



## Annual General Meeting

The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Thursday, May 19, 1988. For further information, see page 52.

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### Cover

To assure the most reliable performance possible, much of the production of components for Ericsson communications systems takes place in clean-room environments. Final inspection of the miniature relay – the critical electromechanical component between the subscriber and the AXE exchange – is extremely precise. Eight million relays, most of them produced in Ericsson's main plant in Stockholm, are used annually.

### Page 1

Great Britain has become Ericsson's largest single market for the AXE system. An addition to the plant at Scunthorpe, which now has a production capacity of 700,000 lines a year, was inaugurated during the summer of 1987. Prior to delivery, systems are assembled for tests and function controls.



# Telefonaktiebolaget LM Ericsson

## Annual Report 1987

### Improved earnings

The favorable trend of profitability that began in 1986 continued during 1987. Ericsson's financial strength also improved. During the past two years working capital was reduced by about SEK 3 billion as a result of more efficient use of funds.

### Market successes for AXE system

The volume of orders for AXE switching equipment increased more than 50 percent in 1987, to 4.8 million lines, compared with 3.1 million in 1986. Half of the contracts came from countries in Europe. France, where Ericsson has acquired a 16-percent share of the market through its takeover of CGCT, the Government-owned company, is an important new customer country. Operations in Great Britain are developing according to plan. Production capacity there has increased to 700,000 lines of AXE a year.

### First AXE local exchange in the U.S.

The first AXE exchange for local telecommunications traffic was placed in service in the U.S. in November 1987. This was an important milestone in Ericsson's programs in U.S. markets. The objective is to have a market share of between five and ten percent by 1990. Four of the seven Bell regional operating companies have now purchased local exchange equipment from Ericsson.

### Still a world leader in mobile telephony

Ericsson has maintained a 40-percent share of the market and its position as the leading world supplier of fully automated cellular mobile telephone systems. The number of subscribers throughout the world doubled during 1987. At year-end, 916,000 of the total of 2,248,000 subscribers were linked to Ericsson AXE-based systems. Orders were received in six additional countries in 1987.

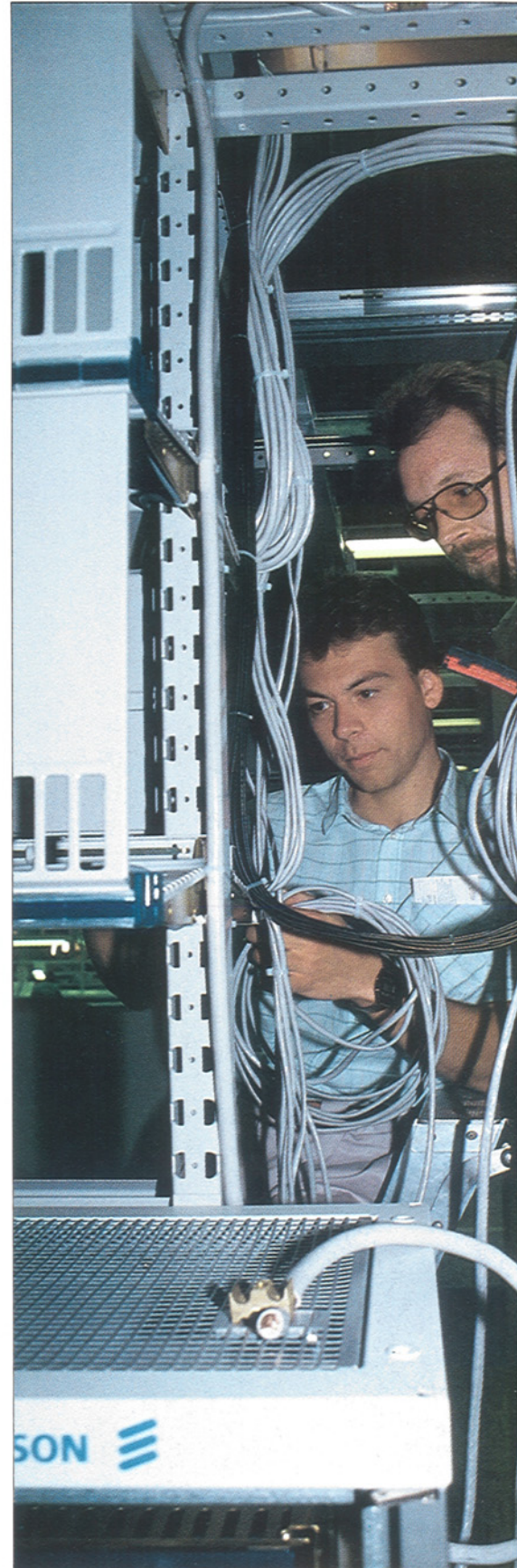
### Focus on communications systems

Following agreements to divest the Data Systems and Office Equipment Divisions, operations in the Information Systems Business Area have been concentrated on communications systems. With more than one and a half million lines installed, Ericsson's MD 110 business exchange further consolidated its market position. The MD 110 exchange is the core unit in Ericsson's flexible communications systems.

### Highlights

	1987 SEK m.	1986 SEK m.	Change percent
Net sales	32,400	31,644	2
Order bookings	33,405	32,794	2
Order backlog at year-end	24,171	23,625	2
Income before appropriations and taxes	1,108	911	22
Net income per share after taxes paid, SEK	17.90	14.96	20
Net income per share after paid and estimated deferred taxes on appropriations, SEK	19.26	17.21	12
Dividend per share, SEK	9.00 *	9.00	-

\*For 1987, proposed by the Board of Directors





## Ericsson in Brief

Ericsson is a world leader in telecommunications, based on advanced technology, network competence, international experience and customer orientation. Ericsson is also a leading supplier of electronic defense systems.

The Parent Company, Telefonaktiebolaget LM Ericsson, and Ericsson's world headquarters are located in Stockholm, Sweden.

Following the streamlining of its operations, Ericsson has slightly more than 60,000 employees and operations in 80 countries.

Research and development expenditures amount to ten percent of Ericsson's sales. Worldwide, 10,000 engineers and technicians are engaged in R&D programs.

The share capital of Telefonaktiebolaget LM Ericsson totals SEK 1,908 million, represented by 38,162,382 shares, each with a par value of SEK 50. Shareholders outside Sweden own 34 percent of the shares.

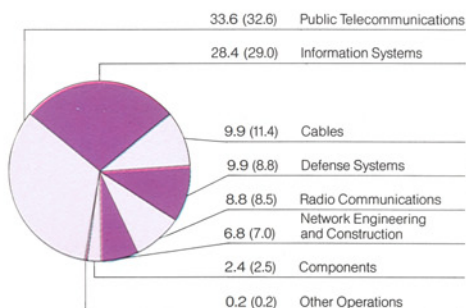
Ericsson's operations are organized in seven Business Areas: Public Telecommunications, Business Communications (formerly Information Systems), Cables, Defense Systems, Radio Communications, Network Engineering and Construction, and Components.

Operations are concentrated in geographical areas where Ericsson can obtain large market shares. Ericsson operates as a domestic company in each market, often establishing local production and technical development facilities.

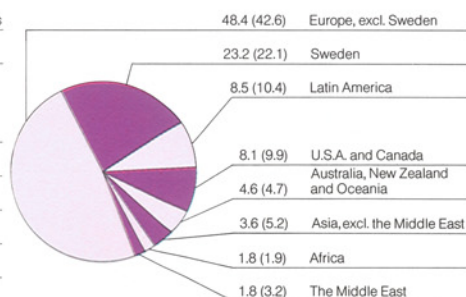
Ericsson's sales in 1987 amounted to SEK 32,400 million.



Sales to external customers, by Business Area, %

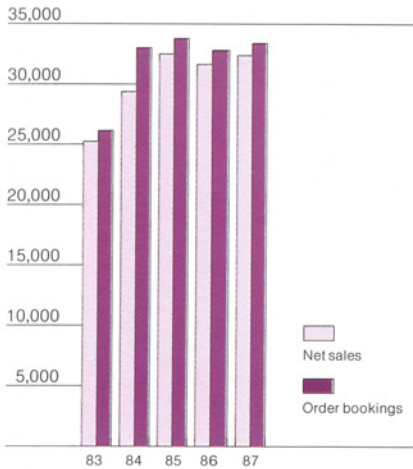


Geographic distribution of sales, %



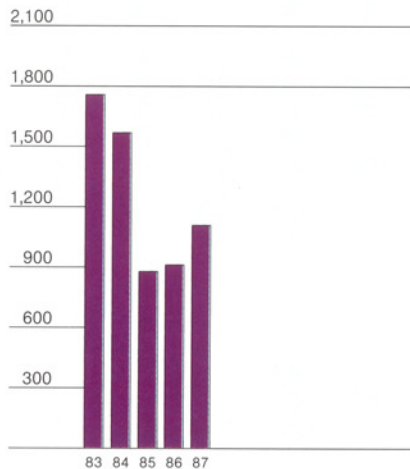


Net sales/Order bookings, SEK m.



