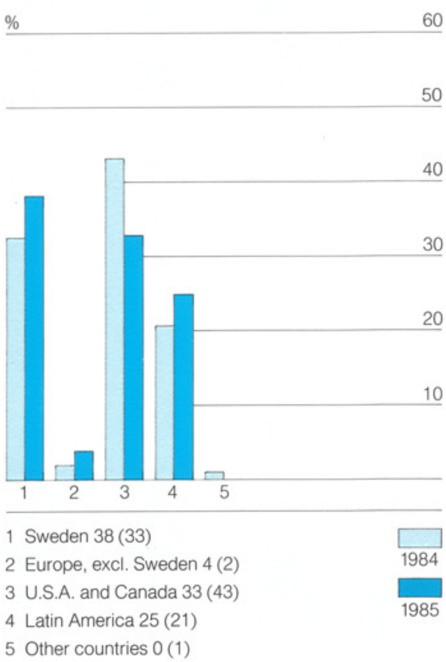
	1985		1984		1983	
Sales	10,561	29.8%	9,295	30.4%	7,457	28.3%
Order bookings	10,313	27.4%	10,160	29.2%	8,025	29.6%
Employees	20,785	26.6%	21,703	28.9%	19,156	27.1%
Operating income after depreciation	–806	–	–217	–	237	–

Lars Berg

12.4% of total sales



Geographic distribution of sales



Cables

Structural change and success with telecom cable improved earnings

The Business Area manufactures and markets:

– *Power Cable* used in the distribution of electric power (40 percent of sales),

– *Telecommunications Cable* used for the transmission of communications (50 percent of sales), and

– *Specialty Cables,* including those used in the data processing industry (10 percent of sales).

The Business Area holds a majority interest in Selga, a wholesale, and in a company whose principal product is wire harnesses for the car industry.

Excess capacity in power cable

Sales of the Business Area in 1985 totaled Skr 4,409 m., up 10 percent. The stagnation in the power cable market continued and there is still substantial excess capacity. The market for communications cable, especially in the U.S., is experiencing an almost dramatic change in technology, in which traditional copper cable is being replaced by fiber optical cable. Ericsson held its own well in this competition.

Market for fiber optical cable increasing rapidly

The United States, with 30 percent of sales, continued to be our second largest market, exceeded only by Sweden. Demand was strong, with substantial increases in sales of optical cable, which contributed 35 (20) percent of the sales of telecom cable. We are one of the four largest suppliers of telecom cable in the U.S., serving all the Bell operating companies. This ranking was further strengthened through two large orders, each valued at Skr 150 m. Sales of power cable were sharply lower, following the sale of two unprofitable companies at the end of 1984.

In Latin America, where Ericsson has cable subsidiaries in Argentina, Brazil and Colombia, and an associated company in Mexico, business developed relatively well despite economic problems in the region. The 50-percent holding in the cable company in Australia was sold during 1985.

Stable demand in Sweden

The Swedish market accounted for 40 percent of the Business Area's sales in 1985. Ericsson is the largest cable manufacturer in the country and demand for the company's products was stable. The Swedish Telecommunications Administration selected Ericsson as the principal supplier for two thirds of the first stage of the OPAL project involving optical cable systems in long distance networks. Optical cable valued at Skr 100 m. will be supplied.

Sales of specialty cables developed favorably. The production of wire harnesses at Töcksfors Verkstads AB was consolidated in the Business Area following Ericsson's acquisition of ASEA's 50-percent interest in Töcksfors. The Business Area also formed a new company, Ericsson Fiber Optics AB, which is developing and marketing data and telecom systems based on optical technology for use in private networks. Selga, the wholesale subsidiary developed well.

The Cables Business Area had operating income of Skr 336 m., an increase of Skr 247 m. compared with the preceding year.

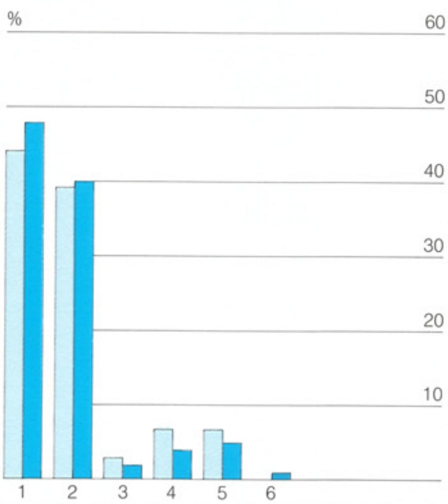
The Business Area in brief Skr millions and percentages of Ericsson totals

	1985		1984		1983	
Sales	4,409	12.4%	4,022	13.3%	3,645	13.9%
Order bookings	4,521	12.0%	4,258	12.1%	3,677	13.5%
Employees	5,750	7.4%	5,473	7.3	5,670	8.0%
Operating income after depreciation	336	–	89	–	7	–

Ulf H. Johansson

6.1% of total sales

Geographic distribution of sales



1 Sweden 48 (44)
2 Europe, excl. Sweden 40 (39)
3 U.S.A. and Canada 2 (3)
4 Africa 4 (7)
5 Asia 5 (7)
6 Other countries 1 (0)

Defense Systems

Stable growth in income and strong emphasis on technical development

Defense Systems operates through four product areas:

- *Avionics and Missile Electronics* (35 percent of sales),
- *Tactical and Strategic Communications* (20 percent of sales),
- *Local Mobile Defense Systems* (30 percent of sales), and
- *Control and Computer Systems* (15 percent of sales).

Sales of the Business Area totaled Skr 2,161 m., an increase of 18 percent compared with the preceding year. The strong order bookings that characterized recent years continued in 1985.

Large resources required for advanced technical development

Technical development within the Business Area is rapid and sophisticated and requires substantial resources. Continued strong growth is expected in the world market, notably in the field of advanced systems with high contents of electronics.

