

Cover:

Microelectronics is becoming an area of increasing strategic importance for the communications industry. Special circuits adapted for specific products provide improved performance, make new functions possible and reduce space requirements strikingly. Photo shows a silicon wafer with several hundred circuits against a background of a VLSI (Very Large Scale Integrated) circuit with approximately 32,000 transistor functions on an area of about 40 square millimeters.

Annual General Meeting

The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Tuesday, May 19, 1987. For further information see page 52.

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Telefonaktiebolaget LM Ericsson

Annual Report 1986

Favorable trend of profitability

The downtrend in earnings since 1983 was reversed during 1986. The improvement in operating results and the reduction in working capital occurred gradually during the year, indicating that profitability has turned upward.

Improvement in equity ratio and cash flow

Cash flow improved markedly, reducing the need for external borrowing. The equity ratio improved from 26.5 to 30.5 during 1986.

AXE exchange placed in service by British Telecom

The first AXE local telephone exchange delivered to British Telecom was placed in service. The original contract for 400,000 lines of equipment was increased. At year-end, British Telecom had ordered a total of 790,000 lines.

Continued success for mobile telephony in the U.S.

Fifteen more mobile telephone systems were delivered to customers in the U.S. Ericsson now has 35 percent of the U.S. market not served by telephone operating companies.

Increased investment in R&D

Ericsson's total costs for research and development increased to Skr 3,117 million in 1986, equal to 9.9 percent of sales, compared with 8.6 percent in 1985.

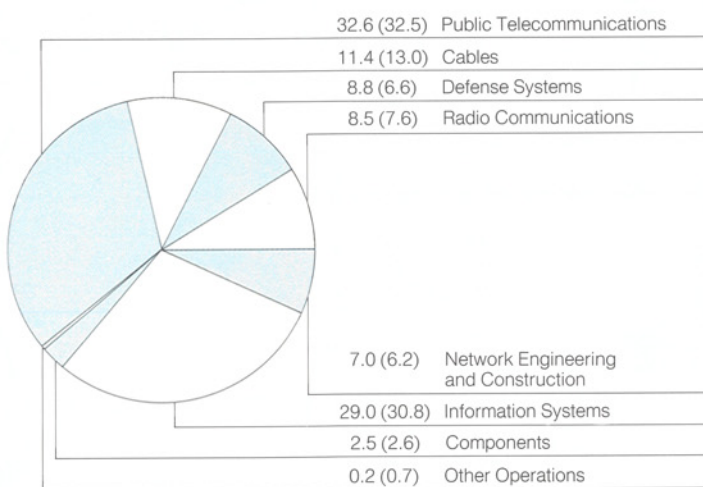
Highlights	1986	1985	Change,
	Skr m.	Skr m.	percent
Net sales	31,644	32,496	-3
Order bookings	32,794	33,812	-3
Order backlog at year-end	23,625	23,055	2
Income before appropriations and taxes	911	878	4
Net income per share after taxes paid, Skr	14.96	12.62	19
Net income per share after paid and estimated deferred taxes on appropriations, Skr	17.21	15.15	14
Dividend per share, Skr*	9.00	9.00	-

*For 1986, proposed by the Board of Directors

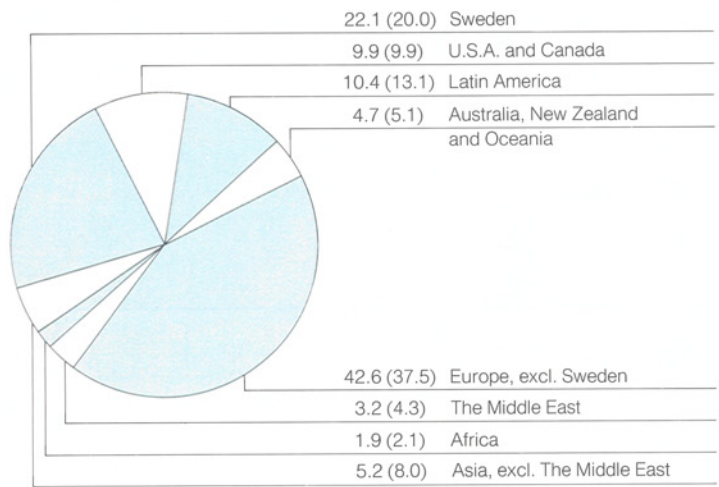
Ericsson in Brief

- Ericsson is one of the world's leading suppliers of systems and services for the handling and transmission of voice, data, image and text in public and private communications networks. Ericsson also supplies advanced electronic defense systems.
- Telefonaktiebolaget LM Ericsson, the Parent Company, is based in Stockholm, where Ericsson's corporate headquarters are located.
- Ericsson, established in 1876, today has approximately 200 subsidiaries in more than 100 countries.
- Ericsson has 72,500 employees, of whom half are located in Sweden.
- Ericsson's operations are organized in seven Business Areas: Public Telecommunications, Information Systems, Cables, Defense Systems, Radio Communications, Network Engineering and Construction and Components.
- Telefonaktiebolaget LM Ericsson's share capital amounts to Skr 1,908 million, represented by 38,162,382 shares, each with a par value of Skr 50. Approximately 43 percent of the shares are owned outside Sweden.
- Research and development is a priority sector. In 1986, an amount equal to 9.9 percent of Ericsson's sales was allocated for R&D.
- Operations are concentrated in areas where Ericsson can achieve large market shares. In each of its markets, Ericsson operates as a domestic company, often with local production and local development work.
- Ericsson is known for its broad international experience, high level of technical expertise and advanced systems-oriented development programs.
- Sales in 1986 amounted to Skr 31,644 million.

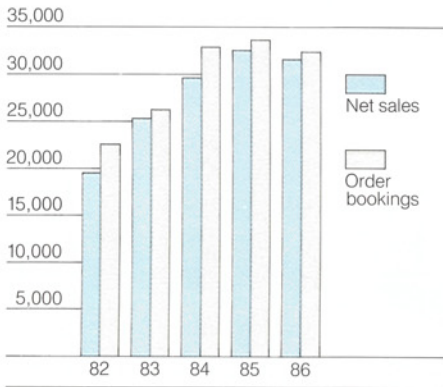
Sales to external customers, by Business Area %



Geographic distribution of sales %

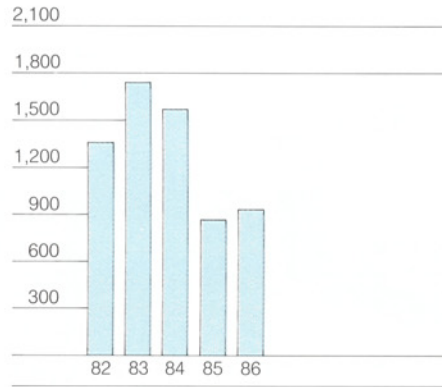


Net sales/Order bookings Skr m.



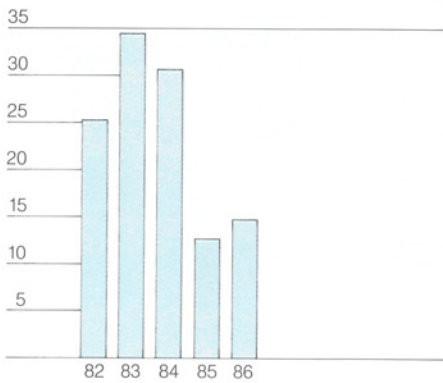
Sales and order bookings declined 3 percent during 1986. Excluding divestments and the decline in the U.S. dollar exchange rate, sales by comparable units rose 6 percent, and order bookings 6 percent. The average annual rate of growth in sales and order bookings during the past five years was 13 and 10 percent, respectively.

Income before appropriations and taxes Skr m.



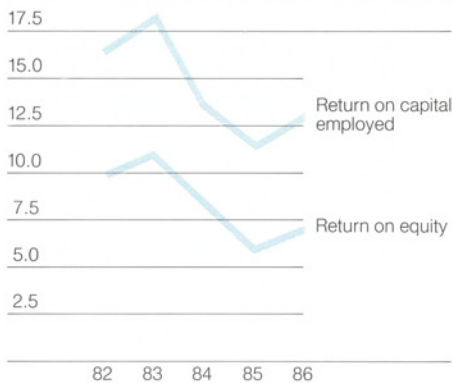
The declining trend of profits since 1983 was halted in 1986. Income was 4 percent higher than in 1985.

Adjusted net income per share after actual taxes paid Skr



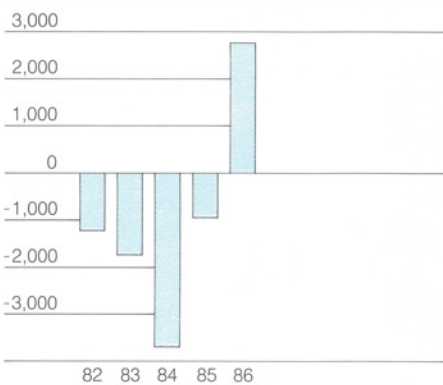
As a result of improved income in 1986 and a lower tax rate for the year, profit per share after taxes paid increased 19 percent compared with 1985.

Return on equity and capital employed %



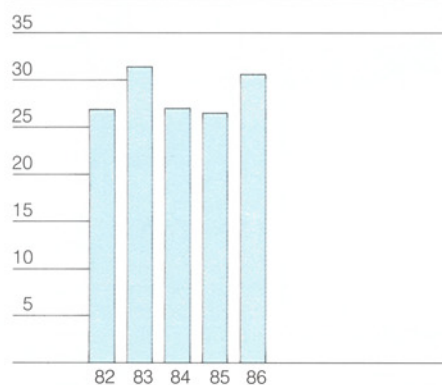
Return on equity increased from 6.1 percent in 1985 to 6.9 percent in 1986. Return on capital employed increased from 11.3 percent to 13.1 percent in the same period.

Cash flow before external financing Skr m.



The negative cash flow of recent years was reversed to a positive flow of Skr 2.8 billion in 1986.

Equity ratio %



As a result of the reduction in tied-up capital and, consequently lower borrowing, the equity ratio (including 50 percent of untaxed reserves) rose from 26.6 percent in 1985 to 30.5 percent in 1986.

Chief Executive Officer's Comments

Ericsson:

Independent, with its own core products,
but working cooperatively with others



The rate of change within the entire communications industry continued to rise during 1986. The use of communications systems that handle both voice and data is expanding. Development of public telecom networks is being spurred by the opportunities the new technology offers to provide increased service to private customers, public institutions and industrial companies.

System approaches are becoming more important than individual products. Possibilities for expansion are increasingly decisive factors for customers' long-term investments in systems. We are favored by this trend, and we are continuing to build on our solid systems know-how.

Ericsson's production will gradually be concentrated on strategically important technologies where satisfactory volume and profitability can be maintained. For some time now, production has consisted more of assembly operations than of manufacturing in the traditional sense. In the future, less capital will be tied up in inventory, machinery and buildings.

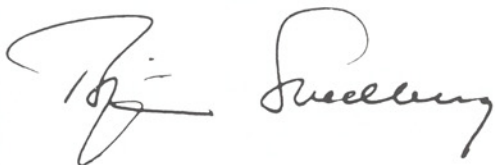
Digitalization of systems, greater use of fiber optics and the development of components, combined with increasing demands for advanced communications facilities, have resulted in structural change within the industry. Most companies have had to make rapid major adjustments to the new reality. Ericsson is no exception in this respect. We have had to actively change direction, and we have made changes in our organization. The action programs introduced in 1985 and 1986 will continue as planned and will achieve their full impact in 1989.

Mergers and cooperation agreements have become increasingly common in the telecommunications and data processing industry. Large volumes are important in order to develop systems and products that are competitive over the long term. Only a few companies have tested systems that permit further development in line with the changes in demand that are now taking place.

Ericsson is strong enough to be able to continue as an independent company with its own core products. We shall become even better in areas where we have our real strengths. At the same time, we must realize that we cannot do everything ourselves. Through cooperation in various areas, we are achieving efficiency and the volumes of business required to support continued development work. The agreements we have made in the fields of bank terminal and mobile telephony systems are examples. We are assuring our long-term competitiveness by concentrating and developing our own expertise in strategically important areas.

The past two years have required major efforts, but Ericsson has also attained a higher degree of stability and our future direction is completely clear. The changes ahead in technology will be great, however. As a result, we must expect a continuing decline in the number of employees engaged in production.

Based on the structural changes already made and those that are planned within Ericsson, and on the strategy we are now following, I am cautiously optimistic about the trend of profitability in 1987. The gradual improvement achieved during 1986 should continue.



Björn Svedberg
President

Board of Directors' Report

Trend of the economy

Changes in the price of oil and other raw materials, combined with the declining rate of exchange for the U.S. dollar, affected the development of the world economy during 1986. In Europe, the cost increase has leveled off and the inflation rate is low in most countries.

The United States' foreign debt has risen sharply as a result of high import-based consumption. This has caused relatively strong intervention in financial and trade policy, with the objective of restraining consumption and increasing exports. There are increasing demands for balance in foreign trade and for foreign manufacturers to establish production in the U.S.

Within Europe, these restraints are likely to lead to increased competition, from America as well as from Japan and other countries that want to compensate for reduced demand in the U.S.

In most countries that are producers of raw materials in the Middle East, Latin America and Southeast Asia, the trend of prices has resulted in sharply reduced investments. But countries with substantial mass production, such as Taiwan, the Republic of Korea and Hong Kong, continue to have strong economies and large trade surpluses.

Japan has benefitted from low oil prices but has simultaneously been hit relatively hard by the rising rate of exchange of the yen against the U.S. dollar. Apart from its activities in Europe, Japan is now strengthening its grip on nearby markets through substantial investments in Southeast Asia and Oceania.

Ericsson and the economy

Ericsson is concentrating its operations to strengthen its positions in the fastest-growing market areas: the United States, Europe and certain countries in Latin America and Southeast Asia. Activities in other areas are designed to maintain market shares already achieved. Ericsson has the advantage of a stable presence in many countries that require regular investments to expand and modernize their telecommunications networks.

Ericsson is affected relatively little by short-term fluctuations in the economy. This is due primarily to the make-up of the Company's customers. Telecommunications administrations plan long-term, which has a stabilizing effect. A broad product program and geographically widespread operations are other contributing factors.

Reduced capital expenditures in traditionally important Ericsson markets in the Middle East, Southeast Asia and a large part of Latin America resulted in lower order bookings in 1986, however. This trend was offset only in part by good growth in Europe, where Ericsson strengthened its market positions during 1986.