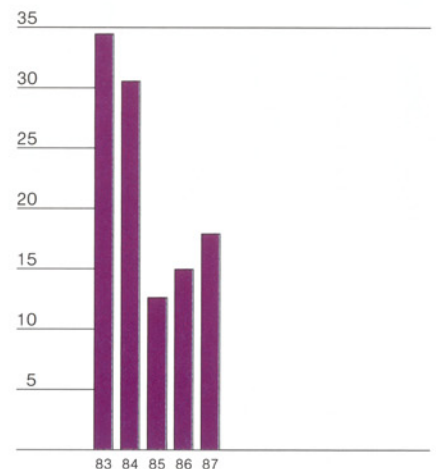
Sales and order bookings both increased 2 percent in 1987. Excluding the declining exchange rate for the U.S. dollar in 1987, the increase in sales and order bookings would have been 5 percent. The average annual rate of growth of sales and order bookings during the most recent five-year period was 6 percent.

Income before appropriations and taxes SEK, m.



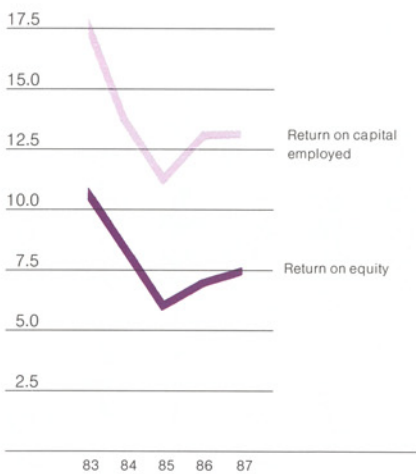
The improvement in income, which began in 1986, continued during 1987. Income in 1987 was 22 percent higher than in 1986.

Adjusted net income per share after actual taxes paid, SEK



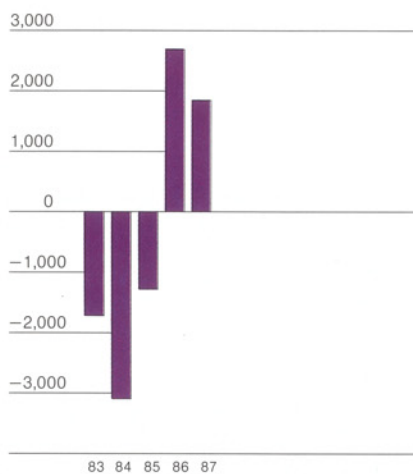
As a result of the higher income in 1987, profit per share after taxes paid increased 20 percent, compared with the preceding year.

Return on equity and capital employed, %



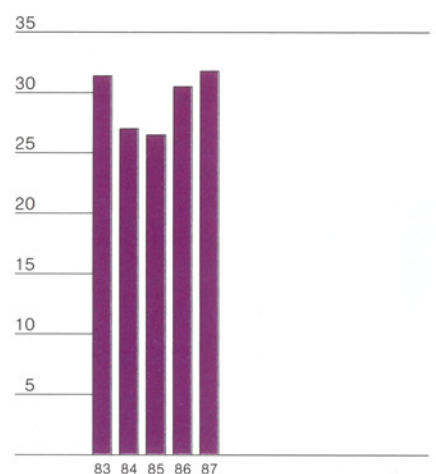
The return on equity rose from 6.9 percent in 1986 to 7.5 percent in 1987 and the return on capital employed increased from 13.1 percent to 13.2 percent during the same period.

Cash flow before external financing, SEK m.



A strong positive cash flow, amounting to SEK 1.8 billion in 1987, was achieved for the second consecutive year.

Equity ratio, %



As a consequence of Ericsson's positive cash flow and the related decrease in borrowing, the equity/assets ratio (including 50 percent of untaxed reserves) increased from 30.5 percent in 1986 to 31.8 percent in 1987.

Ericsson is the leading international supplier of advanced systems and services for telecommunications networks. Brazil, where Ericsson systems are manufactured in the main plant in São José Campos, is one of more than 30 countries in which Ericsson has its own production facilities.



## **Focus on telecommunications Increased presence in major markets**

**The lines of demarcation in the field of communications are becoming increasingly blurred. Public networks are offering services that formerly were provided only in private systems. At the same time, the private subscriber networks are becoming increasingly more complex. They are also being used in companies and organizations to link geographically dispersed units in the same manner as in public networks.**

**Stationary terminals are becoming mobile, thanks to advanced radio technology. The same technology is making it possible today to expand telephone systems in areas difficult to reach with cable.**

**The division into public and private telecommunications is no longer clear and distinct. Nor is the division into stationary wired and mobile radio communications.**

The possibilities for flexible solutions to communications problems become greater when areas that formerly were clearly defined merge to form a total field. With increased possibilities, there is a need for greater capacity in communications. And, parallel with the growth in capacity, the areas in which electronic transmission of information becomes the most efficient way to communicate are also expanding.

Technically speaking, telephony, now slightly more than a century old, has long been supplemented by the transmission of text, data and images. But only now are the new technologies beginning to represent a sharply rising percentage of the traffic in telecommunications networks. This is especially the case in the industrialized portion of the world.

As a result, the industrialized countries account for an ever larger percentage of the world market for telecommunications. They are the countries in which growth is most rapid, and in which an important part of the development work to meet future needs is taking place.

Ericsson has succeeded in maintaining an advanced technical position in the areas where it is a world leader. We have not permitted the Company's weak trend in earnings in recent years to affect our investments in research and development. Our AXE technology is even more competitive today, and our mobile telephone systems are maintaining their share of the world market. The MD 110 subscriber exchange is gaining increasing recognition as one of the best systems in the market for integrated handling of voice and data. We have received important new development contracts in the field of defense electronics.

It is extremely important to have the most advanced technology, the best products and the most efficient systems, but this is not enough today. It is also essential to have a strong position in the most important markets, not only to be able to share the largest volumes of business but also to be able to meet customers' demands. Customer demands in these markets will determine future developments in other parts of the world as well.

Ericsson has been able to increase its market shares in a number of important markets and has also succeeded in penetrating significant new markets. Where AXE exchanges are concerned, France is one example. Another is the People's Republic of China. In 1987 Ericsson delivered the first mobile telephone system to be installed in the country, and the Company recently received an order for AXE equipment that is the largest telecommunications contract ever placed by the Chinese authorities. In the United States and Great Britain, a continuing commit-



ment of substantial resources has been required in order to expand operations as planned.

Simultaneous investments in large and important markets naturally impose short-term strains on an organization. But a company also acquires special strength from being where the competition is toughest and the opportunities greatest.

Our operations have now been concentrated in areas of Ericsson strength, with the focus on telecommunications. These areas include defense electronics, cables, network engineering and construction, and components. Certain units — including the capacitor operations in the Components Business Area — have been sold. Following the agreement to divest its Data Systems and Office Equipment divisions, the Information Systems Business Area has been renamed Business Communications. The new name reflects more accurately the major emphasis now being placed on communications systems for companies and organizations.

By divesting operations that no longer have the same strategic importance for Ericsson, and which can be developed more effectively under new ownership, we are releasing resources and creating opportunities for more aggressive programs. The divestments made in 1987 and 1988 thus have been important steps in concentrating our forces on core areas.

During 1987 Ericsson consolidated its position as one of the world's leading companies in the telecommunications field in terms of technology, with higher market shares in the industrialized sector of the world in particular.

Together with the streamlining of our operations, a significant improvement in our internal efficiency, and a stronger financial position, we have created conditions both for an essential growth in volume in our key areas and the continuing development of products and systems within an industry that is exposed to severe competition.

The structural changes effected during the latter part of 1987 and the beginning of the current year, combined with our successful market investments, are expected to result in continuing improvement in Ericsson's income during 1988. The results we achieved during 1987 now lead me to view the future with increased optimism.