Sweden is the Business Area's largest market, accounting for 45 percent of sales. The Swedish Armed Forces are our most important customer and their long-term projects provide the base for technical development within the Business Area. Deliveries to the Swedish authorities also provide important references in connection with export sales.

Increased sales outside Sweden essential

An increase in sales outside Sweden is essential both for achieving long-series production and as a means of demonstrating our competitiveness. Apart from Sweden, our largest customer countries are the Nordic countries, certain alliance-free countries, and certain markets in Europe and Southeast Asia. During 1985 we began to cultivate the North American market, which offers a large potential.

A number of important orders were received during 1985. The contract for weather radar systems in Spain represented an international breakthrough for sales of this type of equipment. In the avionics sector, Ericsson is a leader in the world market for advanced radar-and-display technology and the development of this type of equipment for the Swedish JAS 39 Gripen military aircraft continued during the year. The Swedish Armed Forces also ordered experimental equipment for airborne tracking radar, as well as encryption equipment.

The Business Area is in the final phase of a very large development program that required substantial resources in 1985. A number of new products and systems will be placed on the market shortly. A new generation of radar systems and equipment will strengthen our leadership position in this product area. The control systems and the defense communications product areas will introduce a number of technically enhanced products.

Operating income of the Business Area amounted to Skr 178 m. in 1985, compared with Skr 172 m. a year earlier.

The space and microwave communications product areas were transferred from the Radio Communications Business Area to Defense Systems on January 1, 1986.

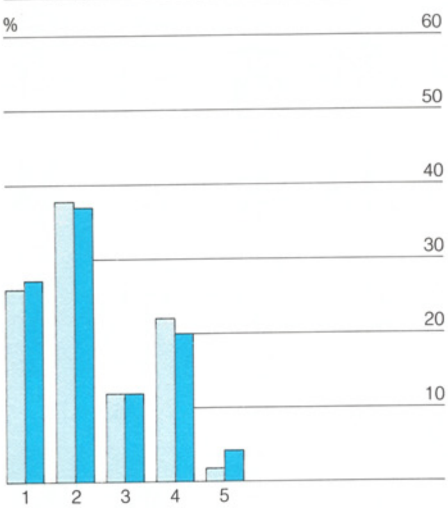
The Business Area in brief Skr millions and percentages of Ericsson totals

	1985		1984		1983	
Sales	2,161	6.1%	1,831	6.0%	1,603	6.1%
Order bookings	2,937	7.8%	2,834	8.1%	1,760	6.5%
Employees	4,746	6.1%	4,247	5.7%	3,961	5.6%
Operating income after depreciation	178	–	172	–	95	–

Åke Lundqvist

7.5% of total sales

Geographic distribution of sales



1 Sweden 27 (26)
2 Europe, excl. Sweden 37 (38)
3 U.S.A. and Canada 12 (12)
4 Asia 20 (22)
5 Other countries 4 (2)

Radio Communications

Ericsson a world leader in rapidly expanding field of mobile telephony

Radio Communications comprises the following product areas:
– *Mobile Telephony* including base stations and terminals (50 percent of sales),
– *Mobile Radio,* including systems with stationary and mobile units for closed networks (15 percent of sales),
– *Personal Paging Systems* for local networks (15 percent of sales), and
– *Radio Transmission,* including radio link systems and space projects (12 percent of sales). Miscellaneous operations account for the remaining 8 percent.

Sales in 1985 amounted to Skr 2,656 m., 33 percent higher than in the preceding year. The largest increase, more than 80 percent, was in the mobile telephony product area.

Breakthrough for mobile telephony in the United States

Demand for mobile telephony has grown rapidly throughout the world in recent years. The growth in system construction was somewhat slower in 1985, however. Ericsson continued to increase its already large share of the world market. Orders for system equipment were received in the following markets, among others: San Francisco and Houston in the United States, Australia, New Zealand, Switzerland, Thailand and Indonesia. The penetration of the Far Eastern market and the continuing orders from the U.S. are of major importance for future success.

Ericsson now has contracts in 22 countries, making it the world leader in mobile telephony. We are expanding our capacity to produce terminal equipment. Competition, notably from Japanese manufacturers, is severe, but we consider our technology to be highly effective.

The field of mobile telephony is one of the most important, strategically, for Ericsson. It is based on Ericsson's systems know-how in telecommunications, with AXE as the core technology. We are counting on maintaining our position as a market leader and therefore are now also investing in the development of next-generation digital systems.

Stagnating market for mobile radio

Business in the mobile radio product area is sluggish and systems of this type will probably be integrated with public telephone and data networks in the future. Our operations are now being concentrated on the most profitable markets and the product line is being specialized. Some very advanced police radio systems were completed in Sweden and the Middle East during 1985.

The rationalization of the personal paging system product area continued during the year. Production was concentrated in the NIRA subsidiary in the Netherlands, the number of product versions offered was reduced, and longer-series production was increased. A new-generation personal pager was launched during the year and was well accepted in the market. The trend of profitability in this area was favorable.

The radio transmission product area was transferred to the Defense Systems Business Area at year-end.

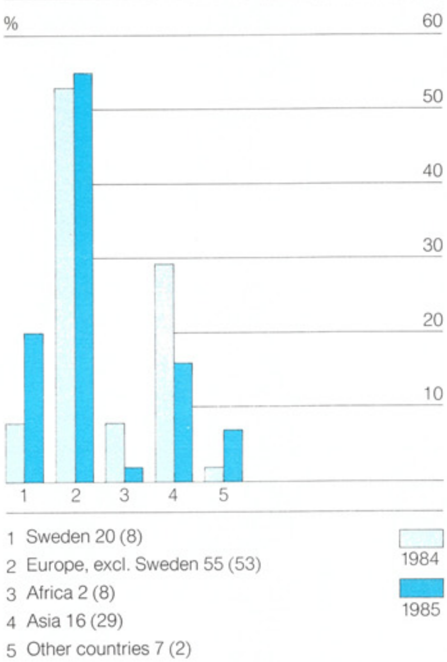
Operating income of the Business Area amounted to Skr 253 m., compared with a loss of Skr 32 m. in the preceding year.