The rate of growth in the People's Republic of China has been lower than expected. In Malaysia and Indonesia, weakened economies caused reduced demand for both fixed and mobile telephone systems. Contracts received in Thailand will be filled over a longer period than was planned earlier.

In Latin America, Mexico, where Ericsson has a very strong position, has a comprehensive investment program. In Venezuela, Ericsson, together with two other companies, will supply equipment in connection with the expansion of the country's telecommunications network. Ericsson's opera-

The first AXE installations for British Telecom were placed in service in the London area during the year. In terms of order bookings, Great Britain is now Ericsson's largest market for AXE systems.



tions in Latin America have declined in recent years and, as a result, the Company is less exposed to currency risks.

AXE being developed for the world's most demanding markets

The British market is growing rapidly. The strategically very important business for which Ericsson signed an agreement there in 1985 has developed well. The first systems have been installed and taken over by British Telecom. Ericsson established a strong market position in Great Britain during the year.

The United States accounts for 40 percent of the world market for public telecommunications. Here, one finds a wide range of services, high expertise, and customers who continuously demand new facilities. Ericsson is working aggressively to increase its presence in the North American market.

The analysis and evaluation of the AXE system by Bellcore (Bell Communications Research), the research organization of the Bell operating

companies, has proceeded on schedule and the first phase was completed during 1986. It resulted in orders from NYNEX and US West for field testing of the AXE system in New York and Canon City, Colorado, respectively. During the autumn of 1986 AXE equipment was also delivered to Southwestern Bell in Dallas and Houston for market tests involving new services. The evaluation and further development of AXE will thus be taking place in the world's most demanding market. The objective is to obtain between five to ten percent of the market for local exchanges in the U.S. at the end of the Eighties. The successes achieved during 1986 are also of great importance for Ericsson's competitiveness in other markets.

Ericsson leads in mobile telephony

Mobile telecommunication is increasing rapidly, notably in Europe, the United States and the Far East. Parallel with the introduction of digital technology, system capacity is increasing, as is the ability to provide voice coding and more efficient transmission of data. Radio, mobile telephony and personal paging are now being increasingly used in many companies.

Ericsson, which leads in the development of systems for mobile telephony, had a 45-percent share of the world market in this field at year-end 1986. The Nordic Mobile Telephone network, the largest in the world with 310,000 subscribers, is largely based on Ericsson technology. During the year this network was expanded through the introduction of a new system – NMT 900 – to further increase capacity.

Fifteen new Ericsson mobile telephony systems were placed in service during the year in the U.S., where Ericsson today accounts for 35 percent of the market that is not served by U.S. telephone operating companies.

MD 110: the base for information systems

A modular systems concept for private communication facilities has been built up around Ericsson's MD 110 subscriber exchange. This exchange meets all the requirements for integration of various functions.

All data processing and communications equipment in an office can be connected to a single system. Continuing refinement of the MD 110 is designed to provide systems offering additional services. Special custom-tailored adaptations are available for hospitals, hotels and companies with various specific requirements.

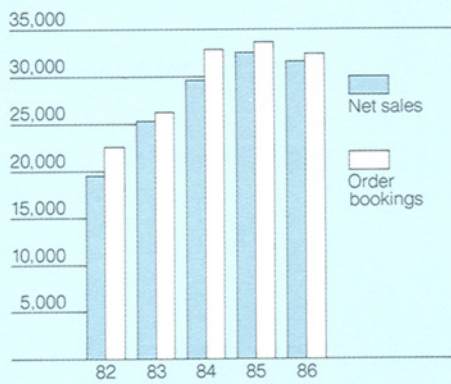
An advanced communications system for voice and data was placed in service in San Diego, California during the year. Signals in this system are transmitted with the aid of optical cable and microwave links. In Stockholm, Ericsson's larger units are connected in a common MD 110 system with a capacity of more than 25,000 subscriber lines.

An increasing number of information system terminals and network functions are now being linked to public networks as telecommunications monopolies are being relaxed.

Sales and order bookings

Ericsson's consolidated sales in 1986 amounted to Skr 31,644 m., compared with Skr 32,496 m. in 1985, a decrease of 3 percent. Excluding divestments, sales of comparable units increased 1 percent. The sharp drop in the exchange rate of the U.S. dollar affected sales adversely.

Net sales / Order bookings Skr m.



The Nordic Mobile Telephone Network (NMT), largest in the world with 310,000 subscribers, is based mainly on Ericsson technology. Ericsson, with 45 percent of the world market, is the leader in mobile telephony systems.



Sales to external customers, per Business Area

	1986	1985	Change %
Public Telecommunications	10,316	10,561	-2
Information Systems	9,187	9,986	-8
Cables	3,618	4,225	-14
Defense Systems*	2,795	2,143	30
Radio Communications*	2,688	2,480	8
Network Engineering and Construction	2,201	2,013	9
Components	788	852	-8
Other operations	51	236	-78
Total	31,644	32,496	

* Due to organizational changes, figures for 1985 are not comparable with 1986 figures.

Order bookings decreased 3 percent, from Skr 33,812 m. in 1985 to Skr 32,794 m. in 1986. The order backlog at year-end 1986 was Skr 23,625 m., against Skr 23,055 m. at the close of 1985.

Income

Consolidated operating income before appropriations and taxes in 1986 was Skr 911 m., compared with Skr 878 m. in 1985, an increase of 4 percent.

Operating income after depreciation improved by Skr 477 m., to Skr 2,114 m. in 1986. Income in 1986 included net capital gains of Skr 378 m. on the sale of shareholdings and fixed assets, compared with capital gains of Skr 333 m. in 1985.

The improvement in operating income resulted in large part from the favorable trend of business in the Informations Systems Business Area.

Consolidated net financial expense increased from Skr 952 m. in 1985 to Skr 1,180 m. in 1986. The increase was wholly attributable to currency and working capital developments in Mexico during the year.

Ericsson's share of income, after tax, in associated companies rose to Skr 181 m. in 1986, compared with Skr 34 m. in the preceding year. The majority interest in Ficap, the former subsidiary in Brazil, was divested. Accordingly, Ericsson's share of income in this company during the latter six-months of the year is included in "Equity in earnings (after taxes) of associated companies" in the Consolidated Income Statement. Ericsson do Brasil's income improved substantially during the year.

Minority interest in income before appropriations and taxes amounted to Skr 204 m., compared with a net loss of Skr 159 m. a year earlier. The change was attributable primarily to the fact that ARCO, with its 50-percent holding in Ericsson, Inc., bore half the costs of introducing Ericsson products in the United States in 1985. Ericsson, Inc. has been wholly owned by Ericsson since January 1, 1986.

The *Public Telecommunications* Business Area reported slightly lower operating income than in 1985. This was due primarily to long-term programs to develop and adapt the AXE system to the North American and British markets.

The *Information Systems* Business Area improved its operating income and achieved a significant reduction in loss. The comprehensive restructuring program that was begun in 1985 continued in 1986, with good results.

Operating income in the *Cables* Business Area was lower, following the sale of the majority interest in Ficap, the Brazilian subsidiary. The lower demand for optical fiber cable in the United States was also a contributing factor. The Swedish operations showed a favorable trend of income.

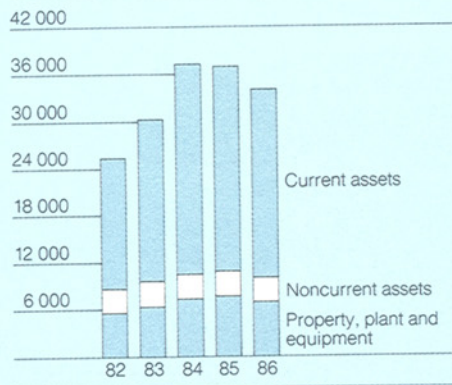
The *Defense Systems* Business Area reported good operating income. The improvement was due in part to the transfer of operations from the Radio Communications Business Area.

The *Radio Communications* Business Area recorded substantial sales successes in the North American market, among others. Operating income of comparable units was higher.

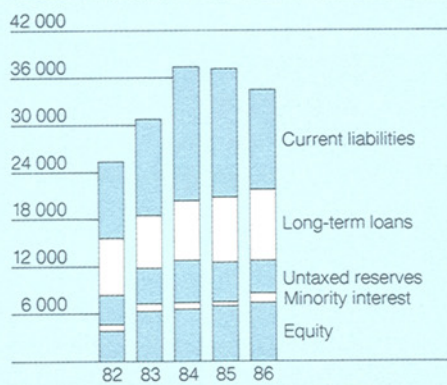
Operating income in the *Network Engineering and Construction* Business Area, which faced a difficult market situation, remained on the level of the preceding year. Sales increased sharply during the final months of the year.

Utilization of capacity in the *Components* Business Area was low due to weak demand for capacitors and standard components. But operating income was improved compared with the preceding year, due mainly to a good trend of sales for microcircuits.

Assets Skr m.



Liabilities and equity Skr m.



Telephone connections between Ellis, Liberty and Manhattan islands in New York Harbor were upgraded in preparation for the Statue of Liberty's 100th birthday in 1986. The new fiber cable linking the islands was supplied by Ericsson.



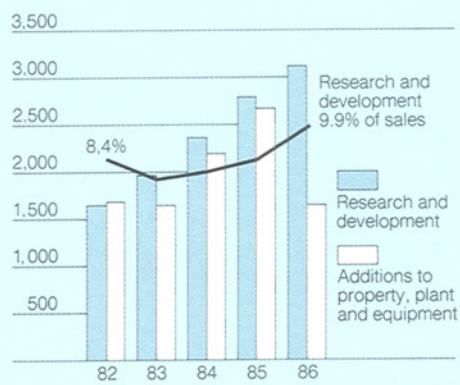
Financing

The consolidated rate of capital turnover improved during the year, from 0.88 to 0.92. The amount of capital tied up in accounts receivable and inventories was reduced sharply.

In December, Ericsson sold accounts receivable amounting to approximately US\$102 m., due from mobile telephony customers in the U.S., to Sveriges Investeringsbank AB. Accounts receivable as a percentage of sales decreased from 35 percent at year-end 1985 to 32 percent at the close of 1986. Apart from a temporary buildup in Mexico, inventories were also reduced substantially during the year. Calculated as a percentage of sales, inventories declined from 32 percent in 1985 to 30 percent at the end of 1986.

During the year, Ericsson, in association with four international banks, established a Euro Commercial Paper program that makes it possible to issue up to US\$100 m. in short-term notes in the European capital market.

**Research and Development
Capital expenditures** Skr m.



The object was to replace, and reduce the cost of, existing short-term borrowing. To take advantage of low interest rates on medium-term debt, Ericsson also raised a five-year, US\$100 m. Eurobond loan at fixed interest of 8 percent. The funds were used to repay existing short-term borrowings.

Ericsson's cash flow improved substantially during the year. As a result, external borrowing was reduced and the consolidated equity ratio rose. Stockholders' equity was increased by Skr 181 m. through early redemption of a convertible debenture loan issued in 1981, and this also had a favorable impact on the equity ratio. This ratio, calculated as total stockholders' equity plus 50 percent of untaxed reserves plus minority interest in stockholders' equity, as a percentage of total assets, improved from 26.5 percent in 1985 to 30.5 percent in 1986.

During the year the Parent Company divested its majority holding of voting rights in the subsidiary AB LM Ericsson Finans. The finance company will continue to be used to finance sales of Ericsson products.

Research and development

Ericsson's total costs for research and development in 1986 amounted to Skr 3,117 m., equal to 9.9 percent of sales, compared with Skr 2,798 m., or 8.6 percent, in the preceding year.

Capital expenditures

Total investments in property, plant and equipment in 1986 amounted to Skr 1,643 m., as against Skr 2,677 m. in 1985.

Personnel

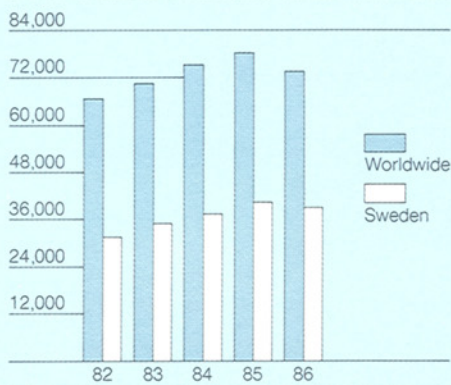
	December 31	
	1986	1985
Number of employees		
Sweden		
Parent Company	15,310	16,876
Other companies	23,249	23,296
	38,559	40,172
Europe (excluding Sweden)	19,633	20,423
North America	2,690	2,894
Latin America	8,702	11,386
Other countries	2,991	3,284
Total	72,575	78,159

At year-end 1986, 72,575 persons were employed within Ericsson, a decrease of 5,584 from the preceding year. Of this decrease, 3,143 employees were in operations divested during the year.

Wages, salaries and social costs amounted to Skr 8,355 m. Sales per employee were equal to Skr 436,000, compared with Skr 416,000 a year earlier. Supplementary information on the average number of employees and on salaries, wages and other remuneration appears in a note to the financial statements.

The ongoing program of structural adaptation, which involves, among other measures, reducing the number of jobs by 4,800 – including 2,800 in Sweden – will be completed during 1987.

Number of employees



Ericsson's MINI-LINK microwave system offers a competitive alternative for digital transmission in public or private communications networks.



Significant changes within Ericsson

During the year the Parent Company sold 15.6 percent of its shareholding in the Italian subsidiary, Setemer S.p.A. Following this sale, Ericsson's holding in the company is 71.2 percent.

Ten percent of the Parent Company's holding of shares of Ericsson do Brasil Comércio e Indústria S.A. were sold, following which Ericsson holds 54.5 percent of the share capital in this company.

The shareholding in AB LM Ericsson Finans was reduced by 25 percent through a sale of shares, while the number of voting rights was reduced by 99.5 percent.

In June, the Parent Company sold 62.5 percent of the shares of Fios e Cabos Plásticos do Brasil S.A. (Ficap), retaining a 30-percent interest.

The Parent Company's 10-percent holding in A/S Elektrisk Bureau in Norway was sold during the year. Cooperation with respect to the AXE system and other products is continuing and is not affected.

The Parent Company's holding in Teleindústria Ericsson S.A. was reduced by 9.7 percent, to 82.7 percent at year-end.

The interest in AB ID-kort was sold.

The holding in Facit S.A. in Brazil was reduced 85 percent through a sale of shares. The remaining holding amounts to 15 percent.