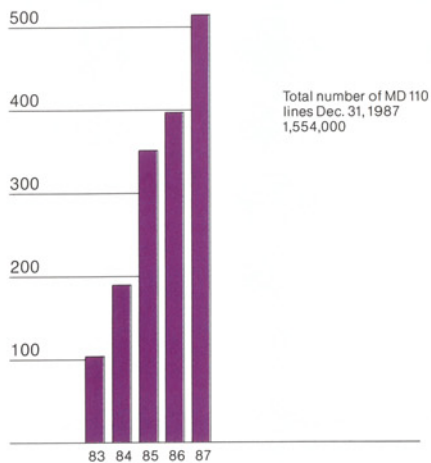


Björn Svedberg



## Year in Review

MD 110, world survey.  
Number of lines installed, per annum,  
thousands.



### Trend of market

#### Continuing severe competition

Competition within the communications industry continues to be extremely severe. There is excess capacity in the public telecommunications segment, due to a lower than expected rate of growth in industrialized countries and to weak economies in oil producing nations and countries dependent on commodity price levels.

Telecommunications companies require market shares that provide volumes large enough to cover increasing costs of research and development over the long term. The mergers that have occurred in recent years are one sign that the market is not large enough for all of the companies.

Other sectors of the information industry have also been characterized by excess capacity, with substantial reductions in personnel, as well as mergers, as a consequence.

#### Industrialized countries increasingly important

The greatest growth, particularly in public telecommunications, is in countries where well-developed industry requires increasingly higher capacity in communications networks. Older equipment must be exchanged for new facilities that can handle large volumes of both voice and data traffic through the use of advanced digital technology.

In the world as a whole, there is an installed base of nearly half a billion local telephone lines that will be replaced by new digital technology in the future. This updating of older telecom networks constitutes an increasing share of the nearly 40 million lines that are currently installed each year. A relatively small number of countries, primarily large industrialized nations, account for the greater part of the investments in this process, which is still only in a very early stage.

#### More services in telecom networks

Telecom networks of the future will offer an increasing number of services in a more flexible manner. The rate of expansion of networks for mobile telephony will accelerate and the distinctions that now exist between stationary and mobile communications will in time disappear. The telephone itself will not be connected to a fixed outlet but, as a light portable unit, will be usable virtually anywhere.

When telecom networks are supplemented with central data bases, subscribers will be able to gain access, in a cost-effective way, to new services in intelligent networks. These services may involve anything from debiting accounts to control of credit card operations, or vot-

The United States, where mobile telephone systems is a major area of operations, is one of Ericsson's most important markets. Ericsson systems now cover large geographical areas, including metropolitan Pittsburgh, where this base station is located.

ing by telephone. Services that are today available through subscriber exchanges can also be provided efficiently in intelligent networks.

#### Market-driven growth

The most rapid growth is taking place in countries where the communications industry is market-driven. Customer demand for practical solutions to communications problems — rather than technology — is the determining factor in the development work that is taking place.

The deregulation of markets, opening them to competition, is a continuing trend, affecting both public telephone systems as well as subscriber exchanges and other equipment.

#### Battle for markets

Increasingly advanced communications systems also require larger customer investments in system adaptation and training programs. Thus, long-term customer-supplier relations will become mutually beneficial to an even greater degree. This, in turn, means that the battle for new markets will become increasingly tougher.



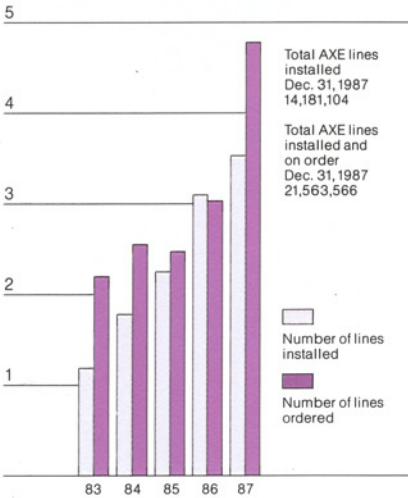


The United States has also become an important market for Ericsson's private communications systems. The UNDP (United Nations Development Program), whose offices are located directly across from the U.N. headquarters building, is among the organizations that have chosen the MD 110 business exchange.





AXE, world survey.  
Local and transit lines per annum  
(excl. cellular), millions.



## Product and marketing strategies

### Adapting to market demands

It is essential to continuously adapt operations as the market changes. In Ericsson's case, this has meant concentrating on its core communications business, as well as increased investments in proprietary systems: AXE for public telecommunications, the AXE-based mobile telephone system and the MD 110 communications system for companies and organizations. Advanced defense electronics will also continue to be an area of strength.

### Streamlining of operations

The most important areas of Ericsson's operation have been streamlined in order to maintain the greatest possible competitiveness. Certain units that were no longer considered strategically necessary have been divested. The Information Systems Business Area, now named Business Communications, is one example. Operations are now being concentrated to the Communications Systems Division following the divestment of other divisions. In marketing communications systems it is no longer necessary for a company to have its own production of personal computers and data terminals, since increased standardization makes it possible to integrate products of various makes in the company's systems.

Thus, Ericsson has not reduced its investments in the data processing field but has, instead, obtained greater resources with which to further develop and strengthen the advanced data processing technology that constitutes the base of its communications systems.

### Breadth of knowledge important

It is also important that the breadth of Ericsson's total operations be adequate to permit the Company to offer flexible solutions to communications problems. Concentration does not have to signify narrowness.

Accordingly, it is valuable for Ericsson to have its own knowledge in other areas directly related to telecommunications. Cable is one such area, and fiber optical cable in particular.

Ericsson's knowledge and experience in constructing advanced networks in varying international environments also continues to be highly important, as is also true of the Company's development and manufacture of components.

### A flexible, customer-oriented system supplier

Customers today demand custom-tailored solutions to communications problems. Ericsson has therefore become increasingly a systems supplier whose flexibility

Ericsson is the world-leading supplier of local systems for personal paging. These operations are centered in The Netherlands, with the main production taking place in the Ericsson plant in Emmen. During the year, a new personal pager for text information was introduced, as well as a mini-pager the size of a credit card.





In Thailand, Ericsson has been awarded a substantial network construction project involving expansion of the local telecom network in Bangkok and 150 locations in the northern part of the country. Ericsson's technical expertise and substantial experience in network construction were the decisive factors in Ericsson's gaining the contract in severe international competition.



is an important asset. In the field of business communications, larger investments will be made in customer-adapted systems approaches, based on the MD 110 subscriber exchange. A large number of products in the form of data terminals, personal pagers, telephone instruments, etc. can be linked to this exchange. The high degree of standardization in these product areas is offering the customer greater freedom of choice.

Cooperation in various forms is also a way of achieving greater flexibility and efficiency. The agreement signed with Texas Instruments in 1987 is one example. It gives Ericsson access to advanced technology in the field of micro-electronics and simultaneously strengthens Texas Instrument's role as a supplier of advanced semiconductor components.

For Ericsson, this cooperation agreement is an alternative to substantial investments to build up its own operation.

The agreement with IBM covering joint development of intelligent networks is another example. In this case, Ericsson's telecommunications technology and IBM's knowledge of data bases are being combined to provide efficient services for subscribers in public telecom networks.

### **Ericsson systems increasingly competitive**

#### **Favorable trend of market for AXE**

Ericsson's breakthroughs into new markets in recent years have been made mainly in the approximately 20 countries that account for more than 80 percent of total world investments in telecommunications. Established positions in these markets offer increased opportunities for future expansion and growth in volume, as was demonstrated during 1987.

Order bookings, which increased strikingly during the year, amounted to 4.8 million AXE lines, of which half were ordered by customers in European countries. A total of 3.5 million lines were installed during the same period, compared with slightly more than three million in 1986. The 1987 figure does not include AXE installations for mobile telephony, which are reported separately, or AXE exchanges used for special services.

The AXE system has been sold to customers in 70 countries. In total, more than 21 million lines have been ordered, of which 14 million were installed at year-end 1987.

Europe accounts for an increasing percentage of Ericsson's operations in public telecommunications. Great Britain, where annual production capacity was increased to 700,000 lines a year, is the largest single market. Market positions were also strengthened in Switzerland, The Netherlands and Spain.

The victory in the battle to acquire CGCT, the Government-owned French company, was a major success for Ericsson, providing a 16-percent share of the market for telephone exchanges in France. Algeria is another new market. There, the selection of AXE for the first stage of digitalization of the telecom network may also be regarded as a future system choice.

In the United States, the first AXE exchange to handle local telephone traffic was placed in service in November. This was an important milestone in the program in U.S. markets, where the objective is to obtain a five-to-ten-percent share by 1990. Four of the seven regional Bell operating companies have now purchased local exchange equipment from Ericsson.

Nearly 400,000 lines of AXE were installed in Australia during 1987. In the Republic of Korea, where Ericsson's market had earlier been restricted to rural areas and small communities, AXE was also adopted for installations in large cities.