The Business Area in brief Skr millions and percentages of Ericsson totals

	1985		1984		1983	
Sales	2,656	7.5%	1,992	6.5%	1,592	6.0%
Order bookings	2,709	7.2%	2,464	7.1%	1,954	7.2%
Employees	5,122	6.6%	4,144	5.5%	3,998	5.6%
Operating income after depreciation	253	–	–32	–	31	–

Björn Linton

Geographic distribution of sales



Network Engineering and Construction

Improvement in income through restructuring

The Network Engineering and Construction Business Area comprises two product areas:

– *Network Construction* (planning and construction of telecommunications networks, data networks and telesignaling installations), 75 percent of sales, and

– *Signal Systems* (signaling and safety systems for rail traffic, as well as signaling systems for roads and highways), 25 percent of sales.

Main markets in developing countries

The Business Area's most attractive markets are in the developing countries. Deliveries are often in the form of turnkey projects in which other business areas participate. The Network Engineering and Construction Business Area then assumes responsibility for coordinating Ericsson's activities.

Economic problems in many developing countries caused delays in the start-up of a number of projects. During the year we began a large network project in Malaysia. The Business Area also received a large order, worth Skr 220 m., to install local exchanges in the Sultanate of Oman.

The American market, in which a number of orders covering the installation of optical cable were received, became more important during the year. A new company was formed to handle the continuing operations in the U.S.

Financing – an important competitive factor

Financing has become an increasingly important factor in competitive bidding. Many developing countries have large debts, and this had an adverse impact on order bookings. Customers in the Middle East, which has been a large market for many years, reduced their orders sharply during 1985. During the year the Business Area concluded a working agreement with the Swedish Telecommunications Administration covering the expansion of a cable television network in Sweden. Ericsson will be responsible for project management and installation.

Restructuring within signal systems

The signal systems product area completed a major restructuring involving, among other elements, large investments in the development of new technologies. During the year one of the first completely computerized central switchgear units in the world was delivered to the Swedish State Railways. There is a large market for this product and a breakthrough was made in Switzerland, through a licensed manufacturer. Substantial orders for signaling equipment and telecom systems were placed by the state railway authorities in Italy.

The restructuring of SIELTE, the Italian subsidiary, proceeded on schedule. The company received a number of attractive orders, including one, valued at Skr 65 m., for the installation of the first large long distance project in Italy utilizing optical cable.

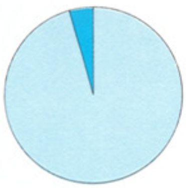
Operating income amounted to Skr 154 m., an increase of 39 percent compared with the preceding year. The improvement in income can be attributed largely to the comprehensive restructuring of signal systems' operations and of the Italian companies, and to the fact that the network project in Malaysia began to yield a profit.

The Business Area in brief Skr millions and percentages of Ericsson totals

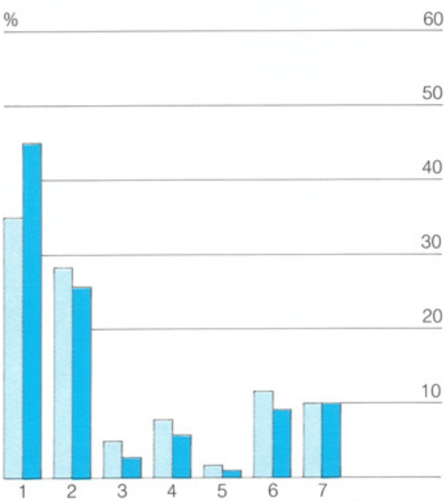
	1985		1984		1983	
Sales	2,113	6.0%	1,970	6.4%	2,239	8.5%
Order bookings	2,187	5.8%	1,926	5.5%	1,562	5.8%
Employees	5,945	7.6%	5,289	7.0%	5,088	7.2%
Operating income after depreciation	154	–	111	–	264	–

Lars Ramqvist

4.1% of total sales



Geographic distribution of sales



1 Sweden 45 (35)
2 Europe, excl. Sweden 26 (28)
3 U.S.A. and Canada 3 (5)
4 Latin America 6 (8)
5 Africa 1 (2)
6 Asia 9 (12)
7 Australia, New Zealand and Oceania 10 (10)

Components

RIFA – an increasingly important resource for Ericsson

The Components Business Area develops, manufactures and markets components and power equipment for the electronics industry. Its operations, conducted mainly within RIFA AB, comprise three product areas:

- *Microcircuits* (integrated and hybrid circuits), 27 percent of sales;
- *Power Systems,* 32 percent of sales, and
- *Capacitors and Standard Components,* 41 percent of sales.

Weak order bookings from the information systems industry

Sales of the Business Area in 1985 amounted to Skr 1,461 m., up 19 percent from the preceding year. Other business areas within Ericsson accounted for 42 percent of sales. Orders for capacitors and OEM-power were weak as a result of the major problems that affected the computer and office information industries in 1985.

Components for Ericsson products given priority

During the year RIFA concentrated primarily on supplying components for Ericsson's various product programs. The percentage of sales to external customers will nevertheless continue to be high for the foreseeable future.

The microcircuits product area completed a number of very advanced development projects during 1985. New hybrid circuits and optical components developed within an extremely short period made it possible for Ericsson to be one of the first companies in the world to install a 565 Mb/s fiber optical transmission system. The installation was made in the U.S. New and highly complex cell-library-designed circuits were developed for use in Ericsson's AXE systems delivered to British Telecom. In cooperation with Advanced Micro Devices, Inc., an American semiconductor company, substantial development work was applied to establishing modern CMOS processes.

New power supply products for use in telephone and base radio exchanges recorded major sales successes. The marketing of advanced and custom-tailored products for power supplies and modular power systems was slowed by weak demand in the computer industry.