Proposed disposition of earnings in the Parent Company

In addition to a General reserve of Skr 100 m., the sum of Skr. 737,685,000 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 343,461,000
To be retained in the business	Skr 394,224,000
	<hr/> Skr 737,685,000

Stockholm, March, 1987

HANS WERTHÉN JAN WALLANDER PETER WALLENBERG
Chairman Deputy Chairman Deputy Chairman

KJELL BRÄNDSTRÖM LENNART DAHLSTRÖM PAUL KVAMME
THOR NORDMYR 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	1986	1985	1984
Net sales	31,644	32,496	29,378
Cost of sales (exclusive of depreciation shown separately below)	16,665	17,595	16,070
	14,979	14,901	13,308
Other operating revenues Note 1	634	695	322
	15,613	15,596	13,630
Selling, research and development, general and administrative expenses	12,366	12,651	10,387
Depreciation Note 2	1,133	1,308	1,040
Operating income after depreciation Note 3	2,114	1,637	2,203
Financial income Note 4	810	1,157	1,062
Financial expenses Note 4	1,990	2,109	1,976
Income after financial income and expenses	934	685	1,289
Equity in earnings (after taxes) of associated companies	181	34	131
Minority interest in income before appropriations and taxes	- 204	+ 159	+ 149
Income before appropriations and taxes	911	878	1,569
Appropriations to untaxed reserves			
Depreciation in excess of standard depreciation Note 2	- 113	- 282	- 237
Changes in other untaxed reserves Note 5	+ 72	+ 616	- 497
Minority interest in appropriations	+ 35	+ 37	+ 52
	- 6	+ 371	- 682
Income before taxes	905	1,249	887
Income taxes	384	493	525
Minority interest in taxes	+ 42	+ 81	+ 82
Reported net income	563	837	444
Adjusted net income per share Note 6			
- after actual taxes paid	14.96	12.62	30.54
- after actual and estimated deferred taxes	17.21	15.15	19.99

Consolidated Balance Sheet

In millions of kronor

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

December 31	1986	1985
Assets		
Current assets		
Cash and short-term cash investments	2,775	3,069
Notes and accounts receivable – trade (less allowance for doubtful accounts, 236 at December 31, 1986 and 231 at December 31, 1985) Note 7	9,488	10,616
Inventories (less advance and progress payments, 1,103 at December 31, 1986 and 1,282 at December 31, 1985)	9,522	10,464
Other current assets Note 8	2,465	2,211
	<u>24,250</u>	<u>26,360</u>
Deposits related to untaxed reserves Note 5	174	313
Investments and other noncurrent assets		
Notes and accounts receivable – trade Note 7	501	783
Investments in associated companies, at equity Note 20	796	625
Other investments	208	204
Other noncurrent assets Note 10	1,468	1,288
	<u>2,973</u>	<u>2,900</u>
Property, plant and equipment Note 11		
Cost	12,168	12,672
Accumulated standard depreciation	5,874	5,694
	<u>6,294</u>	<u>6,978</u>
Revaluation adjustments, net of accumulated standard depreciation	541	571
	<u>6,835</u>	<u>7,549</u>
Assets pledged as collateral Note 18	1986 2,121	1985 2,497
Total assets	<u>34,232</u>	<u>37,122</u>

December 31	1986	1985
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable – trade	1,941	2,435
Advances from customers	2,289	2,277
Accrued taxes	211	257
Short-term borrowings Note 12	2,456	5,918
Current maturities of long-term debt Note 14	648	760
Other current liabilities Note 13	5,085	4,684
	<u>12,630</u>	<u>16,331</u>
Long-term liabilities		
Debentures (after unrealized gains and losses on foreign exchange, net, +28 at December 31, 1986 and +74 at December 31, 1985) Note 14	2,780	2,289
Convertible debentures Note 15	—	190
Pension liabilities Note 16	3,105	2,741
Other long-term liabilities Note 14	2,883	3,346
	<u>8,768</u>	<u>8,566</u>
Untaxed reserves		
Reserve for accounts receivable and intercompany profits	985	917
Inventory reserve	2,007	2,100
Reserves for future capital expenditures	358	395
Accumulated depreciation in excess of standard depreciation Note 11	1,439	1,382
	<u>4,789</u>	<u>4,794</u>
Minority interest in equity of consolidated subsidiaries	746	530
Stockholders' equity Note 17		
Capital stock	1,908	1,848
Reserves not available for distribution	4,423	3,933
Cumulative translation adjustments	25	38
	<u>6,356</u>	<u>5,819</u>
Retained earnings	943	1,082
	<u>7,299</u>	<u>6,901</u>
Contingent liabilities	1986	1985
	2,179	2,387
	 Note 19
Total liabilities and stockholders' equity	<u>34,232</u>	<u>37,122</u>

Consolidated Statement of Changes in Financial Position

In millions of kronor

Years ended December 31	1986	1985	1984
Cash at January 1	3,069	3,833	3,026
Cash provided from operations			
Net income	563	837	444
Minority interest in net income	127	-277	-283
Depreciation	1,133	1,308	1,040
Gains(-)/losses on sale of property, plant and equipment	-85	-74	146
Increase(-)/decrease in bank deposits related to untaxed reserves	139	-230	-16
Appropriations from(-)/to untaxed reserves	5	-334	734
	1,882	1,230	2,065
Translation adjustments not affecting income statement	-19	-147	23
Sale of property, plant and equipment	1,200	878	361
	1,181	731	384
Changes in working capital (excl. cash)			
Notes and accounts receivable - trade	1,128	296	-2,301
Inventories	942	-774	-2,231
Other current assets	-254	522	-545
Current liabilities, non interest- bearing	-127	-472	1,669
	1,689	-428	-3,408
Changes in other assets			
Additions to property, plant and equipment	-1,643	-2,677	-2,192
Translation adjustments in property, plant and equipment	110	169	-45
Investments, net	-175	432	-79
Other noncurrent assets	102	-94	-78
	-1,606	-2,170	-2,394
Dividends paid	-358	-357	-346
Cash flow	2,788	-994	-3,699
Cash provided from financial transactions			
Changes in short-term liabilities	-3,574	-443	3,471
Changes in long-term liabilities	202	908	984
Conversion of debentures	182	7	6
Additional capital contributed by minority	108	-242	45
	-3,082	230	4,506
Cash at December 31	2,775	3,069	3,833

Parent Company Income Statement

Telefonaktiebolaget LM Ericsson

In millions of kronor

Years ended December 31	1986	1985	1984
Net sales	8,326	8,454	7,909
Cost of sales (exclusive of depreciation shown separately below)	4,578	4,854	4,180
	3,748	3,600	3,729
Other operating revenues Note 1	784	737	557
	4,532	4,337	4,286
Selling, research and development, general and administrative expenses	3,666	2,970	2,590
Depreciation Note 2	215	208	228
Operating income after depreciation	651	1,159	1,468
Financial income Note 4	826	1,011	612
Financial expenses Note 4	854	1,090	607
Income before appropriations and taxes	623	1,080	1,473
Appropriations to untaxed reserves			
Changes in depreciation in excess of standard depreciation Note 2	+ 35	- 190	- 64
Changes in other untaxed reserves Note 5	+ 256	+ 374	- 452
	+ 291	+ 184	- 516
Contributions to subsidiary companies	326	795	411
Income before taxes	588	469	546
Income taxes	95	60	155
Reported net income	493	409	391

Parent Company Balance Sheet

Telefonaktiebolaget LM Ericsson

In millions of kronor

December 31	1986	1985
Assets		
Current assets		
Cash and short-term cash investments	1,795	2,033
Notes and accounts receivable from subsidiary companies ... Note 7	1,479	2,179
Notes and accounts receivable – trade (less allowance for doubtful accounts, 15 at December 31, 1986 and 24 at December 31, 1985) Note 7	2,188	2,715
Inventories (less advance and progress payments, 26 at December 31, 1986 and 69 at December 31, 1985)	2,344	2,648
Other current assets Note 8	702	577
	<u>8,508</u>	<u>10,152</u>
Deposits related to untaxed reserves Note 5	100	225
Investments and other noncurrent assets		
Notes and accounts receivable – trade Note 7		
Subsidiary companies	37	2
Other	226	234
Other accounts receivable from subsidiary companies	1,836	2,605
Investments Note 9		
Subsidiary companies	3,362	3,296
Associated companies	245	157
Other investments	40	39
Other noncurrent assets	690	865
	<u>6,436</u>	<u>7,198</u>
Property, plant and equipment Note 11		
Cost	2,787	2,664
Accumulated standard depreciation	1,376	1,236
	<u>1,411</u>	<u>1,428</u>
Revaluation adjustments, net of accumulated standard depreciation	291	305
	<u>1,702</u>	<u>1,733</u>
Assets pledged as collateral Note 18	1986 788	1985 850
Total assets	<u>16,746</u>	<u>19,308</u>

December 31	1986	1985
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable – trade	281	443
Advances from customers	172	511
Accrued taxes	–	18
Short-term borrowings	180	1,968
Current maturities of long-term debt Note 14	116	128
Accounts payable to subsidiary companies	2,609	2,746
Other current liabilities Note 13	1,176	1,224
	<u>4,534</u>	<u>7,038</u>
Long-term liabilities		
Debentures (after unrealized gains and losses on foreign exchange, net, +28 at December 31, 1986 and +74 at December 31, 1985) Note 14	2,757	2,258
Convertible debentures Note 15	–	190
Pension liabilities Note 16	1,079	991
Payables to subsidiary companies	183	567
Other long-term liabilities Note 14	728	851
	<u>4,747</u>	<u>4,857</u>
Untaxed reserves		
Reserve for accounts receivable and intercompany profits	711	686
Inventory reserve	1,097	1,307
Reserves for future capital expenditures	89	159
Accumulated depreciation in excess of standard depreciation Note 11	525	560
	<u>2,422</u>	<u>2,712</u>
Stockholders' equity Note 17		
Capital stock	1,908	1,848
Reserves not available for distribution	2,297	2,176
	<u>4,205</u>	<u>4,024</u>
General reserve	100	100
Retained earnings	245	168
Net income	493	409
	<u>5,043</u>	<u>4,701</u>
Contingent liabilities 1986 1985	2,565	2,018
..... Note 19		
Total liabilities and stockholders' equity	<u>16,746</u>	<u>19,308</u>

Parent Company Statement of Changes in Financial Position

In millions of kronor

Years ended December 31	1986	1985	1984
Cash at January 1	2,033	2,687	2,082
Cash provided from operations			
Net income	493	409	391
Depreciation	215	208	228
Gains(-)/losses on sale of property, plant and equipment	-3	13	43
Increase(-)/decrease in bank deposits related to untaxed reserves	125	-197	2
Appropriations to untaxed reserves and Parent Company contributions to subsidiary companies	35	611	927
	865	1,044	1,591
Sale of property, plant and equipment	37	164	137
Changes in working capital (excl. cash)			
Notes and accounts receivable - trade	527	1,296	-1,620
Inventories	304	-414	-320
Other current assets	-125	-38	28
Current liabilities, non interest-bearing	-567	-315	-391
	139	529	-2,303
Changes in other assets			
Additions to property, plant and equipment	-217	-395	-474
Investments, net	-155	-502	-111
Other noncurrent assets	1,617	-2,447	-247
	1,245	-3,344	-832
Contributions to subsidiary companies	-326	-795	-412
Dividends paid	-333	-333	-332
Cash flow	1,627	-2,735	-2,151
Cash provided from financial transactions			
Changes in short-term liabilities	-1,937	-421	2,358
Changes in long-term liabilities	-110	2,495	392
Conversion of debentures	182	7	6
	-1,865	2,081	2,756
Cash at December 31	1,795	2,033	2,687

Notes to the Financial Statements

General

In the 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 significant differences and the approximate related effect on the consolidated financial statements, see Note 21.

(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 20) in which the Company's voting stock interest is at least 20% but not over 50% are accounted for according to the equity method. Immaterial investments in associated companies and all other investments are accounted for as Other investments, and 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 Ac-

counting 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 balance sheet items (assets and liabilities) are translated to Swedish kronor at year-end exchange rates and their income statement 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 subsidiary and associated 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 consolidated income statement.

Effective January 1, 1986, the financial statements of all subsidiary and associated companies, operating in countries with highly inflationary economies, in which their functional currency is considered to be the U.S. dollar, have been translated in two steps. In the first, the translation to dollars has been made to give approximately the same results in dollars as if their activities had been carried out in an American enterprise. The adjustments resulting from this remeasurement are included in the consolidated income statement. In the second step from U.S. dollar to Swedish krona, balance sheet items are translated at year-end exchange rates, and income statement items at the average rates of exchange during the year. The resulting translation adjustments are accumulated under stockholders' equity.

Gains and losses on foreign exchange include both remeasurement adjustments and gains and losses on foreign currency transactions. These 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, are included in Cost of sales.

Net financial gains and losses on foreign exchange are mainly related to liquid funds and loans. These are included in Financial expenses (see Note 4).

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 1987 have been translated at year-end exchange rates, while those which fall due in 1988 and later years have been translated at historical rates. At December 31, 1986, an unrealized gain on foreign exchange, not recognized as income, in the amount of Skr 73 million had accrued relating to the receivables due by outside debtors and falling due in 1988 and later years (at December 31, 1985 Skr 109 million relating to receivables falling due in 1987 and later years).

Parent Company loans in foreign currencies which fall due for repayment in 1987 have been stated at year-end exchange rates. Long-term deposits in foreign currencies are shown at year-end exchange rates. This resulted in an exchange loss. Unrealized exchange gains in a corresponding amount, on loans which fall due in 1988 and later years, have been recorded as income. At December 31, 1986 there was an additional unrealized gain on foreign exchange, net, not recognized as income, of Skr 96 million (Skr 89 million at December 31, 1985), on these loans.

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

(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 5).

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 5.

In certain cases, the difference between valuations of income statement and balance sheet items in the local financial statements and the consolidated statement has been treated as appropriations in the consolidated income statement and as untaxed reserves in the consolidated balance sheet. For certain companies, the tax expense has been reduced by adjustments in the local company's tax return. In these cases, income and stockholders' equity at the Company level have been adjusted as if appropriations and untaxed reserves are reported in accordance with Swedish accounting practice.

(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.

Leasing of fixed assets is capitalized and reported for certain significant leasing contracts as an acquisition of a fixed asset. This applies in those cases when the leasing contract involves a transfer of nearly all rights and obligations to the lessee (capital leases). Net income is charged with standard depreciation as well as with interest on the amount of the liability. Other leasing is expensed over the term of the lease.