Following the installation of close to 200,000 AXE lines in the People's Republic of China, a framework agreement was signed early in 1988 covering the supply of 200,000 additional lines, along with other telecommunications material. The total amount involved is nearly half a billion Swedish kronor. The contract was the largest ever signed in the telecommunications field in the People's Republic, as well as the largest industrial agreement with a Swedish company.

#### **Mobile telephony expanding sharply**

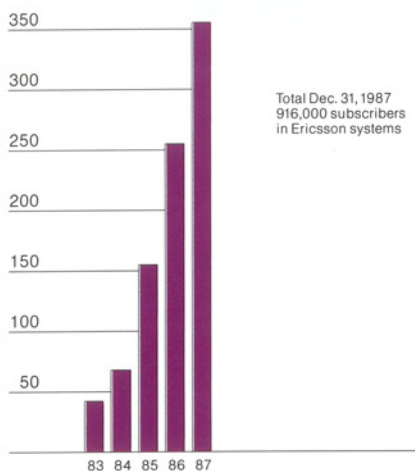
The world market for fully automatic cellular mobile telephony is expanding sharply. The number of subscribers throughout the world nearly doubled in 1987, amounting at year-end to 2,248,000. Of this number, 916,000 were linked to Ericsson's AXE-based systems. At year-end 1986, 543,000 subscribers out of a total of 1,335,000 were connected to Ericsson systems.

Despite the very rapid increase in total volume, Ericsson has thus succeeded in maintaining 40 percent of the market in the system segment, as well as its position as the world leader. The greater part of the orders received in 1987 involved expansion of existing systems, but a number of new customer countries were also added.

In Latin America, where fully automatic cellular mobile telephony had not been available earlier, both Venezuela and Mexico have now selected Ericsson to supply their first systems. This may also be an important factor in the selection of systems in other Latin American countries.



Cellular mobile telephone systems, world survey. Subscribers in Ericsson systems, per annum, thousands.



Cellular radio technology has become increasingly important in expanding fixed telecom networks in countries where terrain conditions are difficult, with long distances to be covered.

One of the most important events in the field of mobile telephony during 1987 was an agreement among thirteen European countries covering a common standard for a digital system, based on narrow-band, time-multiplex technology (TDMA). This standard is expected to be important in system choices in other parts of the world.

Ericsson has a leading position in the development of the new system. Cooperation agreements have been signed with Siemens in West Germany and Matra in France.

#### More than 1.5 million MD 110 lines installed

With 515,000 lines installed during 1987, the MD 110 subscriber exchange accounted for 12 percent of the world market for large office exchanges. The total number of MD 110 lines installed at year-end was 1,554,000.

The millionth MD 110 line was delivered in June to a West German company, symbolizing the initial successes of Ericsson's large office exchange MD 110 in a market that has proved extremely difficult to cultivate.

MD 110 permits communication, with voice and data transmitted over the same telecom lines, within a company or organization. When a new installation of MD 110 is made, the telecom network already in service can be used. The communications system is built up with linked line modules, each of which can function as an independent subscriber exchange. This makes MD 110 ideal for organizations with widely dispersed units that wish to link their operations by means of a single subscriber exchange/communications system.

In universities in the United States and Europe, in particular, MD 110 has proved to be a competitive alternative for handling heavy voice and data traffic.

During 1987 Ericsson introduced a systems solution to business communications that is built around the MD 110. The new system, which makes it possible to integrate telecommunications and data communications, consists of a broad range of connectable components that are compatible with most of the major mainframe computers.

The investment in Ericsson's systems approach, which was introduced in five "pilot countries" (Sweden, Denmark, The Netherlands, Belgium and Italy) during 1987, will now continue on a larger scale within the Business Communications Business Area.

### Financial trends

#### More efficient use of capital

During the past two years an intensive program to achieve more efficient use of capital has been conducted within Ericsson. During this period working capital has been reduced by a total of about three billion Swedish kronor, as a result of which Ericsson today is much stronger financially than it was two years ago.

Capital has also been released through the divestment of certain operations. Taken as a whole, the opportunities to make investments in the principal areas in which operations are now concentrated have increased substantially.

#### Aggressive investments

Continuing aggressive investments were made during 1987, notably in the important growth markets in Great Britain and the United States, as well as in France. In Spain, Intelsa is now a wholly owned subsidiary following Ericsson's purchase of the minority interest. Two network construction companies were bought in Italy.

Cellular radio technology has assumed increasing importance in expanding fixed telecom networks in countries where cable laying is complicated due to difficult terrain conditions. Many rural communities in Malaysia now have their first telephone service, thanks to the new technology.

In 1988 resources are available for continuing substantial research and development programs as well as for investments in areas where increased volume can have a favorable impact on earnings.

#### Relative insensitivity to economic and currency fluctuations

Most of Ericsson's product areas are relatively insensitive to fluctuations in the general economy. Investments in communications systems are long-term in nature and thus not affected by short-term changes. The customers comprise public authorities, companies in the private sector and individuals. A decline in the private market can therefore be offset by public expenditures designed to stimulate the economy.

Since the value of Ericsson's imports of components and products from the United States is approximately equal to the value of the goods it exports at prices quoted in dollars, the impact on earnings of the declining rate of exchange for the dollar has been moderate.





Ericsson systems engineers in Malaysia conduct field tests in a remote area of the country to ensure the best possible connections from the coin-operated instrument in the background. It is part of Malaysia's mobile telephone system. Power is supplied by batteries that are charged by solar cells.





# Board of Directors' Report

## Continued improvement in earnings

### Sales and order bookings

Ericsson's consolidated sales in 1987 amounted to SEK 32,400 m., an increase of 2 percent compared with 1986 sales of SEK 31,644 m. Excluding divestments, sales by comparable units increased 3 percent. The declining rate of exchange for the U.S. dollar during the year had an adverse impact on sales. Invoicing to customers outside Sweden accounted for 77 percent of Ericsson's total sales, compared with 78 percent in 1986.

Order bookings totaled SEK 33,405 m., an increase of 2 percent over 1986 orders totaling SEK 32,794 m. The order backlog at year-end 1987 was SEK 24,171 m., compared with SEK 23,625 m. a year earlier.

### Income

Consolidated operating income before appropriations and taxes was SEK 1,108 m., as against SEK 911 m. in 1986, an increase of 22 percent.

Operating income after depreciation amounted to SEK 2,019 m., compared with SEK 2,114 m. in 1986. Income in 1987 included net capital gains of SEK 377 m. on sales of shareholdings and fixed assets, compared with capital gains of SEK 378 m. in 1986. Operating income in 1987 was charged with restructuring costs in connection with the divestments announced early in 1988.

Consolidated net financial expense declined sharply. Ericsson's share of income, after tax, in associated companies decreased to SEK 166 m. in 1987, compared with SEK 181 m. in 1986. The decrease was attributable mainly to the operations in Brazil.

Minority interest in income before appropriations and taxes amounted to SEK 182 m., compared with SEK 204 m. in the preceding year. The Spanish subsidiary, Intelsa, has been wholly owned by Ericsson since mid-1987. Improved operating results were reported by Ericsson's partly owned companies in Italy, among others.

### Business Areas

The *Public Telecommunications* Business Area reported a distinct improvement in operating income, compared with 1986. This was primarily the result of rationalization measures and high workloads in the Business Area's factories as a consequence of increased activity in a number of markets.

There was a continuing strong improvement in the operating results of the *Information Systems* Business Area, which still showed a loss, however. Steps taken to improve product and production efficiency yielded significant gains, particularly in the Data Systems Division, whose operations were profitable.

Operating income in the *Cables* Business Area declined as a result of the fall-off in demand in the United States market. Other markets, notably in Sweden, developed favorably.

The *Defense Systems* Business Area reported lower operating income, primarily due to high project costs in the control systems area.

In the *Radio Communications* Business Area, substantial investments were made in new product lines in the fields of mobile telephony and personal paging. As a result of the costs involved, operating income declined.

Operating income in the *Network Engineering and Construction* Business Area improved significantly. This was due primarily to increased operating efficiency, which resulted in reduced costs relative to sales.

Operating results in the *Components* Business Area showed a sharp improvement, notably in the power components sector.

### Financing

As a result of a reduction in the amount of capital tied up in operations and an improved borrowing structure, which resulted in lower interest costs, consoli-

dated net interest expense decreased by SEK 285 m. to SEK 895 m.

The rate of capital turnover continued to improve during the year, from 0.92 to 0.97. Inventories as a percentage of sales declined 4 percentage units, to 26 percent. Accounts receivable rose one percentage unit, to 33 percent of sales, due to higher deliveries during the closing months of the year.