Sales of capacitors was strong, thanks to a large backlog of orders. Order bookings during the second half of the year were weak, however, and production has been cut back. In addition to reducing the volume of production, the manufacture of capacitors is being thoroughly rationalized. Overall, these measures involve a decrease of 350 in the number of employees in Kalmar, Boulogne (France) and Melbourne (Australia). Capacitor production in the latter plant was discontinued.

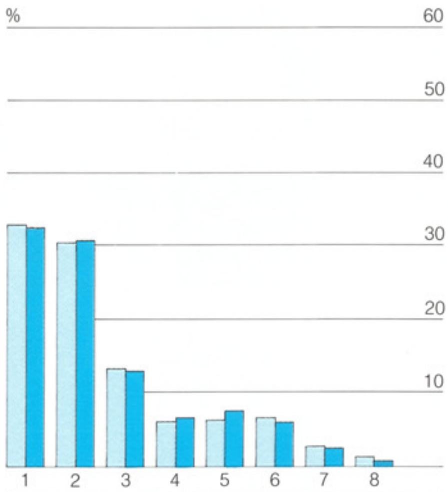
Weak trend of income

Operating income of the Business Area amounted to Skr 22 m., which was lower than in the preceding year. However, because of the Business Area's ever greater strategic role as Ericsson's developer of technology, certain long-term projects have to be given priority at the expense of short-term profitability.

The Business Area in brief Skr millions and percentages of Ericsson totals

	1985		1984		1983	
Sales	1,461	4.1%	1,225	4.0%	933	3.5%
Order bookings	1,368	3.6%	1,575	4.5%	1,044	3.8%
Employees	4,343	5.6%	4,231	5.6%	3,263	4.6%
Operating income after depreciation	22	–	34	–	60	–

Sales and operating income by Business Area (Skr millions)



1 Public Telecommunications 32.5 (33.0)
2 Information Systems 30.8 (30.5)
3 Cables 13.0 (13.3)
4 Defense Systems 6.6 (6.2)
5 Radio Communications 7.6 (6.3)
6 Network Engineering and Construction 6.2 (6.7)
7 Components 2.6 (2.7)
8 Other Operations 0.7 (1.3)

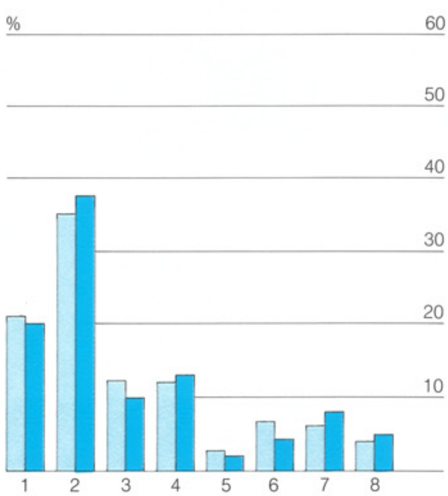
1984
1985

Bussines Area	Sales 1985	Sales 1984	Sales 1983	Operating income* 1985	Operating income* 1984	Operating income* 1983
Public Telecommunication	10,593	9,718	8,491	1,282	1,930	1,653
Information Systems	10,561	9,295	7,457	−806	−217	237
Cables	4,409	4,022	3,645	336	89	7
Defense Systems	2,161	1,831	1,603	178	172	95
Radio Communications	2,656	1,992	1,592	253	−32	31
Network Engineering and Construction	2,113	1,970	2,239	154	111	264
Components	1,461	1,225	933	22	34	60
Other Operations	1,482	528	348	83	90	144
Unallocated (capital gains and losses, corporate expenses)	–	–	–	135	26	−27
Less: Intersegment sales	−2,940	−1,203	−1,064	–	–	–
	32,496	29,378	25,244	1,637	2,203	2,464

* After depreciation but before financial income and expenses

"Other Operations" include a number of finance, property management and software companies, the Alerta countertrading company, and – up to and including June 30, 1985 – the Thorsman group, which manufactures installation products for the electrical and building industries.

Sales by geographic area (Skr millions)



1 Sweden 20.0 (21.0)
2 Europe, excl. Sweden 37.5 (34.7)
3 U.S.A. and Canada 9.9 (12.3)
4 Latin America 13.1 (11.9)
5 Africa 2.1 (3.0)
6 The Middle East 4.3 (6.9)
7 Asia excl. The Middle East 8.0 (6.2)
8 Australia, New Zealand and Oceania 5.1 (4.0)

1984
1985

Geographic area	1985	1984	1983
Sweden	6,515	6,161	4,939
Europe, excl. Sweden	12,179	10,186	8,658
U.S.A. and Canada	3,214	3,630	2,675
Latin America	4,251	3,501	2,995
Africa	687	897	1,028
The Middle East	1,384	2,016	2,704
Asia, excl. the Middle East	2,588	1,824	932
Australia, New Zealand and Oceania	1,678	1,163	1,313
	32,496	29,378	25,244

LM Ericsson share data

Stock exchange and OTC trading

Ericsson today has a larger percentage of foreign shareholders than any other listed Swedish company. At year-end 1985, approximately 44 percent of the Company's shares were held in countries other than Sweden. Ericsson took a major step in 1983 when it issued 4,000,000 "B" shares in the United States. These shares are quoted in the form of ADRs (American Depositary Receipts) in the NASDAQ electronic quotation system of the National Association of Securities Dealers. The ADRs represent 34 percent of the total number of shares outstanding. Earlier, LM Ericsson's "B" shares had been listed on the exchanges in Düsseldorf, Frankfurt-am-Main, Geneva, Hamburg, London, Oslo and Paris. The two largest markets, by far, for Ericsson shares are the Stockholm Stock Exchange and the NASDAQ system in the U.S. These markets, together with London, account for the greater part of the exports and imports of the Company's shares. Net exports of Ericsson shares from Sweden in 1985 amounted to Skr 209.4 m.