(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 the net income per share reported for 1984 and 1985.

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 21.

Note 1 Other Operating Revenues

	In millions		
Consolidated	1986	1985	1984
Gains/losses(-) on sales of property, plant and equipment	85	74	-146
Gains on sales of investments	293	260	173
Commissions, license fees and other operating revenues	256	361	295
	634	695	322
Parent Company	1986	1985	1984
Gains on sales of property, plant and equipment	-	3	-
Gains on sales of investments	334	168	98
Commissions, license fees and other operating revenues	450	566	459
	784	737	557

Note 2 Depreciation

	In millions		
Consolidated	1986	1985	1984
<i>Total depreciation</i>			
Land improvements	2	3	1
Buildings	104	108	111
Telephone plants	43	41	39
Machinery and equipment	1,139	1,404	1,166
Revaluation adjustments	30	34	58
	1,318	1,590	1,375
Less - Depreciation in excess of standard depreciation related to assets sold	41	-	98
	1,277	1,590	1,277
<i>Standard depreciation</i>			
Land improvements	2	2	3
Buildings	65	64	73
Telephone plants	43	41	38
Machinery and equipment	993	1,167	868
Revaluation adjustments	30	34	58
	1,133	1,308	1,040
	-144	-282	-237
Less - Depreciation in excess of standard depreciation, net, related to subsidiaries sold	+31	-	-
Depreciation in excess of standard depreciation	-113	-282	-237
Parent Company	1986	1985	1984
<i>Total depreciation</i>			
Land improvements	-	-	-
Buildings	9	16	39
Machinery and equipment	162	374	275
Revaluation adjustments	14	14	16
	185	404	330
Less - Depreciation in excess of standard depreciation related to assets sold	5	6	38
	180	398	292

<i>Standard depreciation</i>			
Land improvements	1	1	1
Buildings	16	17	23
Machinery and equipment	184	176	188
Revaluation adjustments	14	14	16
	215	208	228
Changes in depreciation in excess of standard depreciation			
	+ 35	- 190	- 64

Note 3 Operating income, per Business Area (Not subject to audit)

	In millions	
	1986	1985
Public Telecommunications	1,165	1,282
Information Systems	- 284	- 806
Cables	261	336
Defense Systems*	255	178
Radio Communications*	254	253
Network Engineering and Construction	153	154
Components	31	22
Other operations	- 14	83
Capital gains/losses and corporate expenses	293	135
Ericsson, total	2,114	1,637

* 1985 figures are not comparable to 1986 due to organizational changes.

Operating income for the Information Systems Business Area in 1986 includes a capital gain from sale of property amounting to Skr 88 m., which is offset against restructuring costs.

Note 4 Financial Income and Expenses

	In millions		
	1986	1985	1984
Consolidated			
<i>Financial Income</i>			
Dividends	11	41	-
Interest income	799	1,116	1,062
	810	1,157	1,062
<i>Financial expenses</i>			
Interest expenses	2,170	2,311	2,238
Gains and losses on foreign exchange, net	- 280	- 284	- 307
Other financial expenses	100	82	45
	1,990	2,109	1,976
Parent Company			
<i>Financial Income</i>			
Dividends from subsidiaries	192	175	102
Dividends from others	18	33	27
Interest income	616	803	483
	826	1,011	612
<i>Financial expenses</i>			
Interest expenses	876	967	604
Gains and losses on foreign exchange, net	- 73	87	- 17
Other financial expenses	51	36	20
	854	1,090	607

Swedish companies' interest on the pension liabilities are included in the interest expenses shown above.

Note 5 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. 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.)

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 with minor amounts.

Certain subsidiaries, mainly based in the United States and Argentina, had at December 31, 1986 tax loss carry-forwards, that can be utilized to reduce future taxable income, amounting to Skr 1,819 million. Such loss carry-forwards expire as follows (in millions).

Year of expiration	Amount
1987	54
1988	12
1989	58
1990	169
1991	56
1992	1
1993	23
1994	53
1995	16
1996 or later	1,377
	1,819

In addition, the Parent Company had at December 31, 1986 unutilized tax deduction benefits related to its dividend payments. The benefits may be utilized during a period ending on December 31, 2006. 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 1986 is applied to the unutilized benefits on December 31, 1986, an amount of Skr 837 million may be deducted in determining taxable income during the period ending on December 31, 2006.

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 1986, 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 1986, the Swedish Ericsson companies have utilized the Compul-

sory reserve for future capital expenditures for additions to machinery and equipment.

In respect of income for 1985, a temporary disposition was in force in Sweden dealing with appropriations to a Development reserve. Swedish corporations were 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 funds from the reserve. In 1986, the Swedish Ericsson companies have utilized the Development reserve for training of employees and for research and development expenses.

On sale of commercial property, Swedish businesses have the option of deferring the capital gains tax by making an appropriation to a Replacement reserve. The amount appropriated may not exceed the capital gains realized by the sale of property. The Replacement reserve may be used for depreciation of replacement property acquired within a period of three years. Under special circumstances, this period may be extended by not more than an additional three years.

Appropriations to Other Untaxed Reserves

Consolidated	In millions		
	1986	1985	1984
Appropriations to (-)/transfer from (+) Reserve for receivables and intercompany profits	-57	+259	-165
Transfer from Inventory reserve	+91	+17	+86
Appropriations to (-)/transfer from (+) General and Compulsory reserves for future capital expenditures, net	+34	+340	-418
	+68	+616	-897
Transfer of untaxed reserves at sale of subsidiary companies	+4	-	-
	+72	+616	-497
Parent Company	1986	1985	1984
Appropriations to (-)/transfer from (+) Reserve for receivables and intercompany profits	-25	+178	-172
Appropriations to (-)/transfer from (+) Inventory reserve	+210	-180	+42
Appropriations to (-)/transfer from (+) General and Compulsory reserves for future capital expenditures, net	+71	+376	-322
	+256	+374	-452

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

	Consolidated			Parent Company		
	1986	1985	1984	1986	1985	1984
Appropriations to Reserves						
General reserve for future capital expenditures	9	67	329	-	25	289
Compulsory reserve for future capital expenditures	-	3	255	-	-	211
Development reserve	5	109	-	-	49	-
Replacement reserve	75	-	-	-	-	-
	89	179	584	-	74	500

Transfers from Reserves

General reserve for future capital expenditures	103	275	22	17	202	22
General reserve for future capital expenditures transferred to Swedish subsidiaries	-	-	-	30	21	23
Compulsory reserve for future capital expenditures	7	244	144	-	227	133
Development reserve	13	-	-	3	-	-
Development reserve transferred to Swedish subsidiaries	-	-	-	21	-	-
	123	519	166	71	450	178
Appropriations, net	+34	+340	-418	+71	+376	-322

Bank Deposits in the Bank of Sweden Related to Untaxed Reserves

	In millions			
	Swedish companies consolidated		Parent Company	
	December 31 1986	December 31 1985	December 31 1986	December 31 1985
Account for General reserve for future capital expenditures	76	254	58	225
Account for Compulsory reserve for future capital expenditures	-	59	-	-
Account for Development reserve	98	-	42	-
	174	313	10	225

Note 6 Adjusted Net Income per Share

(Skr millions except per-share amounts)

Consolidated	1986	1985	1984
Income before appropriations and taxes	911	878	1,569
Actual income taxes paid as reported	-384	-493	-525
Minority interest in taxes paid	+42	+81	+82
Adjusted net income (after actual taxes paid)	569	466	1,126
Per share	14.96	12.62	30.54

Consolidated	1986	1985	1984
Adjusted net income (after actual taxes paid)	569	466	1,126
Estimated deferred taxes on appropriations	+53	+80	-407
Minority interest in estimated deferred taxes	+32	+13	+18
Adjusted net income (after actual and estimated deferred taxes)	654	559	737
Per share	17.21	15.15	19.99

Weighted average number of shares outstanding:

1986 - 38,010,992	1985 - 36,951,261	1984 - 36,898,591
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Note 7 Notes and Accounts Receivable – Trade

	In millions			
	Consolidated		Parent Company	
	December 31		December 31	
	1986	1985	1986	1985
<i>Due within 12 months</i>				
Subsidiary companies				
Accounts receivable	–	–	1,394	2,083
Notes receivable	–	–	85	96
	–	–	1,479	2,179
<i>Other</i>				
Accounts receivable	9,321	10,414	2,073	2,662
Notes receivable	167	202	115	53
	9,488	10,616	2,188	2,715
<i>Due after 12 months</i>				
Subsidiary companies				
Accounts receivable	–	–	36	–8
Notes receivable	–	–	1	10
	–	–	37	2

Other				
	252	729	–	217
Accounts receivable	252	729	–	217
Notes receivable	249	54	226	17
	501	783	226	234

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 8 Other Current Assets

	In millions			
	Consolidated		Parent Company	
	December 31		December 31	
	1986	1985	1986	1985
Prepaid expenses and accrued revenues	468	515	135	123
Temporary investments	316	415	–	–
Advances to suppliers	140	125	12	14
Other current assets	1,541	1,156	555	440
	2,465	2,211	702	577

Note 9 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 Telefonaktiebolaget LM Ericsson, Corporate Relations, S-126 25 Stockholm, Sweden.

Investments at December 31, 1986

Shares directly owned by the Parent Company

Subsidiaries

			Percent- age of own- ership	Par value in millions	Carrying value in Skr m.	
Sweden	I	Ericsson Cables AB (ECA)	100	SEK 140	140	
	I	Ericsson Information Systems AB (EIS)	100	SEK 360	349	
	I	Ericsson Radio Systems AB (ERA)	100	SEK 50	52	
	I	Ericsson Network Engineering AB (ENS)	100	SEK 25	26	
	I	Ericsson Signal Systems AB (ENR)	100	SEK 10	11	
	I	RIFA AB (RIF)	100	SEK 58	49	
	IV	ELLEMTEL Utvecklings AB (EUA)	50	SEK 5	6	
		Other	–	SEK –	219	
	Europe (exclusive of Sweden)	I	LM Ericsson A/S (LMD)	100	DKK 90	73
		I	Oy LM Ericsson Ab (LMF)	100	FIM 65	86
I		RIFA S.A. (RFF)	100	FRF 15	15	
I		Ericsson Telecommunicatie bv (ETM)	100	NLG 20	33	
I		Ericsson Information Systems bv (EHN)	100	NLG 57	162	
I		Ericsson S.A. (EMS)	100	ESP 375	24	
I		Industrias de Telecomunicación S.A. (Intelsa) (ITS)	50*	ESP 1,300	63	
III		Swedish Ericsson Company Ltd. (SEL)	100	GBP 15	134	
III		LM Ericsson Holdings Ltd. (LHI)	100	IEP 2	14	
III		SETEMER S.p.A. (STM)	71	ITL 18,318	97	
	Other	–	–	11		
U.S.A.	III	Ericsson North America Inc. (EAU)	100	USD no par value	1,318	
	I	Facit Inc. (FTU)	100	USD –	80	
		Other	–	–	1	
Latin America	II	Cía Argentina de Teléfonos S.A. (CAT)	78	ARA 28	24	
	I	Cía Ericsson S.A.C.I. (CEA)	100	ARA 1	3	
	I	Ericsson de Colombia S.A. (EDC)	92*	COP 221	27	
	I	Teleindustria Ericsson S.A. (TIM)	83	MXP 5,796	191	
	I	Cía Anónima Ericsson (CEV)	100	VEB 10	10	
		Other	–	–	14	
Other Countries	I	Ericsson Telecommunications Sdn Bhd (ECM)	70	MYR 2	4	
	III	Teleric Pty. Ltd. (TLA)	100	AUD 20	99	
		Other	–	–	27	
			Total	–	3,362	
Associated Companies	I	Ericsson do Brasil Comércio e Indústria S.A. (EDB)	54**	BRC 111,587	105	
	I	Fios e Cabos Plásticos do Brasil S.A. (FCB)	30	BRC no par value	96	
	I	Oriental Telecommunication Company Ltd (OTK)	50	KRW 3,000	29	
	I	Perwira Ericsson Sdn Bhd (PEM)	40	MYR 2	5	
		Other	–	–	10	
			Total	–	245	
Other Companies	V	AB LM Ericsson Finans (EFS)	75***	SEK 24	26	
		Other	–	–	14	
			Total	–	40	

Shares owned by the subsidiaries

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	LM Ericsson Ltd. (LMI)	Ireland	100	
	I	A.R.E. S.p.A. (ARE)	Italy	48	
	I	Ericsson Informatica S.p.A. (EII)	Italy	71	
	I	FATME S.p.A. (FAT)	Italy	71	
	I	FIAR S.p.A. (FII)	Italy	38	
U.S.A. and Canada	I	Scarfini S.p.A. (SCI)	Italy	71	
	I	SIELTE S.p.A. (SEI)	Italy	71	
	I	Ericsson Information Systems NV/SA (EIB)	Belgium	100	
	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	Fábricas Colombianas de Materiales Eléctricos Facomec S.A. (FAC)	Colombia	95****
		I	LM Ericsson Pty. Ltd. (EPA)	Australia	100
	Other Countries	I	Ericsson Network Engineering Pty. Ltd. (ENO)	Singapore	100
		I	Oy DAVA Ab (DVF)	Finland	40
Associated Companies	I	Thorn Ericsson Telecommunications Ltd. (TEL)	United Kingdom	49	
	I	Conductores Latincasa S.A. de C.V. (LCM)	Mexico	39	
	I	Manufacturing and distributing companies			
Key to functions of companies	II	Telephone operating companies			
	III	Holding companies			
	IV	Development companies			
	V	Finance Companies			

*Through subsidiary holdings, total holdings amount to 51% of ITS and 100% of EDC.
 **The voting shares total 26%.
 ***The voting shares total 0.5%.
 ****In addition, 1% owned by LME.

Note 10 Other Noncurrent Assets

Other noncurrent assets includes goodwill, net of accumulated amortization, of Skr 7 million at December 31, 1986, and negative goodwill of Skr 33 million at December 31, 1985.

Note 11 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 in excess of the accumulated standard depreciation, is reported under Untaxed reserves in the balance sheet.