As a result of the positive cash flow, the consolidated equity/assets ratio improved from 30.5 percent in 1986 to 31.8 percent at year-end 1987. The announced investments to be completed in 1988 will further strengthen the equity/assets ratio by slightly more than 3 percentage units.

Ericsson issued three convertible debenture loans during the year. Two were issued simultaneously: one in Switzerland in the amount of CHF 135 m. with interest at 2.75 percent, and one in London, in the Euromarket, in the amount of USD 60 m. with interest at 6.875 percent. Both have maturities of 15 years. In addition, convertible debentures were issued to Ericsson employees in Sweden and in certain subsidiaries outside Sweden. This loan was in the amount of SEK 626 m., with interest at 11.25 percent and a maturity of five years. The debentures are convertible to unrestricted B shares of the Parent Company. Proceeds of the loans were used mainly for the early retirement of outstanding Eurobond loans. Further information on the convertible debenture loans is provided in the Notes to the financial statements, Note 15.

### Research and development

Ericsson's total costs for research and development in 1987 amounted to SEK 3,204 m., equal to 9.9 percent of sales, compared with SEK 3,117 m., or 9.9 percent of sales in 1986.

### Capital expenditures

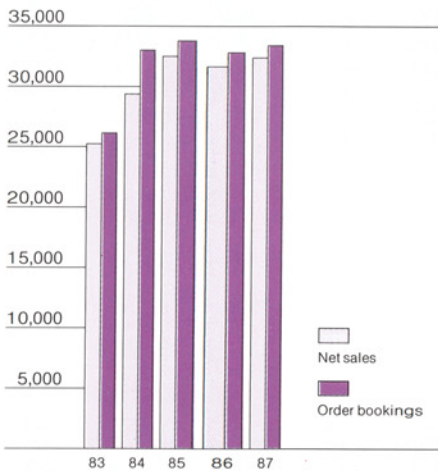
Total investments in property, plant and equipment amounted to SEK 1,592 m. in 1987, as against SEK 1,643 m. in the preceding year. Investments in Sweden

### Sales to external customers, by Business Area

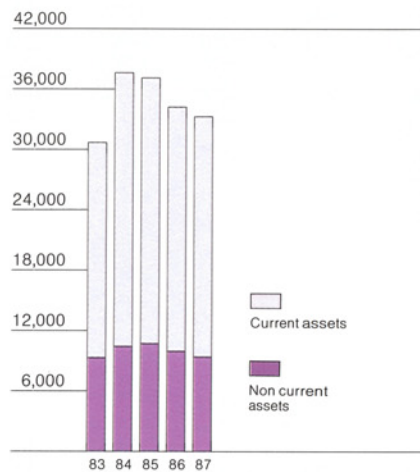
	1987	1986	Change %
Public Telecommunications	10,901	10,316	6
Information Systems	9,205	9,187	0
Cables	3,206	3,618	-11
Defense Systems	3,203	2,795	15
Radio Communications	2,839	2,688	6
Network Engineering and Construction	2,217	2,201	1
Components	763	788	-3
Other operations	66	51	29
Total	32,400	31,644	2



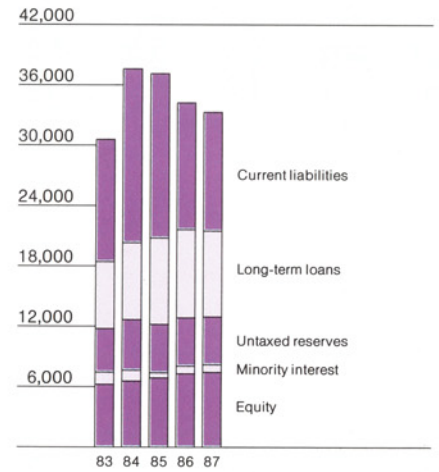
Net sales/Order bookings, SEK m.



Assets, SEK m.



Liabilities and equity, SEK m.



accounted for SEK 756 m. of the total in 1987, and SEK 858 m. in 1986.

### Personnel

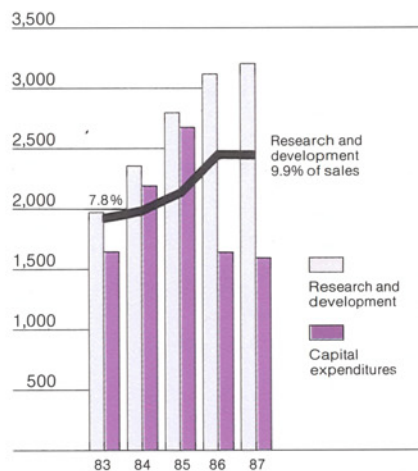
At year-end 1987, 70,893 persons were employed within Ericsson, a decrease of 1,682 from the preceding year. Of this decrease, operations divested during the year accounted for 335 persons.

Wages, salaries and social costs totaled SEK 8,949 m. Sales in 1987 were equal to SEK 457,000 per employee, compared with SEK 436,000 in 1986. Supplementary information on the average number of employees and on wages, salaries and other remuneration appears in a note to the financial statements.

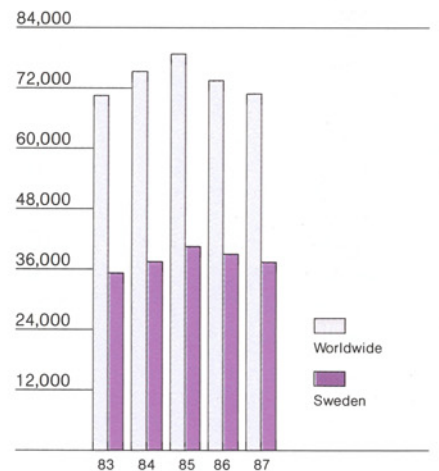
The program of structural adaptation that was begun in 1986 continued according to plan during 1987.

The convertible debenture loan subscribed by employees was issued primarily to motivate and stimulate Ericsson personnel. The loan was oversubscribed threefold. Approximately 50 percent of

Research and Development Capital expenditures, SEK m.



Number of employees



### Number of employees

December 31	1987	1986
Sweden		
Parent Company	14,419	15,310
Other companies	22,967	23,249
	37,386	38,559
Europe (excluding Sweden)	19,341	19,633
North America	2,751	2,690
Latin America	8,658	8,702
Other countries	2,757	2,991
Total	70,893	72,575



the employees entitled to subscribe for the debentures did so.

#### **Significant changes within Ericsson**

During the year the Parent Company acquired, directly and indirectly, 26 percent of the share capital of MET S.A., a newly formed company in France.

The shareholding in the Spanish subsidiary, Industrias de Telecomunicación S.A. (Intelsa) was increased to 100 percent through the acquisition by the Parent Company of the remaining 49 percent of the Spanish company's shares outstanding.

A wholly owned subsidiary, Ericsson Radar Electronics AB, was formed by detaching certain operations from Ericsson Radio Systems AB, another subsidiary.

During the year Setemer S.p.A., a subsidiary, divested its entire holding of shares in the Italian subsidiary, A.R.E. S.p.A.

Early in 1988 three agreements were reached, all of which are dependent on the approval of the appropriate authorities. These include an agreement with Oy Nokia Ab, Finland, covering divestment of the Data Systems Division of Ericsson's

Information Systems Business Area. Properties being divested include operations within the subsidiary Ericsson Information Systems AB that are attributable to the Division, as well as the operations or shares of other subsidiaries organized in the Data Systems Division. Under terms of the agreement, Ericsson is acquiring a 20-percent interest in the company in the Nokia Group in which the operations acquired by Nokia are being organized.

An agreement was also reached with Design Function A/S, Norway, covering divestment of the Office Equipment Division within the Information Systems Business Area. In this connection, Ericsson's total shareholding in the subsidiary Facit AB as well as the operations or shares of other subsidiaries organized within the Office Equipment Division are being divested.

The third agreement, concluded with Oy Finvest Ab, Finland, covers divestment of the capacitor operations within the Components Business Area. The sale includes rights to the RIFA name. Under terms of the agreement, Ericsson will acquire an 18-percent interest in the company Finvest is designating to take over the capacitor operation.