In 1985, 13,379,300 LM Ericsson shares were traded on the Stockholm Stock Exchange, and 31,360,700 via the NASDAQ system. The prices quoted in Stockholm and in the NASDAQ system affect each other. It cannot be said that one market determines the price in the other.

Capital stock

Following conversion of debentures covering 47,789 shares, the number of Telefonaktiebolaget LM Ericsson shares at year-end was 36,951,261 and the capital stock of the Company amounted to Skr 1,847.6 m. The par value of each share is Skr 50.

Of the total number of shares outstanding, 3,728,515 are "A" shares, carrying one vote each, and 33,222,746 are "B" shares, carrying one thousandth of a vote each. In other respects, there is no difference in the rights in the Company adhering to the different series of shares.

The Articles of Association of the Parent Company stipulate that 35 percent of the voting rights in the Company may be represented by nonrestricted shares that may be owned by foreign citizens as well as by citzens of Sweden. At year-end, the maximum possible voting rights of nonrestricted shares outstanding amounted to 34.1 percent of the total voting rights, and the actual voting rights of the outstanding nonrestricted shares represented 0.5 percent of the total rights. In other respects, there are no restrictions of the rights of foreign citizens to own LM Ericsson shares.

Stockholders

At year-end 1985, the total number of LM Ericsson stockholders was approximately 71,500, most of whom owned small holdings. In all, 68,081 shareholders owned 17.6 of the holdings of 500 or fewer shares. Holders of blocks of more than 20,000 shares totaled 137 and controlled 68.1 percent of the shares. The distribution of ownership among shareholders with the largest number of voting rights is stable. AB Industrivärden holds the largest percentage of voting rights, 22.3 percent, followed by Förvaltnings AB Providentia with 11.8 percent and AB Investor with 10.5 percent.

Dividend growth

Average increase per year, percent:

Period	Dividend	Consumer price index
1976–1985	11.4	9.8
1981–1985	10.0	9.0
1976–1980	12.8	10.5

Change in capital stock

	Number of shares	Capital stock
1976 January 1	15,380,117	769,005,850
1-for-4 stock dividend	3,845,029	192,251,450
1-for-6 new issue, Skr 75	2,563,352	128,167,600
1982 1-for-2 stock dividend	10,894,248	544,712,400
1983 Special new issue, \$62½	4,000,000	200,000,000
Conversions	181,677	9,083,850
1984 Conversions	39,049	1,952,450
1985 Conversions	47,789	2,389,450
1985 December 31	36,951,261	1,847,563,050

Distribution of shares (Year-end 1985)

At year-end 1985 approximately 44 percent of the Company's shares were held by shareholders outside Sweden. Of these holdings, 12,600,044 shares (34 precent) were in the form of American Depositary Receipts (ADRs).

The number of stockholders was approximately 71,500.

Size of holding	Shareholders Number	%	Shares Number	%	Number of shares per shareholder
1 – 500	68,081	95.2	6,490,000	17.6	95
501 – 1,000	2,016	2.8	1,412,000	3.8	700
1,001 – 2,000	753	1.0	1,056,000	2.9	1,400
2,001 – 5,000	341	0.5	1,076,000	2.9	3,160
5,001 – 10,000	111	0.2	827,000	2.2	7,450
10,001 – 20,000	61	0.1	920,000	2.5	15,100
More than 20,000	137	0.2	25,170,000	68.1	184,000
	app. 71,500	100.0	36,951,261	100.0	517

Stockholders

The largest stockholders, ranked by percentage of voting rights, were as follows at December 31, 1985:

	Number of shares	Percentage of voting rights
AB Industrivärden	1,400,000	22.3
Förvaltnings AB Providentia	444,000	11.8
AB Investor	394,000	10.5
Allmänna Pensionsfonden-Fjärde Fond-stiftelsen	738,479	8.6
Knut och Alice Wallenbergs Stiftelse	520,626	5.5
Svenska Handelsbankens Pensionsstiftelse	187,800	5.0
Pensionskassan SHB Försäkringsförening	148,743	4.0
Stockholms Enskilda Banks Pensionsstiftelse	136,673	3.6
Försäkrings AB Skandia	637,778	2.6
Svenska Personal-Pensionskassan (SPP)	1,288,449	2.3

Stock exchange trading

LM Ericsson's "A" and "B" shares are listed on the Stockholm Stock Exchange.

The "B" shares are listed on the exchanges in Düsseldorf, Frankfurt-am-Main, Geneva, Hamburg, London, Oslo and Paris. In the U.S., the Company's American Depositary Receipts (ADRs) are quoted in the over-the-counter market through NASDAQ (National Association of Securities Dealers Automated Quotation System). Each ADR represents one B share.

Trading volume

The number of LM Ericsson shares traded on the Stockholm Stock Exchange and through the NASDAQ system (via ADRs) during the years 1981 – 1985 was as follows:

Year	Stockholm Stock Exchange	NASDAQ U.S.A.
1985	13,379,300	31,360,700
1984	7,347,305	16,031,200
1983	8,779,949	18,663,600
1982	7,207,016	3,452,700
1981	5,220,746	7,100

Exports/Imports

Exports of LM Ericsson shares from Sweden and imports of such shares to Sweden during the years 1981 – 1985 were as follows:

Year	Exports (Skr m.)	Imports (Skr m.)	Net (Skr m.)
1985	1,373.9	1,164.5	209.4
1984	1,175.5	704.7	470.8
1983	4,071.3	1,057.8	3,013.5
Of which, special new issue	1,798.6		1,798.6
1982	1,389.7	487.3	902.4
1981	372.2	212.1	160.1

Sources: Bank of Sweden and Swedish Bank Inspection Board

Board of Directors

Members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HANS WERTHÉN
Chairman, Honorary Doctor of Technology, Chairman of the Boards of AB Electrolux and Gränges AB