	Consolidated		Parent Company	
	December 31 1986	December 31 1985	December 31 1986	December 31 1985
	(in millions)			
<i>Cost</i>				
Land	127	154	27	28
Land improvements	60	60	22	21
Buildings	2,171	2,208	675	669
Telephone plants	916	1,001	—	—
Machinery and equipment	8,376	8,794	1,906	1,788
Construction in progress	518	455	157	158
	12,168	12,672	2,787	2,664

Accumulated standard depreciation

Land improvements	22	20	10	9
Buildings	633	612	263	247
Telephone plants	359	355	—	—
Machinery and equipment	4,860	4,707	1,103	980
	5,874	5,694	1,376	1,236
<i>Net carrying value</i>	6,294	6,978	1,411	1,428

Accumulated total depreciation

Land improvements	41	40	16	16
Buildings	1,054*	1,021*	304*	295*
Telephone plants	359	354	—	—
Machinery and equipment	5,859	5,661	1,581	1,485
	7,313	7,076	1,901	1,796

Accumulated depreciation in excess of standard depreciation

	1,439	1,382	525	560
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*After transfer of accumulated depreciation in excess of standard depreciation to revaluation reserve of

	386	386	303	303
<i>Revaluation adjustments</i>				
Land	178	180	151	151
Buildings	643	641	338	338
Machinery and equipment	102	99	—	—
	923	920	489	489

Less — Accumulated
depreciation

Buildings	289	264	198	184
Machinery and equipment	93	85	—	—
	382	349	198	184
<i>Net carrying value</i>	541	571	291	305

<i>Tax assessment values</i> <i>(Sweden)</i>				
Land and land improvements	266	277	185	186
Buildings	1,056	1,108	639	635

Note 12 Short-Term Borrowings

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

Unused portion of lines of credit for the Company amounted to Skr 5,041 million at December 31, 1986. Furthermore, the Parent Company had unused long-term lines of credit amounting to Skr 1,183 millions at December 31, 1986.

Short-term borrowings in the amount of Skr 371 million in the Parent Company at December 31, 1986 have been classified as long-term liabilities since the borrowings are covered by unused long-term lines of credit.

Note 13 Other Current Liabilities

	In millions			
	Consolidated December 31		Parent Company December 31	
	1986	1985	1986	1985
Accrued expenses and prepaid revenues	2,894	3,056	694	717
Other	2,191	1,628	482	507
	5,085	4,684	1,176	1,224

Note 14 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	
	1986	1985
<i>(excl. liabilities to subsidiary companies)</i>		
Debentures (maturing from 1987 to 2004) bearing interest from 6.5% to 13.0% at December 31, 1986.	2,860	2,337
Mortgage and other collateralized loans	—	173
Other long-term loans (maturing from 1987 to 2001), bearing interest from 7.3% to 13.2% at December 31, 1986	737	403
Other long-term liabilities	4	324
	3,601	3,237
Less — Current maturities	116	128
	3,485	3,109
Subsidiaries	December 31	
	1986	1985
Mortgage and other collateralized loans (maturing from 1987 to 2039), bearing interest from 4.5% to 38.9% at December 31, 1986	1,272	1,022
Other long-term loans (maturing from 1987 to 2004) bearing interest from 5.4% to 95.4% at December 31, 1986	1,055	1,903
Other long-term liabilities	383	233
	2,710	3,158
Less — Current maturities	532	632
	2,178	2,526
Total	5,663	5,635

Maturities of consolidated long-term debenture loans and other long-term loans, excluding other long-term liabilities in subsidiaries with deduction of short-term portion of Skr 81 million, at December 31, 1986 were as follows (in millions):

1988	1,691
1989	757
1990	732
1991	1,256
1992	200
1993 and thereafter through 2039	725
	5,361

At December 31, 1986 debentures and other long-term loans, excluding other long-term liabilities in subsidiaries, were repayable in the following currencies (in millions):

USD	2,311
SEK	1,165
ITL	498
DKK	278
AUD	248
MXP	188
Other currencies	673
	5,361

Note 15 Convertible Debentures

In December 1981, the Company issued 15-year 9.5 % convertible debentures in the amount of U.S.\$40 million.

In June 1986, the Company called for early redemption of the loan on July 10, 1986. In accordance with the terms of the loan, holders of the debentures had the right prior to this date to convert the debentures to B shares. As a result, the number of B shares increased during 1986, through conversions, by 1,211,121. During the period of the loan, the total number of B shares increased by 1,479,636. Cash redemption of the convertible debentures amounted to U.S.\$205,000.

Note 16 Pension Liabilities

The pension liabilities, Skr 3,105 million, include the Parent Company's and the Swedish companies' obligation in the amount of Skr 2,330 million at December 31, 1986 and Skr 2,103 million at December 31, 1985 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, Skr 1,079 million, include an obligation in the amount of Skr 989 million at December 31, 1986 and Skr 911 million at December 31, 1985 in accordance with its agreement with PRI.

Note 17 Stockholders' Equity

Capital Stock at December 31, 1986 consisted of the following:

	Number of shares out- standing	Aggregate par value (Skr millions)
A shares (par value Skr 50)	3,728,515	186
B shares (par value Skr 50)	34,433,867	1,722
	38,162,382	1,908

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.

The appropriations of retained earnings to legal reserves in 1986 include earnings in associated companies amounting to Skr 181 million.

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

Cumulative Translation Adjustments

This item is reported as a component of stockholders' equity consisting 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 or the United States dollar 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), see (d) under Principles of Consolidation.

Changes in Stockholders' Equity (in millions)

Consolidated	Capital stock	Reserves not available for distribution	Cumulative translation adjustments	Retained earnings	Total
Balance, January 1, 1986	1,848	3,933	38	1,082	6,901
Appropriations to legal reserves	—	369	—	-369	—
Conversion of debentures	60	121	—	—	181
Dividends	—	—	—	-333	-333
Changes in cumulative translation adjustments	—	—	-13	—	-13
Net income for 1986	—	—	—	563	563
Balance, Dec. 31, 1986	1,908	4,423	25	943	7,299

The increase in capital stock resulting from conversion of debentures includes Skr 1 million not registered with the Patent and Registration Office on December 31, 1986. Registration was made in 1987.

Of the retained earnings, Skr 154 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):

	1986	1985
Balance, January 1	38	182
Aggregate translation adjustments	-26	-154
Gains and losses from hedges of investments in foreign entities	+13	+10
Balance, December 31	25	38

Parent Company	Capital stock	Reserves not available for distribution	Retained earnings	Total
Balance, January 1, 1986	1,848	2,176	677	4,701
Conversion of debentures	60	121	—	181
Dividends	—	—	-332	-332
Net income for 1986	—	—	493	493
Balance, December 31, 1986	1,908	2,297	838	5,043

Note 18 Assets Pledged as Collateral

In millions

	Consolidated		Parent Company	
	December 31 1986	December 31 1985	December 31 1986	December 31 1985
Real estate mortgages	692	1,004	164	253
Other mortgages	1,160	1,154	390	355
Shares	249	315	234	234
Accounts receivable — trade	14	10	—	—
Bank deposits	6	14	—	8
	2,121	2,497	788	850

At December 31, 1986 and 1985, the Parent Company had pledged no assets in favor of subsidiaries. However, under certain conditions, it may pledge collateral for certain subsidiaries' pension obligations.

Consolidated figures for preceding year have been adjusted.

Note 19 Contingent Liabilities

In millions

	Consolidated		Parent Company	
	December 31 1986	December 31 1985	December 31 1986	December 31 1985
Discounted notes receivable	40	150	—	—
Receivables sold with recourse	857	972	490	412
Other guarantees	1,282	1,265	2,075	1,606
	2,179	2,387	3,565	2,018

Of the guarantees assumed by the Parent Company, Skr 1,111 million at December 31, 1986 and Skr 1,049 million at December 31, 1985 related to subsidiary companies.

Consolidated figures for preceding year have been adjusted.

Note 20 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 9.

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 56 million in 1986, Skr 40 million in 1985 and Skr 23 million in 1984.

Undistributed earnings of associated companies included in consolidated equity were Skr 404 million at December 31, 1986 and Skr 293 million at December 31, 1985.

Note 21 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 5, 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 de-

ducted 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 practice, 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 10). 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.

(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.

Under accounting principles generally accepted in the United States, convertible debentures denominated in a foreign currency should be translated at the current rate, while the Parent Company, in accordance with Swedish accounting practice, reported the loan at the historic rate. As stated in Note 15, the debentures were converted to shares in 1986, except for a minor portion which was redeemed.

(h) Sale of Property

In 1984 and 1986 subsidiaries sold properties which are being leased to other subsidiaries under contracts which expire 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 sales should not be reduced.

(i) 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.

(j) 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 38,010,992 shares as the weighted average number of shares outstanding in 1986. The weighted average number of shares outstanding in 1985 was 36,951,261 and in 1984 36,898,591.

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,		
	1986	1985	1984
(Skr millions, except per-share amounts)			
Net income as reported in the consolidated income statements	563	837	444
Items increasing reported income			
Depreciation on revaluation adjustments including effect on sale	39	53	79
Appropriations, including depreciation in excess of standard depreciation	6	-371	683
Capitalization of interest expenses	28	39	22
Business combination adjustments	22	-12	24
Deferred income taxes	125	-158	-596
	220	-449	212
Items decreasing reported income			
Tax effects of intercompany transactions	67	-168	-93
Income taxes on undistributed earnings of associated companies	9	-6	18
Translation of noncurrent receivables and long-term liabilities	20	-165	-29
Sale of property	33	-8	41
	129	+347	+63
Net increase/decrease (-) in reported net income	91	-102	275
Approximate net income in accordance with accounting principles generally accepted in the United States	654	735	719
Approximate net income per share in accordance with accounting principles generally accepted in the United States	17.21	19.90	19.49

(k) Stockholder's Equity

	December 31,	
	1986	1985
Approximate stockholders' equity in accordance with accounting principles generally accepted in the United States	8,605	8,092

Supplementary Information required under the Swedish Companies Act

Average Number of Employees and Remuneration in 1986

	Consolidated		Parent Company	
	Average number of employees	Remuneration (in Skr millions)	Average number of employees	Remuneration (in Skr millions)
Sweden	35,732	4,511	13,994	1,692
Other countries	32,444	3,844	540	74
	68,176	8,355	14,534	1,766

Paid to Board of Directors, President and Corporate Executive Vice Presidents 6

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 16 countries. On a consolidated basis there are 52 operational units in Sweden and operations in 53 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 Telefonaktiebolaget LM Ericsson, Corporate Relations, S-126 25 Stockholm, Sweden.

Special Information Regarding the Parent Company

Sales of the Parent Company amounted to Skr 8,326 million (Skr 8,454 million), of which exports accounted for 72 (75) percent. Consolidated companies were customers for 50 (47) percent of the Parent Company's sales, while 54 (41) percent of the Company's total purchases of goods and services were from such companies.

Loans totaling Skr 0 million have been made to board members and company presidents.

Guarantees totaling Skr 0 million have been issued as security for loans obtained by board members and company presidents.

Loans totaling Skr 21 million have been made to a total of 7,050 employees for the purchase of shares in LM Ericsson's Share Saving Fund. Assets totaling Skr 13 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, Sweden.

Definitions of terms used in "Ten-Year Summary" on page 43

Operating income. Takes into account standard depreciation in the years 1980 through 1986, total depreciation in the years 1977 through 1979.

Financial net. Financial income less financial expenses. Financial expenses include both operational and financial gains and losses on foreign exchange in the years 1977 through 1981. Financial expenses in 1982 through 1986 include only financial gains and 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, 1980–1986, and net of total depreciation at December 31, 1977–1979.

Adjusted net income per share. See Note (k) under Accounting Policies, and Note 6.

Current ratio. Current assets divided by current liabilities.

Return on equity. Defined as adjusted net income (after actual taxes paid and estimated deferred taxes) expressed as a percentage of average adjusted stockholders' equity (based on the amounts at January 1 and December 31). Adjusted stockholders' equity is defined as stockholders' equity as shown in the balance sheet (does not include minority interest in stockholders' equity) plus 50 percent of untaxed reserves (assuming 50 percent deferred taxes on untaxed reserves).

Return on capital employed. Defined as the total of operating income, financial income and equity in earnings of associated companies as a percentage of average (based on the amounts at January 1 and December 31) capital employed. Capital employed is defined as total assets less current non-interest-bearing debts and 50 percent of untaxed reserves. For the years 1977–1985 the return has been based on capital employed at year-end.

Equity ratio. 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.

Risk-bearing capital ratio. 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 divided by 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 1986 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 1986.

Stockholm, March 20, 1987

David Jones
Chartered Accountant
Price Waterhouse

Nils-Axel Frisk

Jörgen Eskilson
Swedish Authorized Public Accountant
Price Waterhouse

Public Telecommunications

AXE being tested in the world's most demanding market



Jan Stenberg

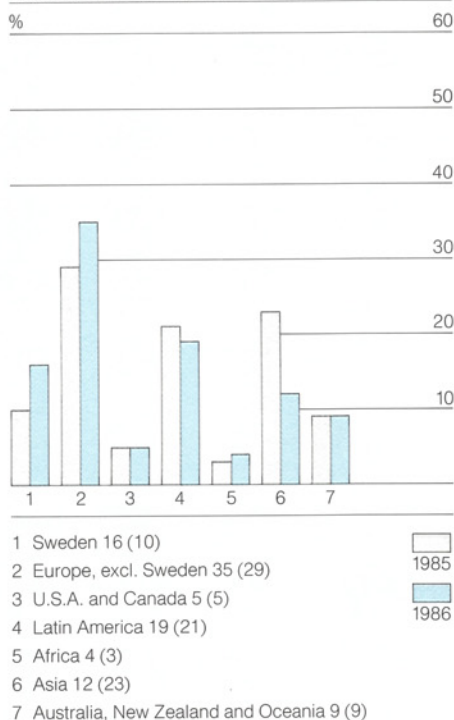
The principal operations of the Business Area comprise the development, production and installation of telecommunications equipment for telecom administrations (percentage of total sales within parentheses):

- Telephone exchanges (71%)
- Transmission equipment (14%)
- Telex and data processing equipment (4%)

Income from telephone operations and other activities account for 5% and 6% respectively.

Sales in 1986: Skr 11,506 m.

Geographic distribution of sales



Intense price competition – weak market trend

Structural changes, generated largely by the overcapacity throughout the world, have been under way within the industry for a number of years. At the same time, price competition is intense while the market is developing relatively weakly. The Business Area's strategy is designed to increase market shares in the industrialized part of the world while maintaining important markets in developing countries. During the year Ericsson well defended its position as one of the leading international telecommunications companies. The first local exchange using the AXE system to be delivered to British Telecom was installed in Sevenoaks, Kent during 1986. The approval of this system constitutes an important milestone in Ericsson's development of a larger European market. British Telecom's original contract for 400,000 lines was followed by additional orders during the past year. By year-end, British Telecom had placed orders for 790,000 lines with Ericsson. In terms of order bookings, Great Britain was the largest market for AXE in 1986.