#### **Proposed disposition of earnings in the Parent Company**

In addition to a General reserve of SEK 100 m., the sum of SEK 888,782,000 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 SEK 9.00 per share, totaling	SEK 343,461,000
To be retained in the business	SEK 545,321,000
	<hr/>
	SEK 888,782,000

Stockholm, March 1988

HANS WERTHÉN  
Chairman

JAN WALLANDER  
Deputy Chairman

PETER WALLEMBERG  
Deputy Chairman

KJELL BRÄNDSTRÖM    GEORG KARNSUND    PAUL KVAMME

SVEN OLVING    STANLEY OSCARSSON    STEN RUDHOLM

STEN WIKANDER    SVEN ÅGRUP

BJÖRN SVEDBERG  
President



# Consolidated Income Statement

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

Years ended December 31, SEK m.	1987	1986	1985
Net sales .....	32,400	31,644	32,496
Cost of sales (exclusive of depreciation shown separately below) .....	17,952	16,665	17,595
Other operating revenues ..... note 1	14,448 730	14,979 634	14,901 695
	15,178	15,613	15,596
Selling, research and development, general and administrative expenses .....	11,946	12,366	12,651
Depreciation ..... note 2	1,213	1,133	1,308
<b>Operating income after depreciation</b> ..... note 3	2,019	2,114	1,637
Financial income ..... note 4	661	810	1,157
Financial expenses ..... note 4	1,556	1,990	2,109
<b>Income after financial income and expenses</b> .....	1,124	934	685
Equity in earnings of associated companies .....	166	181	34
Minority interest in income before appropriations and taxes .....	-182	-204	+159
<b>Income before appropriations and taxes</b> .....	1,108	911	878
Appropriations to untaxed reserves			
Depreciation in excess of standard depreciation ..... note 2	-125	-113	-282
Changes in other untaxed reserves ..... note 5	+172	+72	+616
Minority interest in appropriations .....	+4	+35	+37
	+51	-6	+371
<b>Income before taxes</b> .....	1,159	905	1,249
Income taxes .....	488	384	493
Minority interest in taxes .....	+64	+42	+81
<b>Reported net income</b> .....	735	563	837
Adjusted net income per share, SEK ..... note 6			
– after actual taxes paid .....	17.90	14.96	12.62
– after actual and estimated deferred taxes .....	19.26	17.21	15.15



# Consolidated Balance Sheet

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

December 31, SEK m.	1987	1986
<b>Assets</b>		
<b>Current assets</b>		
Cash, bank deposits and short-term cash investments .....	3,391	3,091
Notes and accounts receivable – trade (less allowance for doubtful accounts, 250 at December 31, 1987 and 236 at December 31, 1986) ..... note 7	10,235	9,488
Inventories (less advance and progress payments, 1,417 at December 31, 1987 and 1,103 at December 31, 1986) .....	8,355	9,522
Other current assets ..... note 8	1,855	2,149
	<u>23,836</u>	<u>24,250</u>
<b>Deposits related to untaxed reserves</b> ..... note 5	78	174
<b>Investments and other noncurrent assets</b>		
Notes and accounts receivable – trade ..... note 7	499	501
Investments in associated companies, at equity ..... note 20	807	796
Other investments .....	161	208
Other noncurrent assets ..... note 10	1,123	1,468
	<u>2,590</u>	<u>2,973</u>
<b>Property, plant and equipment</b> ..... note 11		
Cost .....	12,638	12,168
Accumulated standard depreciation .....	6,362	5,874
	<u>6,276</u>	<u>6,294</u>
Revaluation adjustments, net of accumulated standard depreciation .....	502	541
	<u>6,778</u>	<u>6,835</u>
	1987	1986
<b>Assets pledged as collateral</b> 2,093 2,121 ..... note 18		
<b>Total assets</b> .....	<u>33,282</u>	<u>34,232</u>



December 31, SEK m.

1987

1986

**Liabilities and stockholders' equity****Current liabilities**

Accounts payable – trade .....	2,391	1,941
Advances from customers .....	2,485	2,289
Accrued taxes .....	329	211
Short-term borrowings ..... note 12	1,245	2,456
Current maturities of long-term debt ..... note 14	572	648
Other current liabilities ..... note 13	4,751	5,085
	<u>11,773</u>	<u>12,630</u>

**Long-term liabilities**

Debentures ..... note 14	1,669	2,780
Convertible debentures ..... note 15	1,588	–
Pension liabilities ..... note 16	3,414	3,105
Other long-term liabilities ..... note 14	1,877	2,883
	<u>8,548</u>	<u>8,768</u>

**Untaxed reserves**

Reserve for accounts receivable and intercompany profits .....	1,102	985
Inventory reserve .....	1,742	2,007
Reserves for future capital expenditures .....	334	358
Accumulated depreciation in excess of standard depreciation ..... note 11	1,564	1,439
	<u>4,742</u>	<u>4,789</u>

**Minority interest in equity of consolidated subsidiaries**

	751	746
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**Stockholders' equity**

Capital stock ..... note 17	1,908	1,908
Reserves not available for distribution .....	4,752	4,423
Cumulative translation adjustments .....	–197	25
	<u>6,463</u>	<u>6,356</u>
Retained earnings .....	1,005	943
	<u>7,468</u>	<u>7,299</u>

	1987	1986
<b>Contingent liabilities</b> .....	1,611	2,179

<b>Total liabilities and stockholders' equity</b> .....	<u>33,282</u>	<u>34,232</u>
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## Consolidated Statement of Changes in Financial Position

Years ended December 31, SEK m.	1987	1986	1985
<b>Cash at January 1</b> .....	3,091	3,484	4,542
<b>Cash provided from operations</b>			
Net income .....	735	563	837
Minority interest in net income .....	114	127	-277
Depreciation .....	1,213	1,133	1,308
Gains on sale of property, plant and equipment .....	-165	-85	-74
Increase (-)/decrease in bank deposits related to untaxed reserves .....	96	139	-230
Appropriations from (-)/to untaxed reserves .....	-48	5	-334
	<u>1,945</u>	<u>1,882</u>	<u>1,230</u>
<b>Translation adjustments not affecting income statement</b> .....	-265	-19	-147
<b>Sale of property, plant and equipment</b> .....	398	1,200	878
	<u>2,078</u>	<u>1,181</u>	<u>731</u>
<b>Changes in working capital (excl. cash)</b>			
Notes and accounts receivable – trade .....	-747	1,128	296
Inventories .....	1,166	942	-774
Other current assets .....	294	-353	228
Current liabilities, noninterest-bearing .....	430	-127	-472
	<u>1,143</u>	<u>1,590</u>	<u>-722</u>
<b>Changes in other assets</b>			
Additions to property, plant and equipment .....	-1,592	-1,643	-2,677
Translation adjustments in property, plant and equipment .....	205	110	169
Investments, net .....	37	-175	432
Other noncurrent assets .....	346	102	-94
	<u>-1,004</u>	<u>-1,606</u>	<u>-2,170</u>
<b>Dividends paid</b> .....	-372	-358	-357
<b>Cash flow</b> .....	<u>1,845</u>	<u>2,689</u>	<u>-1,288</u>
<b>Cash provided from financial transactions</b>			
Changes in short-term liabilities .....	-1,287	-3,574	-443
Changes in long-term liabilities .....	-220	202	908
Conversion of debentures .....	0	182	7
Additional capital contributed by minority .....	-38	108	-242
	<u>-1,545</u>	<u>-3,082</u>	<u>230</u>
<b>Cash at December 31</b> .....	<u>3,391</u>	<u>3,091</u>	<u>3,484</u>



# Parent Company Income Statement

Telefonaktiebolaget LM Ericsson

Years ended December 31, SEK m.	1987	1986	1985
Net sales .....	8,120	8,326	8,454
Cost of sales (exclusive of depreciation shown separately below) .....	4,067	4,578	4,854
	4,053	3,748	3,600
Other operating revenues ..... note 1	579	784	737
	4,632	4,532	4,337
Selling, research and development, general and administrative expenses .....	3,697	3,666	2,970
Depreciation ..... note 2	213	215	208
<b>Operating income after depreciation</b> .....	722	651	1,159
Financial income ..... note 4	823	826	1,011
Financial expenses ..... note 4	608	854	1,090
<b>Income before appropriations and taxes</b> .....	937	623	1,080
Appropriations to untaxed reserves			
Changes in depreciation in excess of standard depreciation ..... note 2	+24	+35	-190
Changes in other untaxed reserves ..... note 5	-2	+256	+374
	+22	+291	+184
Contributions to subsidiary companies .....	412	326	795
<b>Income before taxes</b> .....	547	588	469
Income taxes .....	52	95	60
<b>Reported net income</b> .....	495	493	409