JAN WALLANDER
Deputy Chairman, Doctor of Philosophy, Chairman of the Boards of Svenska Handelsbanken and Dagens Nyheter AB

PETER WALLENBERG
Deputy Chairman, Honorary Doctor of Economics, First Deputy Chairman of the Board of Skandinaviska Enskilda Banken, Chairman of the Boards of Atlas Copco AB, AB Investor, Providentia and STORA

TORSTEN BENGTSON
Employee representative

LENNART DAHLSTRÖM
Former President of the National Pension Insurance Fund, Chairman of the Board of AB Marabou

PAUL KVAMME
Employee representative

PER LINDBERG
Honorary Doctor of Economics, President of Industrivärden AB, Chairman of the Boards of Investment AB Promotion, JM Bygg AB, Gunnebo AB and PLM AB

SVEN OLVING
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STEN RUDHOLM
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SVEN ÅGRUP
Chairman of the Boards of AGA AB and Pharos AB

BJÖRN SVEDBERG
President and Chief Executive Officer, Honorary Doctor of Technology

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ARNE MOHLIN
Executive Vice President

THOR NORDMYR
Employee representative

THOMAS OLSSON
Employee representative

JAN STENBERG
Executive Vice President

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Statutory Auditors

DAVID JONES, *Chartered Accountant, Price Waterhouse*

NILS-AXEL FRISK, *Former Executive Vice President (Finance), Swedish Staff Pension Fund*

JÖRGEN ESKILSON, *Authorized Public Accountant, Price Waterhouse*

Deputy Auditors

OLOF HEROLF, *Authorized Public Accountant, Price Waterhouse*

KARL-AXEL LINDEROTH, *President, Swedish Staff Pension Fund*

CARL-ERIC BOHLIN, *Authorized Public Accountant, Price Waterhouse*

Corporate Officers

Corporate Executive Committee

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Chief Executive Officer & President, Telefonaktiebolaget LM Ericsson

ARNE MOHLIN
Executive Vice President

CARL WILHELM ROS
Executive Vice President & Chief Financial Officer

JAN STENBERG
Executive Vice President, Business Area Public Telecommunications

---

STEPHAN ALMQVIST
Senior Vice President, Corporate Finance

LARS BERG
Senior Vice President, Business Area Cables & President, Ericsson Cables AB

MATS DELLHAM
Senior Vice President, Corporate Relations

LARS EDMARK
Senior Vice President, Corporate Market Coordination

LENNART GRABE
Senior Vice President and General Counsel, Corporate Legal Affairs

HARRY JOHANSSON
Senior Vice President, Corporate Controller

ULF H. JOHANSSON
Senior Vice President, Business Area Defense Systems

BO LANDIN
Senior Vice President, Corporate Market Coordination and Strategic Planning

STIG LARSSON
Senior Vice President, Business Area Information Systems & President, Ericsson Information Systems AB

MAGNUS LEMMEL
Senior Vice President, Corporate Market Coordination

GÖSTA LINDBERG
Senior Vice President, Corporate Technology and Quality & Chief Technical Officer

BJÖRN LINTON
Senior Vice President, Business Area Network Engineering and Construction & President, Ericsson Network Engineering AB

ÅKE LUNDQVIST
Senior Vice President, Business Area Radio Communications & President, Ericsson Radio Systems AB

KARL-AXEL LUNELL
Senior Vice President, Corporate Market Coordination

LARS RAMQVIST
Senior Vice President, Business Area Components & President, RIFA AB

ROLF SKILLNER
Senior Vice President, Corporate Personnel and Organization

HANS SUND
Executive Vice President, Corporate Subsidiaries

Investor Relations
PETER BERGENHAG

Investor Relations in the U.S.
JOHN MEURLING, *Vice President*

Ten-Year Summary

Amounts in millions of Swedish kronor
Per-share amounts in kronor

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
Results for Year										
Net sales	32,496	29,378	25,244	19,470	16,194	12,174	9,329	9,021	7,833	7,312
Operating income	1,637	2,203	2,464	1,841	2,198	1,195	741	1,118	904	1,010
Financial income less financial expenses	−953	−914	−802	−949	−1,134	−307	−80	−463	−384	−605
Income before appropriations and taxes	878	1,569	1,758	1,349	1,192	935	786	721	553	407
Year-End Position										
Total assets	37,122	37,632	30,606	25,481	21,896	17,711	12,959	12,767	11,972	11,162
Working capital	16,707	17,042	12,828	10,250	9,133	7,895	6,047	5,793	5,865	5,150
Property, plant and equipment, net	7,549	7,144	6,176	5,596	4,783	3,833	1,840	1,989	2,095	2,015
Long-term liabilities	8,565	7,658	6,673	7,230	6,383	4,932	3,817	3,647	3,358	3,188
Untaxed reserves	4,794	5,030	4,333	3,617	3,251	3,233	1,915	1,554	1,558	1,580
Stockholders' equity	6,901	6,560	6,219	3,973	3,654	3,010	2,947	2,869	2,677	2,594
Other Information										
Adjusted net income per share										
– after actual taxes paid	12.62	30.54	34.46	25.05	21.12	19.19	19.53	14.69	8.52	7.84
– after actual and estimated deferred taxes	15.15	19.99	22.05	17.13	16.73	13.57	11.43	12.23	8.23	6.49
Cash dividends per share	9.00	9.00	9.00	7.50	6.50	5.67	4.67	3.67	3.33	3.33
Shares outstanding – average (in thousands)	36,951	36,899	35,331	32,683	21,788	21,788	21,788	21,788	21,788	20,265
Additions to property, plant and equipment	2,677	2,192	1,645	1,662	1,275	718	508	501	548	586
Depreciation	1,308	1,039	945	760	621	409	307	329	303	290
Research and development										
– expenses	2,798	2,355	1,973	1,638	1,359	1,013	817	746	641	590
– in percent of net sales	8.6	8.0	7.8	8.4	8.4	8.3	8.8	8.3	8.2	8.1
Ratios										
Return on equity, percent	6.1	8.5	10.9	10.0	11.0	10.4	9.2	11.3	7.6	6.7
Return on capital employed, percent	11.3	13.6	17.8	16.5	18.8	14.4	13.1	16.8	13.4	14.6
Equity ratio I, percent	26.5	27.0	31.4	26.9	28.4	31.6	33.2	31.8	32.0	33.4
Equity ratio II, percent	32.9	33.7	38.5	33.9	35.8	40.7	40.5	37.8	38.6	40.5
Debt-equity ratio	1.5	1.5	1.1	1.5	1.4	1.2	1.1	1.1	1.3	1.2
Current ratio	1.6	1.6	1.8	1.7	1.9	2.1	2.3	2.1	2.1	2.2
Year-End Statistics										
Backlog of orders	23,055	25,161	21,565	20,991	17,701	11,914	10,147	10,586	8,565	7,522
Number of employees										
worldwide	78,159	75,116	70,783	66,300	69,860	65,910	55,690	61,400	62,820	67,500
Sweden	40,172	37,458	34,543	31,130	31,030	27,970	27,950	27,500	27,370	28,730