United States: Orders for several test installations

Cultivation of the U.S. market is continuing according to plan. The analysis and evaluation of the AXE system that was begun by Bellcore (Bell Communications Research) in 1985 was completed at midyear. At about the same time orders were received for field test installations in Canon City, Colorado, for US West, and in New York, for NYNEX. These test installations are being placed in service during 1987. A contract for a third test installation was received from Southwestern Bell; two AXE units, in Dallas and Houston, will be used in field trials in which selected subscribers will be connected to the exchanges to evaluate the new services they can offer.

An order was also received from US West covering delivery during 1986 of six AXE exchanges to be used as signal transfer points. These exchanges establish intelligent communication between local exchanges and central network data bases.

Large orders for telephone exchanges were received during the year from customers in Mexico, Venezuela, Spain, Italy, Norway and the Netherlands, among other countries. The markets in Southeast Asia, the Middle East and Latin America were characterized by weak growth.

The Australian market continued to develop favorably. During the year an order was received for eight telephone exchanges with ISDN (Integrated Services Digital Network) functions, to be placed in service during 1988 to handle commercial traffic.

Total order bookings for telephone exchange equipment were lower than during 1985.

Rapid changeover to digital technology in transmission field

In the transmission area, there is a rapid changeover to digital technology, caused in large part by the fast expansion of cable links based on optical fiber.

The growth in optical fiber networks, which occurred primarily in long-distance networks in the United States and Great Britain, has now leveled off, however, and order bookings in Ericsson's traditional market for transmission equipment were weak. Despite this, major contracts were received in the Nordic market and in Mexico.

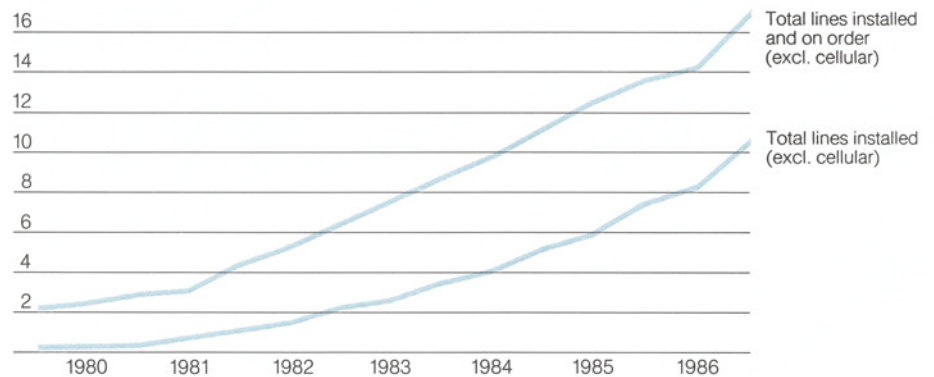
2,800 fewer jobs within two years

As a result of the combination of a weak market, the declining exchange rate for the

U.S. dollar and the continuing large development investments to adapt AXE to market requirements in the U.S. and Great Britain, income for the Business Area was unsatisfactory. A rationalization program was initiated during the year to adapt overhead costs and the organization to current market conditions. The program, which covers the years 1986 through 1988 involves, among other elements, a reduction of a total of 2,800 jobs, 1,000 of them outside Sweden.

The prospects for gradually achieving substantially improved earnings as the present measures become fully effective are judged to be good.

AXE World Survey Millions



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

	1986		1985		1984	
Order bookings, external	10,268	31.3%	11,136	32.9%	10,777	32.7%
Net sales, external	10,316	32.6%	10,561	32.5%	9,703	33.0%
Net sales, internal	1,190	—	32	—	15	—
Operating income after depreciation	1,165	—	1,282	—	1,930	—
Employees	29,250	40.3%	29,594	37.9%	28,352	37.7%

Information Systems

More efficient organization – market position maintained



Stig Larsson

The Business Area comprises products and systems for the transmission of voice and data in private networks. It is organized as follows (percentage of sales within parentheses):

– Communications systems, including large subscriber exchanges (MD 110), Eri-pax data networks, modems, small subscriber exchanges, intercom systems and telephone instruments (35%).

– Data systems, including data terminals, personal computers, small business systems/minicomputers, bank terminal systems (42%).

– Office equipment, including printers, typewriters, calculators, office furniture (21%).

– Other operations (2%).

Sales in 1986: Skr 9,571 m.

Difficult year for the information industry

Growth in the market for information systems in 1986 was lower than had been anticipated. Competition has resulted in overcapacity and pressure on prices, notably for subscriber exchanges and data processing products. Some stabilization of prices occurred at the end of 1986. Most companies in the industry were forced to report lower earnings for the year.

Strong recovery

During 1986, the Information Systems Business Area cut overhead costs sharply and reduced the amount of capital tied up in production, inventories and accounts receivable. The number of employees was reduced by 4,200. The improvement in operating results in 1986, amounting to slightly more than one half billion Swedish kronor, was achieved in part because most of the Business Area's products maintained or increased their market shares. The decline in total sales was due primarily to the sale of incompatible businesses. Excluding divested operations, sales increased 3 percent.

Research and development

Information Systems invested Skr 900 m., equal to 9.5 percent of sales, in research and development. A number of new functions were developed as enhancements of the successful minicomputer-based small business system "2500". A low-radiation terminal screen was developed and marketed during 1986. An upgraded, more powerful personal computer, the WS 286, was introduced in August. At the Interface trade show in October, Ericsson demonstrated "SYSTEM EIS," a fully integrated communications system to handle text, image, voice and data. The system, which is based on Ericsson's product family centered on the MD 110 subscriber exchange, was developed for introduction internationally during 1987.

Banks – an important customer group

Banks and other financial institutions constitute an important customer segment for Information Systems. During 1986 Ericsson received an order from Gibraltar Savings Bank in the United States for the computerization of more than one hundred bank offices.

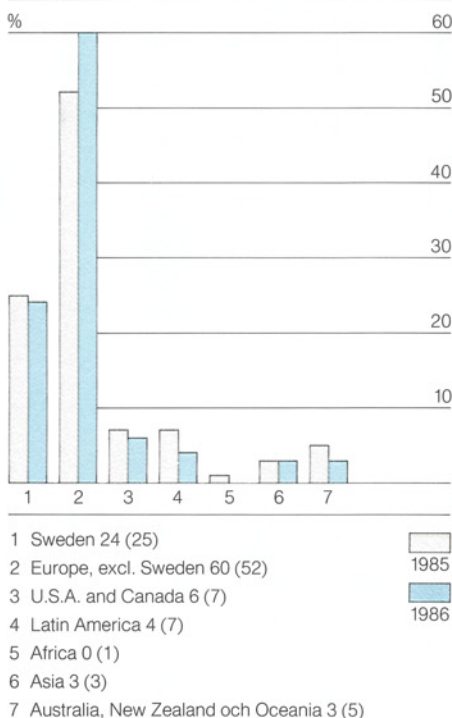
In Australia, National Bank began the expansion of a new communications system based on the purchase of MD 110 exchanges. Three of Australia's four major banks are now basing their communications systems on Ericsson systems employing the MD 110.

In Sweden, SPADAB, the savings banks' central data processing organization, placed a contract with Ericsson covering delivery of 5,000 personal computers, 4,000 printers and nearly 1,000 minibanks (automatic teller machines).

Cooperation with Digital Equipment

In September, Ericsson concluded a cooperation agreement with Digital Equipment Corp. whereby the two companies will jointly develop and sell computerized bank terminal systems. The joint venture combines Ericsson's knowledge in the field of bank workstations with Digital's expertise in distributed data processing. Ericsson's printer and terminal equipment and Digital's VAX computers are being integrated in a common system.

Geographic distribution of sales



Europe – the largest market

Sweden, with 26 percent of sales, is the Business Area's largest single market. Europe as a whole accounts for 78 percent of sales. Despite its difficult adjustment problems, Information Systems succeeded in maintaining its market positions in this region. Sales of the MD 110 subscriber exchange were notably strong in Spain, Holland, Italy and Belgium. A breakthrough into the German market was also recorded during the final quarter of 1986.

Ericsson's personal computers, which constitute a strategically important part of the workstation product program, have gained a strong market position, particularly in the Nordic countries. A program of cooperation was begun with Norsk Data, which will supply Ericsson's upgraded WS 286 personal computer as the base unit in a new line of workstation equipment.

Ericsson was successful in marketing new office equipment products, primarily in the Nordic countries.

Market breakthrough

An MD 110 subscriber exchange with a capacity of 6,500 lines was installed at the University of California at San Diego in the U.S. The communications system, which handles both voice and data and includes hundreds of data processing terminals, is connected via optical cable and microwave links. During the year the Memorex company placed a large contract for printers.

In Venezuela, two additional oil companies signed large orders for communications systems based on the MD 110 exchange. All the large oil companies in Venezuela are equipped with MD 110 systems.

During the year two government agencies in the People's Republic of China placed orders for a total of 15 MD 110 communications systems. In addition to the contract covering the purchase of subscriber exchanges, Ericsson will establish a service and maintenance center in Beijing.

Concentration of production

A decision to reorganize the Business Area's future production resources was made during 1986. Production of data processing systems will be concentrated in the plants in Blekinge. The manufacture of data products in Barkarby is being relocated and operations in Linköping are being transferred to Ericsson Radio Systems.

The Business Area in brief

Skr millions and percentage of Ericsson totals

	1986		1985		1984	
Order bookings, external	8,867	27.0%	9,874	29.2%	9,791	29.7%
Net sales, external	9,187	29.0%	9,986	30.8%	8,973	30.5%
Net sales, internal	384	—	575	—	322	—
Operating income after depreciation	—284	—	—806	—	—217	—
Employees	16,755	23.1%	20,785	26.6%	21,703	28.9%

Cables

Increased production capacity for telecommunications cable in the U.S.



Lars Berg

The Business Area comprises the following operations (percentage of total sales in parentheses):

- Power cable used in the distribution of electric power (20%)
 - Telecommunications cable used for the transmission of telecommunications (40%)
 - Specialty cables, including those used in the data processing industry (10%)
- Selga, an electric equipment wholesaler; Töcksfors Verkstads AB, a cable-harness company; and Ericsson Fiber Optics AB are also part of the Business Area (30%)

Sales in 1986: Skr 3,833 m.

The market for telecommunications cable in Sweden developed favorably as a result of the Swedish Telecommunications Administration's expansion plans, notably those involving the long-distance network. Demand for power cable, in contrast, continued to be weak, due primarily to lower capital expenditures in industry, reduced housing construction and uncertainty about the future energy policy.

All Bell companies are customers

In the United States, Ericsson is one of the three largest suppliers of traditional telecommunications cable, with all of the Bell operating companies as customers. A new factory was acquired in Texarkana, Arkansas to increase manufacturing capacity in this product area.

During the year many of the independent companies in the long-distance sector in the U.S. were merged, drastically reducing the market for optical fiber cable. The Business Area's U.S. operations were reorganized to cope more effectively with this changed market situation.

Companies in Latin America developed in a largely satisfactory manner. Shares of the Brazilian company, Ficap, were listed on a local stock exchange during the year at the same time that Ericsson's shareholding was reduced to 30 percent.

Breakthrough in Great Britain

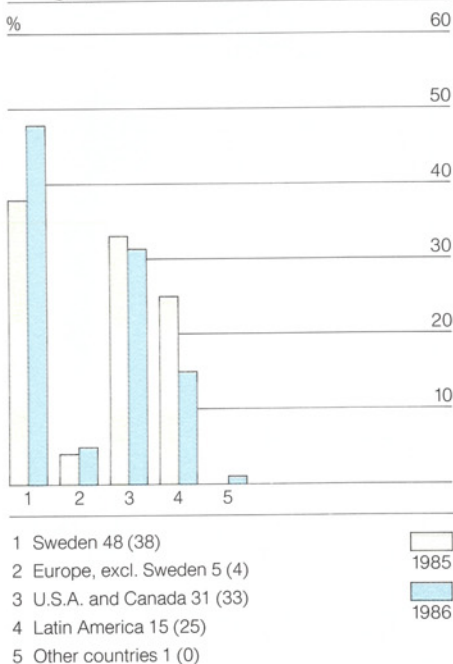
Newly formed Ericsson Fiber Optics recorded a breakthrough in Great Britain when, in two separate negotiations, it secured orders from British Telecom for deliveries of so-called fiber splicing units. Ericsson Fiber Optics also markets systems based on optotechnology for use in data processing and telecommunications in the private market.

Töcksfors Verkstads AB produces cable harnesses for the automotive industry, notably for Volvo, and is a world leader in the car seat-warmer product area. The company's operations were expanded during the year, in part through the opening of a new production unit in Säffle.

Selga broadened its operations in Malmö and Sundsvall during 1986. Despite the fact that the market for Swedish electrical wholesalers was depressed, the company developed favorably.

Operating income of the Cables Business Area in 1986 amounted to Skr 261 m. The decline relative to 1985 income was attributable to the fact that the Brazilian cable company was no longer consolidated.

Geographic distribution of sales



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

	1986		1985		1984	
Order bookings, external	3,569	10.9%	4,341	12.8%	4,115	12.5%
Net sales, external	3,618	11.4%	4,225	13.0%	3,898	13.3%
Net sales, internal	215	—	184	—	124	—
Operating income after depreciation	261	—	336	—	89	—
Employees	4,744	6.5%	5,750	7.4%	5,473	7.3%



Ulf H. Johansson

The Business Area comprises five product areas (percentage of total sales in parentheses):

- Avionics and missile electronics (33%)
- Defense communications (13%)
- Local and mobile defense systems (26%)
- Control and computer systems (14%)
- Microwave communications, including radio links and satellite operations (14%)

Sales in 1986: Skr 3,000 m.

Defense Systems

Operations being focused increasingly on radar and radio

The Swedish Armed Forces are the Business Area's most important customers, but the percentage of exports is rising, notably to markets in Europe and Southeast Asia.

The systems and products developed by Defense Systems are often based on long-term cooperation projects, with the Swedish Armed Forces and others as important development partners. The Swedish JAS 39 Gripen multirole military aircraft project, in which Ericsson is responsible for developing the avionics, is one example.

Other important partners are Hughes Aircraft in the United States, Contraves in Switzerland and Marconi and Ferranti in Great Britain.