# Parent Company Balance Sheet

Telefonaktiebolaget LM Ericsson

December 31, SEK m.	1987	1986
<b>Assets</b>		
<b>Current assets</b>		
Cash, bank deposits and short-term cash investments .....	1,865	1,795
Notes and accounts receivable from subsidiary companies ..... note 7	840	1,479
Notes and accounts receivable – trade (less allowance for doubtful accounts, 47 at December 31, 1987 and 15 at December 31, 1986) ..... note 7	2,181	2,188
Inventories (less advance and progress payments, 50 at December 31, 1987 and 26 at December 31, 1986) .....	2,255	2,344
Other current assets ..... note 8	625	702
	7,766	8,508
<b>Deposits related to untaxed reserves</b> ..... note 5	13	100
<b>Investments and other noncurrent assets</b>		
Notes and accounts receivable – trade ..... note 7		
Subsidiary companies .....	8	37
Other .....	233	226
Other accounts receivable from subsidiary companies .....	1,154	1,836
Investments ..... note 9		
Subsidiary companies .....	4,517	3,362
Associated companies .....	186	245
Other investments .....	48	40
Other noncurrent assets .....	671	690
	6,817	6,436
<b>Property, plant and equipment</b> ..... note 11		
Cost .....	2,795	2,787
Accumulated standard depreciation .....	1,452	1,376
	1,343	1,411
Revaluation adjustments, net of accumulated standard depreciation .....	274	291
	1,617	1,702
	1987	1986
<b>Assets pledged as collateral</b> ..... note 18	764	788
<b>Total assets</b> .....	16,213	16,746



December 31, SEK m.

1987

1986

**Liabilities and stockholders' equity****Current liabilities**

Accounts payable – trade .....	477	281
Advances from customers .....	149	172
Short-term borrowings .....	1	180
Current maturities of long-term debt .....	65	116
Accounts payable to subsidiary companies .....	1,718	2,609
Other current liabilities .....	1,164	1,176
	<u>3,574</u>	<u>4,534</u>

**Long-term liabilities**

Debentures .....	1,568	2,757
Convertible debentures .....	1,588	–
Pension liabilities .....	1,175	1,079
Payables to subsidiary companies .....	261	183
Other long-term liabilities .....	462	728
	<u>5,054</u>	<u>4,747</u>

**Untaxed reserves**

Reserve for accounts receivable and intercompany profits .....	681	711
Inventory reserve .....	1,082	1,097
Reserves for future capital expenditures .....	136	89
Accumulated depreciation in excess of standard depreciation .....	492	525
	<u>2,391</u>	<u>2,422</u>

**Stockholders' equity** .....

Capital stock .....	1,908	1,908
Reserves not available for distribution .....	2,297	2,297
	<u>4,205</u>	<u>4,205</u>
General reserve .....	100	100
Retained earnings .....	394	245
Net income .....	495	493
	<u>5,194</u>	<u>5,043</u>

	1987	1986
<b>Contingent liabilities</b> .....	2,227	2,565

<b>Total liabilities and stockholders' equity</b> .....	<u>16,213</u>	<u>16,746</u>
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## Parent Company Statement of Changes in Financial Position

Years ended December 31, SEK m.	1987	1986	1985
<b>Cash at January 1</b> .....	1,795	2,033	2,687
<b>Cash provided from operations</b>			
Net income .....	495	493	409
Depreciation .....	213	215	208
Gains (-)/losses on sale of property, plant and equipment .....	-136	-3	13
Increase (-)/decrease in bank deposits related to untaxed reserves .....	87	125	-197
Appropriations to untaxed reserves and Parent Company contributions to subsidiary companies .....	381	35	611
	<u>1,040</u>	<u>865</u>	<u>1,044</u>
<b>Sale of property, plant and equipment</b> .....	208	37	164
<b>Changes in working capital (excl. cash)</b>			
Notes and accounts receivable – trade .....	7	527	1,296
Inventories .....	89	304	-414
Other current assets .....	77	-125	-38
Current liabilities, noninterest-bearing .....	-730	-567	-315
	<u>-557</u>	<u>139</u>	<u>529</u>
<b>Changes in other assets</b>			
Additions to property, plant and equipment .....	-200	-217	-395
Investments, net .....	-1,104	-155	-502
Other noncurrent assets .....	1,362	1,617	-2,447
	<u>58</u>	<u>1,245</u>	<u>-3,344</u>
<b>Contributions to subsidiary companies</b> .....	-412	-326	-795
<b>Dividends paid</b> .....	-344	-333	-333
<b>Cash flow</b> .....	-7	1,627	-2,735
<b>Cash provided from financial transactions</b>			
Changes in short-term liabilities .....	-230	-1,937	-421
Changes in long-term liabilities .....	307	-110	2,495
Conversion of debentures .....	0	182	7
	<u>77</u>	<u>-1,865</u>	<u>2,081</u>
<b>Cash at December 31</b> .....	<u>1,865</u>	<u>1,795</u>	<u>2,033</u>



# Notes to the Financial Statements

In millions of Swedish kronor (except per share amounts)  
Years ended December 31

## 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 differences and their 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 transactions between these companies 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 (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. Minor 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 normally amortized over a ten-year period. However, the goodwill arising from the purchase of the associated company MET S.A. is being amortized at a rate of 5 percent per year since the investment is of such strategic value that a longer amortization period is more appropriate.

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

### (d) Translation of Amounts in Foreign Currency

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

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 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, and whose 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 the activities of the companies 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. dollars to Swedish kronor, 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 and loans of the Parent Company and other consolidated companies in foreign currencies have been translated at year-end exchange rates. At the end of 1986 there was an unrealized gain, net, not recognized as income, on foreign exchange of SEK 73 m., relating to Parent Company receivables from other companies.

Long-term deposits in foreign currencies are shown at year-end exchange rates. This resulted in a net exchange loss.

At the end of 1986 there was an additional unrealized gain, net, not recognized as income, on foreign exchange of SEK 96 m. at the Parent Company.

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. Effective in 1987, costs based on orders from customers are included in cost of goods and services sold.

### (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 has also been done in the case of 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 differences between valuations of income statement and balance sheet items in the local financial statements and the consolidated statement have 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 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 the Swedish method.

#### (h) Leases

Leased property is expensed over the term of the lease. Certain types of contracts are capitalized and reported as an acquisition of a fixed asset.

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

#### (i) Property, Plant and Equipment

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

#### (j) Depreciation

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

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

#### (k) Net Income per Share

Net income per share is based upon the average weighted number of common shares outstanding during each year. The conversion of all convertible debentures would not result in a material dilution of the net income per share reported for 1985 and 1987.

The calculation of net income per share is not based on reported net income, the amount of which is affected 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

Consolidated	1987	1986	1985
Gains on sales of property, plant and equipment	165	85	74
Gains on sales of investments	212	293	260
Commissions, license fees and other operating revenues	353	256	361
	<u>730</u>	<u>634</u>	<u>695</u>
<b>Parent Company</b>	<b>1987</b>	<b>1986</b>	<b>1985</b>
Gains on sales of property, plant and equipment	136	—	3
Gains on sales of investments	115	334	168
Commissions, license fees and other operating revenues	328	450	566
	<u>579</u>	<u>784</u>	<u>737</u>

### Note 2 Depreciation

Consolidated	1987	1986	1985
<i>Total depreciation</i>			
Land improvements	41	2	3
Buildings	172	104	108
Telephone plants	41	43	41
Machinery and equipment	1,074	1,139	1,404
Revaluation adjustments	30	30	34
	<u>1,358</u>	<u>1,318</u>	<u>1,590</u>
Less — Depreciation in excess of standard depreciation related to assets sold	10	41	—
	<u>1,348</u>	<u>1,277</u>	<u>1,590</u>
<i>Standard depreciation</i>			
Land improvements	42	2	2
Buildings	68	65	64
Telephone plants	41	43	41
Machinery and equipment	1,032	993	1,167
Revaluation adjustments	30	30	34
	<u>1,213</u>	<u>1,133</u>	<u>1,308</u>
	-135	-144	-282
Less — Depreciation in excess of standard depreciation, net, related to subsidiaries sold	+10	+31	—
Depreciation in excess of standard depreciation	<u>-125</u>	<u>-113</u>	<u>-282</u>
<b>Parent Company</b>			
<i>Total depreciation</i>			
Land improvements	—	—	—
Buildings	46	9	16
Machinery and equipment	166	162	374
Revaluation adjustments	14	14	14
	<u>226</u>	<u>185</u>	<u>404</u>
Less — Depreciation in excess of standard depreciation related to assets sold	37	5	6
	<u>189</u>	<u>180</u>	<u>398</u>
<i>Standard depreciation</i>			
Land improvements	1	1	1
Buildings	16	16	17
Machinery and equipment	182	184	176
Revaluation adjustments	14	14	14
	<u>213</u>	<u>215</u>	<u>208</u>
Changes in depreciation in excess of standard depreciation	<u>+24</u>	<u>+35</u>	<u>-190</u>



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

	1987	1986	1985
Public Telecommunications	1,301	1,165	1,282
Information Systems	-58	-284	-806
Cables	176	261	336
Defense Systems*	176	255	178
Radio Communications*	210	254	253
Network Engineering and Construction Components	185	153	154
	88	31	22
Other operations, capital gains and corporate expenses**	-59	279	218
<b>Ericsson, total</b>	<b>2,019</b>	<b>2,114</b>	<b>1,637</b>

\*Due to organizational changes, the figures for 1985 are not comparable with those for 1986 and 1987.