Definition of terms used above are given under Notes to the Financial Statements, page 34.

Ericsson

Parent Company, Subsidiaries, Associated Companies, Regional and Technical Offices

Algeria

Telefonaktiebolaget LM Ericsson
Bureaux Techniques d'Algérie
El Djazair
Lars Johansson

Argentina

Compañía Ericsson S.A.C.I.
Buenos Aires

Compañía Argentina de
Teléfonos S.A.
Buenos Aires
Sven Lönnström

Compañía Entrerriana de
Teléfonos S.A.
Buenos Aires
Sven Lönnström

Industrias Eléctricas de
Quilmes S.A.
Quilmes
Arvid Jauring

Australia

LM Ericsson Pty. Ltd.
Broadmeadows
Lars Estberger

LM Ericsson
Finance Pty. Ltd.
Broadmeadows
Lars Estberger

Ericsson Signal Systems
Pty. Ltd.
Brisbane
Bernard Tumalty

NIRA Australia Pty. Ltd.
Alexandria
Brian Fitzgerald

Rifa Pty. Ltd.
Preston
Nils Öman

Austria

Ericsson Information Systems
Ges.m.b.H.
Vienna
Franz Kriegler

Programatic Software Ges.m.b.H.
Vienna
Gerhard Walter

Belgium

Ericsson Information Systems
NV/SA
Brussels
Göran Schlyter

N.V. Nira Communication
Systems
Wevelgem
Freddy Michielsen

Ericsson Programatic NV/SA
Brussels
Nicolas Verganelakis

Facit Office Products NV/SA
Brussels
Georges Heneffe

Brazil

Ericsson do Brasil Comércio
e Indústria S.A.
São Paulo
Sérgio Monteiro de Carvalho

Facit S.A.
São Paulo
Adolfo Melito

Fios e Cabos Plásticos
do Brasil S.A.
Rio de Janeiro
Jan Andersson

Ericsson Amazonia S.A.
Manaus

Canada

Ericsson Communications Inc.
Montreal, Quebec

Chile

Compañía Ericsson de Chile S.A.
Santiago
Jan Hartzell

China

Telefonaktiebolaget LM Ericsson
Beijing Office
Beijing
Lars Jacobson

Colombia

Ericsson de Colombia S.A.
Bogotá
Rolf Bäckström

FACOMEC S.A.
Cali
Kaj Nielsen

Costa Rica

Ericsson de Costa Rica S.A.
San José
Gerardo Valverde

Denmark

Dansk Signal Industri A/S
Copenhagen
Adolf Wiuff

LM Ericsson A/S
Copenhagen
Asbjørn Dehlie

LM Ericsson Finans A/S
Glostrup
Asbjørn Dehlie

Ericsson Information Systems
A/S
Herlev
Steen Bundgaard

Ericsson Radio Systems A/S
Tåstrup
Åke Lindström

Facit A/S
Herlev
Erik Aa Larsen

Brdr B&E Hansen A/S
Copenhagen
Per Grøntved Svendsen

Ecuador

Teléfonos Ericsson C.A.
Quito
Kjell Björk

Egypt

Telefonaktiebolaget LM Ericsson
Egypt Branch
Cairo
Gerald Vallancey

El Salvador

Telefonaktiebolaget LM Ericsson
Sucursal El Salvador
San Salvador

Finland

Oy LM Ericsson Ab
Jorvas
Yngve Ollus

Oy DAVA Ab
Helsinki
Christian Westerlund

Oy Facit Ab
Helsinki
Bo-Eric Wiberg

France

Ericsson Information Systems
S.A.
Colombes
Jean Claude Sac

Ericsson Location S.A.
Paris
Jean Claude Sac

Nira S.A.
Nanterre
Julien Rubinstein

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Boulogne-sur-Mer
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SPETELEC
Saint Quentin en Yvelines
Michel Avanessoff

Programatic S.A.
Nanterre
Jean-Pierre Mezösy

Germany, Federal Republic of

Ericsson Information Systems
Vertriebspartner GmbH
Stuttgart
Harro D. Welzel

Ericsson Information Systems
GmbH
Düsseldorf
Harro D. Welzel

Ericsson Leasing GmbH
Düsseldorf
Gustav Schaal

Nira Deutschland
(Filial von Ericsson Paging
Systems BV)
Kaarst

Programatic Software PS GmbH
Düsseldorf
Björn Kärrberg

RIFA GmbH
Munich
Lars-Göran Persson

RIFA-LEITGEB GmbH
Engen
Stefan Falk

Greece

Ericsson (Hellas) Telecommunications Equipment S.A.
Athens
Willy Johansson

Guatemala

Ericsson de Guatemala S.A.
Guatemala City
Ignacio Gonzales

Hong Kong

Ericsson Communications
(Hong Kong) Ltd.
Hong Kong
Olof Haag

India

Ericsson India Ltd.
New Delhi
Satish C. Sood

Facit Asia Ltd
Madras
Bo Leufstedt

Iran

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(Private Joint Stock Company)
Tehran
Parvis Hurfar