Advanced development

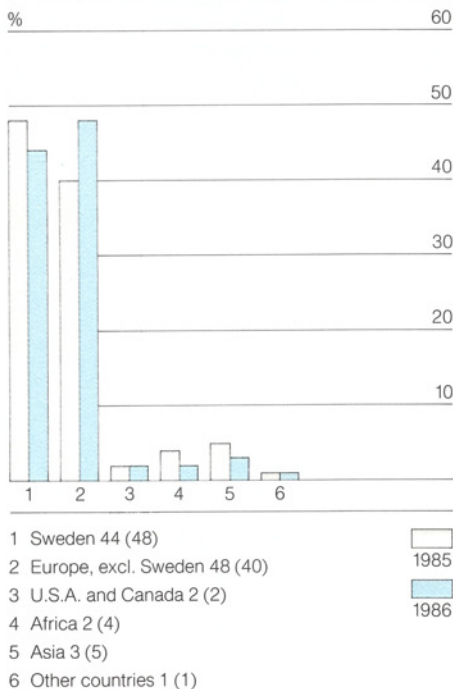
An amount equal to more than 20 percent of the year's sales was invested in research and development, with emphasis on systems development. Among other projects, the Business Area was successful in replacing conventional light metals with carbon fiber in certain products. Carbon fiber reduces weight significantly, an important factor in the development of mobile units.

Construction of a facility for the development and production of integrated microwave circuits was begun in Mölndal during the year.

The Business Area is now focusing its operations increasingly on radar and radio, where Ericsson is a world leader, in terms of marketing and quality, in certain product areas. As part of the process of concentrating operations, activities related to submarine systems were divested during 1986.

During the year Ericsson received its first contracts for Troop Radio 8000, one of the world's most advanced radio systems for tactical communications. Order bookings in the defense communications product area totaled Skr 1.5 billion during the fourth quarter, with the Swedish Armed Forces accounting for 50 percent.

Geographic distribution of sales



Radio relays delivered in the U.S.

Ericsson was selected as the supplier of radio relays for the U.S. Army's new MSE tactical communications system. GTE, the American telecommunications company, is the prime contractor.

Development work on the JAS 39 Gripen is proceeding according to plan. At the same time, deliveries of equipment for Sweden's Viggen military aircraft are tapering off, which will result in a temporary decline in orders for avionics from the Swedish Armed Forces. This will be balanced, however, by orders for a large number of landbased and marine radar products launched in 1986 following several years' development work.

The Business Area in brief

	1986		1985		1984	
Order bookings, external	4,560	13.9%	2,857	8.4%	2,814	8.5%
Net sales, external	2,795	8.8%	2,143	6.6%	1,817	6.2%
Net sales, internal	205	—	18	—	14	—
Operating income after depreciation	255	—	178	—	172	—
Employees	6,366	8.8%	4,746	6.1%	4,247	5.7%

Radio Communications

World leader in mobile communications, with good profitability



Ake Lundqvist

The Business Area comprises the following product areas (percentage of total sales in parentheses):

- Mobile telephony, including systems and terminals (65%)
- Mobile radio, including systems with stationary and mobile units for closed networks (15%)
- Personal paging systems for local networks (15%)
- Miscellaneous operations (5%)

Sales in 1986: Skr 2,752 m.

Nineteen Eighty-Six was a good year for the Business Area, with continuing solid profitability in mobile telephony. Ericsson, which has 45 percent of the world market, maintained its position as the leading systems manufacturer. Deliveries of base stations in the Nordic market increased 50 percent.

Main supplier of NMT 900 system

The second stage of expansion of the Nordic Mobile Telephone network was taken with the introduction of the NMT 900 switching system in certain larger cities. Ericsson is the main supplier of this new system.

A new generation of mobile telephones was developed for NMT 900. The new technology, based on surface mounting techniques has made it possible to design a hand-held mobile telephone that is no larger than a conventional telephone receiver.

Ericsson delivered an additional 15 systems in North America, to operating companies in Houston, San Francisco, Pittsburgh and Vancouver, among other cities. A system was also delivered in Honolulu. The largest order, valued at Skr 300 m., was received for a system in Los Angeles. In the U.S. Ericsson has about 35 percent of the market for systems that are not served by U.S. telephone operating companies.

Other markets to which Ericsson delivered mobile telephone systems included Australia, Indonesia and Thailand.

New mobile data communication system

Profitability in the mobile radio area has increased sharply. The changeover to digital technology is expanding the capacity of systems and their areas of application. Demands for more efficient use of capital in business and industry is increasing the need for more efficient systems for various forms of mobile radio communications in such areas as the handling of inventories. A new system to handle data communications in this field was introduced.

A new generation of radio exchanges with a ciphered voice function and digital transmission provides increased security from eavesdropping, as well as higher capacity. The exchanges, which were introduced during the year, handle voice, text and data traffic.

Expanding share of market for personal paging systems

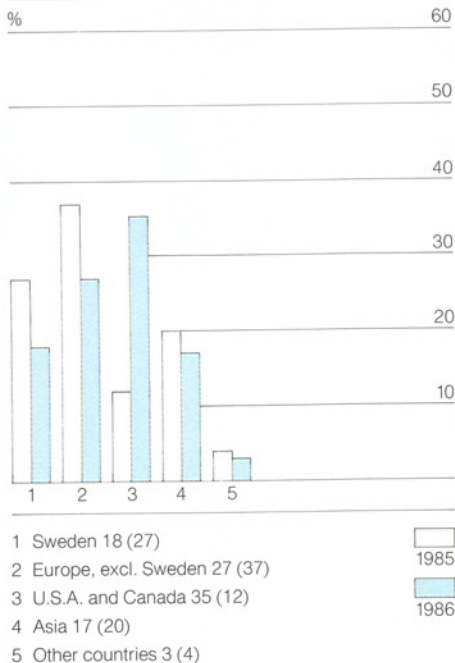
Profitability was also good in the personal paging systems product area. Development, production and marketing have been concentrated in the Netherlands. During the year a contract was signed with Autophone AG in Switzerland covering delivery of a complete personal paging system for sale throughout the world. Ericsson's share of the world market in this sector will thereby amount to 40 percent.

The Business Area in brief

Skr millions and percentage of Ericsson totals

	1986		1985		1984	
Order bookings, external	2,362	7.2%	2,569	7.6%	2,270	6.9%
Net sales, external	2,688	8.5%	2,480	7.6%	1,851	6.3%
Net sales, internal	64	—	176	—	141	—
Operating income after depreciation	254	—	253	—	- 32	—
Employees	4,587	6.3%	5,122	6.6%	4,144	5.5%

Geographic distribution of sales



Network Engineering and Construction

Lull in important markets – but continued favorable profitability



Björn Linton

The Business Area comprises two product areas (percentage of total sales within parentheses):

– Network construction, including planning and construction of telecommunications networks, data networks and tele-signaling installations (78%).

– Signal systems, including signaling and safety systems for rail traffic, as well as street and highway signaling systems (22%).

Sales in 1986: Skr 2,335 m.

The Business Area's sales were affected by weak order bookings in the beginning of the year, but orders picked up during the second half.

Sweden and Italy were the two strongest markets for Network Engineering and Construction in 1986.

In Italy, Ericsson's subsidiary, SIELTE, achieved good profitability after being restructured.

The amount of tied-up capital was reduced in the Business Area.

Lower capital spending in the Middle East

The decrease in the price of oil affected all new constructions and installations in the Middle East. Despite this, Ericsson received an order valued at Skr 140 m. in Oman during the year.

As a consequence of weak economic growth in Malaysia, there were substantial cutbacks in the ongoing network construction project in that country.

Demand in the signal systems product area continued to be strong in such key markets as the Nordic region, Spain and Australia. Order bookings in Italy rose sharply.

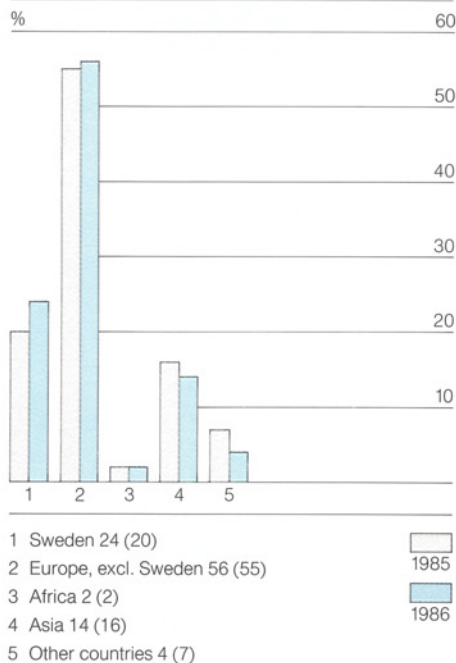
Breakthrough in Nigeria

In Nigeria, in association with Skanska, the Swedish construction company, Ericsson received a contract valued at Skr 600 m. The two companies will deliver and install a telecommunications network along a 900-kilometer pipeline. Skanska is responsible for cable-laying and providing the buildings required, while Ericsson will coordinate deliveries and install fiber cable, microwave links, telephone exchanges and transmission equipment.

The order from Nigeria represents a breakthrough in the program to expand deliveries of private telecommunications networks for railways, power lines and pipelines.

Joint ventures with local companies – already established in Malaysia and other areas – will be developed in a number of countries to strengthen market contacts. Cooperation with other partners is also increasing in the signal systems field.

Geographic distribution of sales



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

	1986		1985		1984	
Order bookings, external	2,349	7.2%	2,046	6.1%	1,911	5.8%
Net sales, external	2,201	7.0%	2,013	6.2%	1,967	6.7%
Net sales, internal	134	–	100	–	3	–
Operating income after depreciation	153	–	154	–	111	–
Employees	5,570	7.7%	5,945	7.6%	5,289	7.0%

Components

Strong increase in sales of microcircuits



Ronny Lejdemalm

The Business Area develops, manufactures and markets components and power supplies for the electronics industry. Its operations, conducted mainly within RIFA AB, comprise three product areas (percentage of total sales in parentheses):

- Microcircuits (36%)
- Power systems (32%)
- Capacitors and standard components (32%)

Sales in 1986: Skr 1,509 m.

Increased demand for microcircuits

Demand for microcircuits was strong during the year and sales increased 40 percent. Microcircuits now constitute the largest product area within Components. As a result of the Business Area's expertise in developing custom-designed circuits to given specifications, Ericsson can maintain a strong position in the field of hardware and systems development.

Development work in the Business Area has included programs in the field of components for optical fiber communications, among other projects.

Weak demand for capacitors

Due to the overcapacity and price competition in the capacitor and standard components product area, the trend of earnings continued to be weak, notably with respect to the French operations. The problems that the market began to experience during 1985 continued during 1986. Like Ericsson, most of the competitors have reduced the volume of their production.

Electrolytic capacitors sold well. Orders for capacitors as a whole were higher than in 1985.

A new production system for interference suppressor capacitors was placed in service in Kalmar.

New developments in power system field

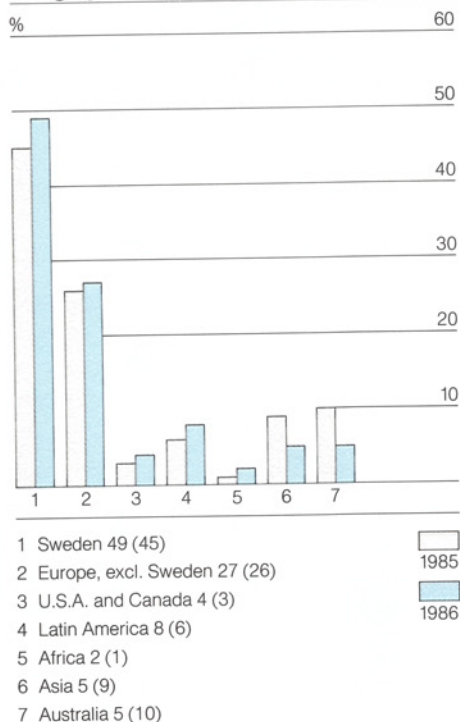
The trend of income in the power systems product area was unsatisfactory and demand was generally weak. A new series of products based on high-frequency technology was developed for AXE exchanges and is being included in deliveries to British Telecom.

New EnergyMaster systems for remote control of power plants in telecommunications installations were delivered to the Swedish Telecommunications Administration.

Fewer employees

The action program initiated in 1985 was continued during the year, resulting in substantial rationalization of production. The number of employees was reduced by slightly more than 400.

Geographic distribution of sales



The Business Area in brief

	1986		1985		1984	
Order bookings, external	768	2.3%	735	2.2%	932	2.8%
Net sales, external	788	2.5%	852	2.6%	799	2.7%
Net sales, internal	721	-	609	-	426	-
Operating income after depreciation	31	-	22	-	34	-
Employees	3,919	5.4%	4,343	5.6%	4,231	5.6%

Ten-Year Summary

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

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Results for Year										
Net sales	31,644	32,496	29,378	25,244	19,470	16,194	12,174	9,329	9,021	7,833
Operating income	2,114	1,637	2,203	2,464	1,841	2,198	1,195	741	1,118	904
Financial net	-1,180	-952	-914	-802	-949	-1,134	-307	-80	-463	-384
Income before appropriations and taxes	911	878	1,569	1,758	1,349	1,192	935	786	721	553
Year-End Position										
Total assets	34,232	37,122	37,632	30,606	25,481	21,896	17,711	12,959	12,767	11,972
Working capital	14,724	16,707	17,042	12,828	10,250	9,133	7,895	6,047	5,793	5,865
Property, plant and equipment, net	6,835	7,549	7,144	6,176	5,596	4,783	3,833	1,840	1,989	2,095
Long-term liabilities	8,768	8,566	7,658	6,673	7,230	6,383	4,932	3,817	3,647	3,358
Untaxed reserves	4,789	4,794	5,030	4,333	3,617	3,251	3,233	1,915	1,554	1,558
Stockholders' equity	7,299	6,901	6,560	6,219	3,973	3,654	3,010	2,947	2,869	2,677
Other Information										
Adjusted net income per share										
– after actual taxes paid	14.96	12.62	30.54	34.46	25.05	21.12	19.19	19.53	14.69	8.52
– after actual and estimated deferred taxes	17.21	15.15	19.99	22.05	17.13	16.73	13.57	11.43	12.23	8.23
Cash dividends per share	9.00	9.00	9.00	9.00	7.50	6.50	5.67	4.67	3.67	3.33
Shares outstanding – average (in thousands)	38,011	36,951	36,899	35,331	32,683	21,788	21,788	21,788	21,788	21,788
Additions to property, plant and equipment	1,643	2,677	2,192	1,645	1,662	1,275	718	508	501	548
Depreciation	1,133	1,308	1,039	945	760	621	409	307	329	303
Research and development										
– expenses	3,117	2,798	2,355	1,973	1,638	1,359	1,013	817	746	641
– in percent of net sales	9.9	8.6	8.0	7.8	8.4	8.4	8.3	8.8	8.3	8.2
Ratios										
Return on equity, percent	6.9	6.1	8.5	10.9	10.0	11.0	10.4	9.2	11.3	7.6
Return on capital employed, percent	13.1	11.3	13.6	17.8	16.5	18.8	14.4	13.1	16.8	13.4
Equity ratio, percent	30.5	26.5	27.0	31.4	26.9	28.4	31.6	33.2	31.8	32.0
Risk-bearing capital ratio, percent	37.5	32.9	33.7	38.5	33.9	35.8	40.7	40.5	37.8	38.6
Debt-equity ratio	1.1	1.5	1.5	1.1	1.5	1.4	1.2	1.1	1.1	1.3
Current ratio	1.9	1.6	1.6	1.8	1.7	1.9	2.1	2.3	2.1	2.1
Year-End Statistics										
Backlog of orders	23,625	23,055	25,161	21,565	20,991	17,701	11,914	10,147	10,586	8,565
Number of employees worldwide	72,575	78,159	75,116	70,783	66,300	69,860	65,910	55,690	61,400	62,820
Sweden	38,559	40,172	37,458	34,543	31,130	31,030	27,970	27,950	27,500	27,370

Definition of terms used above are given under Notes to the Financial Statements, page 32.