Iraq

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Iraq Branch
Baghdad
Göran Berild

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LM Ericsson Ltd.
Athlone
Olav Hamstad

Ericsson Information Systems
Ltd.
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John F. Kennedy

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Athlone
Vincent Daly

Ericsson Expertise Ltd
Glasthule, Dun Laoire,
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Guiseppe Pizzi

C.S.T. – Centro Sviluppo Telecomunicazioni S.p.A.
Rome
Jan Folke Fernholm

Ericsson Programatic S.p.A.
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Glauco Teti

Ericsson Informatica S.p.A.
Rome
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Rome
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Facit Data Products S.p.A
Agrate Brianza
Vittorio Amigoni

FATME, S.p.A.
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Gianluigi Molinari

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Cosenza
Aurelio Casali

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Tokyo
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Bo Zaine

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Lennart Kalling

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Technical Office Kuwait
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Beirut
Riad Daher

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Perwira Ericsson Sdn Bhd
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San Luis Potosi
Bo Gustafsson

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Raimo Lindgren

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Mextron S.A. de C.V.
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Délégation Technique du Projet au Maroc
Rabat – Agdal
Gunnar Håkansson

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Woerden
Robert Corduwener

Ericsson Information Systems BV
Woerden
Robert Corduwener

Ericsson Programatic BV
Gorinchem
Jan Sauer

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Rijen
Björn Jönsson

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Amsterdam
Colin B. Buckingham

Nira Nederland BV
Utrecht
Chris Berger

Nira Productie Nederland BV
Emmen
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Netherlands Antilles

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Wellington
Per Uddén

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Napier
Per Uddén

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Lagos
Stig Sandmark

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Oslo
William Svedberg

Lehmkuhl Radio Systemer A/S
Oslo
Tor Ellingsen

Nordic Electronic Systems A/S
Oslo
Knut Trovaag

RIFA A/S
Oslo
Tor Jakob Høyem

Oman

Telefonaktiebolaget LM Ericsson
Technical Office Oman
Muscat
Per Berg

Panama

Telequipos S.A.
Panama

Peru

Compañía Ericsson S.A.
Lima
Julien Sideris

Portugal

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Linda-a-Velha
Bengt Forss

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Riyadh
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Johnny Speich

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Programatic S.A.
Madrid
Alberto Harriague

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Stockholm

AB Aulis
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CAD Stockholm AB
Stockholm
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Karlskrona
Urban Jansson

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Stockholm
Viesturs Vucins

Ericsson Innovation Erinova AB
Stockholm
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LM Ericsson Data Services AB
Stockholm
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Ericsson Information Systems
Sverige AB
Stockholm
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Stockholm
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Ericsson Network Engineering AB
Stockholm
Björn Linton

Ericsson Programatic Sweden AB
Karlstad
Mats Krave

Ericsson Radio Systems AB
Stockholm
Åke Lundqvist

Ericsson Radio Systems
Sverige AB
Sundbyberg
Leif Holm

Ericsson Signal Systems AB
Stockholm
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Luleå
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Öjebyn
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Stockholm
Lars Ramqvist

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Ericsson Finanz AG
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Ericsson Information Systems AG
Zollikon
Thomas Avedik

Programatic AG
Zollikon
Björn Kärrberg

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Taipei
Christer Hohenthal

Thailand

Ericsson Telephone Corporation
Far East AB
Bangkok
Supridi Sribhadung

Ericsson Thai Networks
Company Ltd
Bangkok
Hans Welinder

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Telefonaktiebolaget LM Ericsson
Bureaux Techniques de Tunisie
Tunis
Hugo Agnvall

United Arab Emirates

Telefonaktiebolaget LM Ericsson
Technical Office UAE
Abu Dhabi
Lennart Nilsson

United Kingdom

Ericsson Finance Ltd.
Birmingham
John Bunce

Ericsson Information Systems Ltd.
Birmingham
John Bunce

Ericsson Network Engineering Ltd.
London
Jahn Wennerholm

Ericsson Programatic Ltd.
Birmingham
Michael J. Lyons

Production Control (Ericsson) Ltd.
Brighton
Duncan MacDougall

Recordacall Ltd.
Horsham
Duncan MacDougall/
Maurice Adams

Swedish Ericsson Company Ltd.
Birmingham
John Bunce

Thorn Ericsson Telecommunications Ltd.
Horsham
Duncan MacDougall

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Richardson, Texas
M. Peter Thomas

Ericsson, Inc.
Cable Division
Overland Park, Kansas
George N. Benjamin

Ericsson, Inc.
Network Systems Division
Richardson, Texas
Kjell Sörme

Ericsson, Inc.
Information Systems Division
Garden Grove, California
Homer L. Huddleston

Ericsson, Inc.
Radio Systems Division
Richardson, Texas
Manfred M. Buchmayer

The Ericsson Corporation
New York, N.Y.
Tom Potworowski

LM Ericsson International, Inc.
Miami, Florida
Rodrigo Montealegre

Ericsson Network Projects, Inc.
Richardson, Texas
Lars Sköld

Ericsson Software, Inc.
Richardson, Texas
James Reeve

Facit, Inc.
Merrimack, New Hampshire
Lars Jarnryd

Honeywell Ericsson Development Company
Anaheim, California
Bo Hedfors

RIFA, Inc.
Greenwich, Connecticut
John Davidson

Uruguay

Compañía Ericsson S.A.
Montevideo
Augusto Bazzi

Venezuela

Compañía Anónima Ericsson
Caracas
Stig Johansson

Sistemas Ericsson C.A.
Caracas
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Zambia

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Lusaka
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