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 1986, approximately 43 percent of the Company's shares were held in countries other than Sweden. In addition to the listing on the Stockholm Stock Exchange, Ericsson's "B" shares are quoted in the form of ADRs (American Depositary Receipts) in the NASDAQ electronic quotation system of the National Association of Securities Dealers in the United States, and on the exchanges in Düsseldorf, Frankfurt-am-Main, Geneva, Hamburg, London, Oslo and Paris. The most active trading in Ericsson shares takes place in Stockholm, London and New York. The net outflow of Ericsson shares from Sweden in recent years was reversed in 1986, when the net inflow to Sweden amounted to approximately Skr 79 m.

Capital stock

Following conversion of 1,211,121 convertible debentures, the number of Telefonaktiebolaget LM Ericsson shares at year-end was 38,162,382 and the capital stock of the Company amounted to Skr 1,908 m. The par value of each share is Skr 50.

Of the total number of shares outstanding, 3,728,515 are "A" shares, of which 2,479,684 are restricted and 1,248,831 are nonrestricted, all carrying one vote. The "B" shares number 34,433,867, each carrying one thousandth of a vote. In other respects, there is no difference in the rights in the Company adhering to the two series of shares.

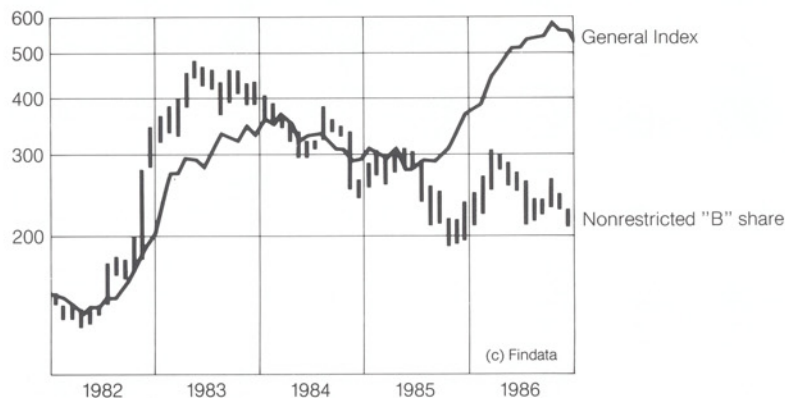
The Articles of Association of the Parent Company stipulate that 35 percent of the voting rights in the Company may be represented by nonrestricted shares that may be owned by foreign citizens as well as citizens of Sweden. At year-end, the maximum possible voting rights of nonrestricted shares outstanding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

Stockholders

At year-end 1986, the total number of LM Ericsson stockholders was approximately 74,200, most of whom owned small holdings. In all, approximately 70,150 stockholders owned 13.9 percent of the holdings of 500 or fewer shares. Approximately 180 holders of blocks of more than 20,000 shares controlled 66.5 percent of the shares. The distribution of ownership among stockholders 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.

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.



Growth in dividend

Average increase per year, percent

Period	Growth in dividend	Consumer price index
1977 - 1986	10.9	9.2
1982 - 1986	7.1	7.4
1977 - 1982	14.7	10.9

Trading volume

The turnover of LM Ericsson shares during the years 1982-1986, as recorded on the Stockholm Stock Exchange, is shown in the accompanying table. Ericsson shares accounted for 4.5 percent of the total number of shares traded on the Exchange during 1986, and for 3.8 percent of the volume in Swedish kronor.

Year	Number of shares
1986	21,321,417
1985	13,379,300
1984	7,347,305
1983	8,779,949
1982	7,207,016

Share	1986	1985	1984	1983	1982
Dividend	9.00	9.00	9.00	9.00	7.50
Profit per share					
– after taxes paid	14.96	12.62	30.54	34.46	25.05
– after taxes paid and estimated deferred taxes	17.21	15.15	19.99	22.05	17.13
P/E ratio I Ericsson B share ¹⁾	14.3	17.8	8.3	11.5	13.4
P/E ratio II Ericsson B share ²⁾	12.4	14.9	12.7	18.0	19.6
Share price, December 31					
Stockholm Stock Exchange					
– Series "A" restricted	325	260	300	400	350
– Series "A" nonrestricted	325	250	260	400	350
– Series "B" nonrestricted	214	225	254	398	336
High for year					
– Series "B" nonrestricted	307	311	405	483	345
Low for year					
– Series "B" nonrestricted	208	189	241	323	127

1) P/E ratio I = Price per share divided by profit per share after taxes paid.

2) P/E ratio II = Price per share divided by profit per share after taxes paid and estimated deferred taxes.

Changes 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, US\$62.5	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
1986 Conversions	1,211,121	60,556,050
1986 December 31	38,162,382	1,908,119,100

Distribution of shares

(Year-end 1986)

At December 31, 1986, approximately 43 percent of the Company's shares were held by shareholders outside Sweden. The voting rights accruing to these shares amounted to about 0.5 percent of the total.

The number of shareholders was approximately 74,200.

Size of holding	Shareholders		Shares		Number of shares per shareholder
	Number	%	Number	%	
1 – 500	70,150	94.6	5,282,758	13.9	75
501 – 1 000	2,250	3.0	1,668,935	4.4	750
1 001 – 2 000	890	1.2	1,337,858	3.5	1,500
2 001 – 5 000	440	0.6	1,485,495	3.9	3,400
5 001 – 10 000	190	0.3	1,486,015	3.9	7,800
10 001 – 20 000	100	0.1	1,505,014	3.9	15,050
More than 20 000	180	0.2	25,396,307	66.5	141,100
Total	74,200	100.0	38,162,382	100.0	514

Stockholders

The largest stockholders, ranked by voting rights, at December 31, 1986 were as follows:

	Number of shares	Percent of voting
AB Industrivärden	840,000	22.3
Förvaltnings AB Providentia	444,000	11.8
AB Investor	394,000	10.5
Allmänna Pensionsfonden-Fjärde Fondstyrelsen	803,479	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	879,248	3.0
Wallenbergs Stiftelse Marianne och Marcus	90,000	2.4

Exports/Imports

Exports of LM Ericsson shares from Sweden and imports of such shares to Sweden during the years 1982-1986 were as shown in the accompanying table.

Year	Exports (Skr m.)	Imports (Skr m.)	Net
1986	1,319	1,398	-79
1985	1,374	1,165	209
1984	1,176	705	471
1983	4,071	1,058	3,013
Of which, special new issue	1,799	-	1,799
1982	1,390	487	903

Sources: Bank of Sweden and Swedish Bank Inspection Board



Hans Werthén



Jan Wallander



Björn Svedberg, Carl Wilhelm Ros, Peter Wallenberg



Sven Ljungberg, Thor Nordmyr



Sven Olving, Sten Rudholm, Sven Ågrup



Kjell Brändström, Lennart Dahlström



Jan Stenberg



Paul Kvamme, Thomas Olsson, Arne Mohlin

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Members

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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, Förvaltnings AB Providentia and Stora Kopparbergs Bergslags AB

KJELL BRÄNDSTRÖM

President of AB Industrivärden, Chairman of the Board of Nils Dacke AB

LENNART DAHLSTRÖM

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

PAUL KVAMME

Employee representative

THOR NORDMYR

Employee representative

SVEN OLVING

Doctor of Science, President of Chalmers University of Technology, Chairman of the Board of AB Volvo-finans

STEN RUDHOLM

Honorary Doctor of Law, Former Marshal of the Realm, Member of the Swedish Academy

SVEN ÅGRUP

Chairman of the Board of AGA AB

BJÖRN SVEDBERG

President and Chief Executive Officer, Honorary Doctor of Technology

Deputy Members

SVEN LJUNGBERG

Employee representative

ARNE MOHLIN

Executive Vice President

THOMAS OLSSON

Employee representative

CARL WILHELM ROS

Executive Vice President

JAN STENBERG

Executive Vice President

Auditors

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*

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Corporate Executive Committee

BJÖRN SVEDBERG

Chief Executive Officer

President, Telefonaktiebolaget LM Ericsson

ARNE MOHLIN

Executive Vice President

LARS RAMQVIST

Executive Vice President

CARL WILHELM ROS

Executive Vice President and Chief Financial Officer

Business Areas

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President, Ericsson Cables AB

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Senior Vice President, Defense Systems

STIG LARSSON

Senior Vice President, Information Systems

President, Ericsson Information Systems AB

RONNY LEJDEMALM

Senior Vice President, Components

President, RIFA AB

BJÖRN LINTON

Senior Vice President, Network Engineering and Construction

President, Ericsson Network Engineering AB

ÅKE LUNDQVIST

Senior Vice President, Radio Communications

President, Ericsson Radio Systems AB

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Executive Vice President, Public Telecommunications

Corporate Staffs

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Senior Vice President, Corporate Treasury

LARS EDMARK

Senior Vice President, Corporate Market Coordination

LENNART GRABE

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HARRY JOHANSSON

Senior Vice President, Corporate Audit

BO LANDIN

Senior Vice President, Corporate Market Coordination

MAGNUS LEMMEL

Senior Vice President, Corporate Market Coordination

GÖSTA LINDBERG

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

NILS INGVAR LUNDIN

Senior Vice President, Corporate Relations

ROLF SKILLNER

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ÅKE STAVLING

Senior Vice President, Corporate Financial Control

Investor Relations

PETER BERGENHAG

Investor Relations in the U.S.

LARS CHRISTOFFERSON

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Bureaux Techniques d'Algérie
El Djazair
Lars Johansson

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Buenos Aires

Compañía Argentina de
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Sven Lönnström

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Arvid Jauring

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Broadmeadows
Lars Estberger

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Finance Pty. Ltd.
Broadmeadows
Lars Estberger

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NIRA Australia Pty. Ltd.
Alexandria
Brian Fitzgerald

Rifa Pty. Ltd.
Preston
Nils Öman

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Freddy Michielsen

Facit Office Products NV/SA
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Rubem Carlos Ludwig

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Rolf Bäckström

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Cali
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Madras
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Uptron Electronic Devices Ltd
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José M. Gallardo
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Señalización S.A.
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Hilario Zalote
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S.A. (Intelsa)
Madrid
Leif Källén

Sweden

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Björn Svedberg
AB Aulis
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Stockholm
Christer Nylander
ELLEMTEL Utvecklings AB
Stockholm
Sten-Olof Johansson
E-P Data AB
Karlskrona
Urban Jansson
Ericsson Cables AB
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Lars Berg
Ericsson Fiber Optics AB
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Mats Krave
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Åke Lundqvist
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Sverige AB
Sundbyberg
Leif Holm
Ericsson Signal Systems AB
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Harald Schröder
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Karl Olov Melin
John Mårtensson Elmaterial AB
Helsingborg
Christer Wahlberg
Pite Partner AB
Öjebyn
Karl-Evert Wallin
RIFA AB
Stockholm
Ronny Lejdemalm
Svenska Elgrossist AB SELGA
Stockholm
Göran Brodin
Töcksfors Verkstads AB
Töcksfors
Lars Wahlberg
Wolber Import AB
Stockholm
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Verimation AB
Västra Frölunda
Björn Stattin
Switzerland
Ericsson AG
Dübendorf
Kurt Klöpfer
Ericsson Finanz AG
Zollikon
Kurt Rohrer
Ericsson Information Systems
AG
Dübendorf
Thomas Avedik

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Taipei
Christer Hohenthal

Thailand

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Bangkok
Supridi Sribhadung

Ericsson Telephone Corporation
Far East AB
Branch Office Thailand
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Ericsson Thai Networks
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Bureaux Techniques de Tunisie
Tunis
Hugo Agnvall

Turkey

Ericsson Şebeke Insaati A.S.
Istanbul
John E Vesterlund

United Arab Emirates

Telefonaktiebolaget LM Ericsson
Technical Office UAE
Abu Dhabi
Lennart Nilsson

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Birmingham
John Bunce

Ericsson Information Systems
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Birmingham
John Bunce

Swedish Ericsson Company Ltd.
Birmingham
John Bunce

Thorn Ericsson Telecommunica-
tions Ltd.
Horsham
Duncan MacDougall

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M. Peter Thomas

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Richardson, Texas
Theodore A. Franks

– Information Systems
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Lars G. Jarnryd

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John Davidson

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Compañía Ericsson S.A.
Montevideo
Augusto Bazzi

Venezuela

Compañía Anónima Ericsson
Caracas
Stig Johansson

Sistemas Ericsson C.A.
Caracas
Alvaro Cifuentes

Zambia

Ericsson (Zambia) Ltd.
Lusaka
Berth Thul

Annual General Meeting

The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Tuesday, May 19, 1987.

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 8, 1987. 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 Thursday, May 14, 1987 at 4.00 p.m.

Dividend

The Board of Directors has proposed May 22, 1987 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 June 1, 1987.

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.

ERICSSON 

Telefonaktiebolaget LM Ericsson
S-126 25 Stockholm, Sweden