\*\*Figures for 1987 include restructuring costs incurred as a result of the divestments announced at the beginning of 1988.

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

**Note 4 Financial Income and Expenses**

<b>Consolidated</b>	1987	1986	1985
<i>Financial Income</i>			
Dividends	7	11	41
Interest income	654	799	1,116
	661	810	1,157
<i>Financial expenses</i>			
Interest expenses	1,586	2,170	2,311
Gains and losses on foreign exchange, net	-105	-280	-284
Other financial expenses	75	100	82
	1,556	1,990	2,109

**Parent Company**

<i>Financial Income</i>			
Dividends from subsidiaries	268	192	175
Dividends from others	30	18	33
Interest income	525	616	803
	823	826	1,011
<i>Financial expenses</i>			
Interest expenses	639	876	967
Gains and losses on foreign exchange, net	-77	-73	87
Other financial expenses	46	51	36
	608	854	1,090

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 in insignificant amounts.

Certain subsidiaries, mainly based in the United States and Argentina, had at December 31, 1987 tax loss carry-forwards, that can be utilized to reduce future taxable income, amounting to approximately SEK 1,391 m. Such loss carry-forwards expire as follows (in millions).

Year of expiration	Amount
1988	24
1989	16
1990	162
1991	55
1992	14
1993	11
1994	32
1995	14
1996	14
1997 or later	922
	<b>1,391</b>

In addition, the Parent Company had at December 31, 1987 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 1987 is applied to the unutilized benefits on December 31, 1987, an amount of SEK 788 m. 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. Effective in 1987, 100 percent of the appropriation amount must be deposited in a noninterest-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 1987, 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 in a special noninterest-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 1987, the Swedish Ericsson companies have utilized the Compulsory reserve for future capital expenditures for additions to machinery and equipment.

In Sweden, a temporary regulation was in force concerning appropriations of 1985 income to a Development reserve. Swedish corporations were required to deposit 10 percent of annual income, determined in the same way as for appropriations to the General reserve for future capital expenditures, in a noninterest-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 1987, the Swedish Ericsson companies have utilized this reserve.

In connection with the sale of commercial property, Swedish companies may defer payment of the capital gains tax by making an appropriation to a Replacement reserve. The amount appropriated may not exceed the capital gain realized on the sale of property. The Replacement reserve may be used to depreciate replacement property acquired within a period of three years. Under special circumstances, this period may be extended for a maximum of three additional years. During 1987 Swedish Ericsson companies have deposited funds in such an account.

#### Appropriations to Other Untaxed Reserves

Consolidated	1987	1986	1985
	Appropriations to (-)/transfer from (+) Reserve for receivables and intercompany profits	-117	-57
Transfer from Inventory reserve	+265	+91	+17
Transfer from General and Compulsory reserves for future capital expenditures, net	+24	+34	+340
	+172	+68	+616
Transfer of untaxed reserves at sale of subsidiary companies	-	+4	-
	+172	+72	+616

#### Parent Company

Appropriations to (-)/transfer from (+) Reserve for receivables and intercompany profits	+30	-25	+178
Appropriations to (-)/transfer from (+) Inventory reserve	+15	+210	-180
Appropriations to (-)/transfer from (+) General and Compulsory reserves for future capital expenditures, net	-47	+71	+376
	-2	+256	+374

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

	Consolidated			Parent Company		
	1987	1986	1985	1987	1986	1985
<i>Appropriations to Reserves</i>						
General reserve for future capital expenditures	2	9	67	-	-	25
Compulsory reserve for future capital expenditures	-	-	3	-	-	-
Development reserve	-	5	109	-	-	49
Replacement reserve	127	75	-	110	-	-
	129	89	179	110	-	74
<i>Transfers from Reserves</i>						
General reserve for future capital expenditures	119	103	275	45	17	202
General reserve for future capital expenditures transferred to Swedish subsidiaries	-	-	-	10	30	21
Compulsory reserve for future capital expenditures	-	7	244	-	-	227
Development reserve	34	13	-	4	3	-
Development reserve transferred to Swedish subsidiaries	-	-	-	4	21	-
	153	123	519	63	71	450
Appropriations, net	+24	+34	+340	-47	+71	+376

#### Bank Deposits in the Bank of Sweden Related to Untaxed Reserves

	Swedish companies consolidated		Parent Company	
	1987	1986	1987	1986
Account for General reserve for future capital expenditures	13	76	9	58
Account for Development reserve	65	98	4	42
	78	174	13	100

#### Note 6 Adjusted Net Income per Share

Consolidated	1987	1986	1985
Income before appropriations and taxes	1,108	911	878
Actual income taxes paid as reported	-488	-384	-493
Minority interest in taxes paid	+64	+42	+81
Adjusted net income (after actual taxes paid)	684	569	466
Per share	17.90	14.96	12.62

#### Consolidated

Adjusted net income (after actual taxes paid)	684	569	466
Estimated deferred taxes on appropriations	+45	+53	+80
Minority interest in estimated deferred taxes	+7	+32	+13
Adjusted net income (after actual and estimated deferred taxes)	736	654	559
Per share	19.26	17.21	15.15

Weighted average number of shares outstanding:

1987 - 38,162,382

1986 - 38,010,992

1985 - 36,951,261

#### Note 7 Notes and Accounts Receivable - Trade

	Consolidated		Parent Company	
	1987	1986	1987	1986
<i>Due within 12 months</i>				
Subsidiary companies				
Accounts receivable	-	-	782	1,394
Notes receivable	-	-	58	85
	-	-	840	1,479
Other				
Accounts receivable	10,132	9,321	2,113	2,073
Notes receivable	103	167	68	115
	10,235	9,488	2,181	2,188
<i>Due after 12 months</i>				
Subsidiary companies				
Accounts receivable	-	-	8	36
Notes receivable	-	-	-	1
	-	-	8	37
Other				
Accounts receivable	258	252	1	-
Notes receivable	241	249	232	226
	499	501	233	226

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

	Consolidated		Parent Company	
	1987	1986	1987	1986
Prepaid expenses and accrued revenues	404	468	142	135
Advances to suppliers	193	140	5	12
Other current assets	1,258	1,541	478	555
	1,855	2,149	625	702

Short-term investments in the subsidiaries have been reclassified as Cash, bank deposits and short term cash investments. Figures for preceding year have been adjusted.

## 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, Financial Control, S-126 25 Stockholm, Sweden.

Shares directly owned by the Parent Company			Percentage of ownership		Par value	Carrying value
<b>Subsidiaries</b>						
<b>Sweden</b>						
I	Ericsson Cables AB	Sweden	100	SEK	140	140
I	Ericsson Information Systems AB	Sweden	100	SEK	360	349
I	Ericsson Radio Systems AB	Sweden	100	SEK	50	52
I	Ericsson Radar Electronics AB	Sweden	100	SEK	30	30
I	Ericsson Network Engineering AB	Sweden	100	SEK	25	26
I	Ericsson Signal Systems AB	Sweden	100	SEK	10	11
I	RIFA AB	Sweden	100	SEK	58	49
IV	ELLEMTTEL Utvecklings AB	Sweden	50	SEK	5	6
	Other		—	SEK	—	183
<b>Europe (excluding Sweden)</b>						
I	RIFA S.A.	France	100	FRF	15	15
I	Ericsson Telecommunicatie bv	The Netherlands	100	NLG	20	33
III	Ericsson Holding Company bv	The Netherlands	100	NLG	57	354
I	Ericsson S.A.	Spain	100	ESP	375	24
I	Industrias de Telecomunicación S.A. (Intelsa)	Spain	100	ESP	2,600	316
III	Swedish Ericsson Company Ltd.	United Kingdom	100	GBP	15	134
III	LM Ericsson Holdings Ltd.	Ireland	100	IEP	2	14
III	SETEMER S.p.A.	Italy	71	ITL	15,259	97
	Other		—		—	11
<b>U.S.A. and Canada</b>						
III	Ericsson North America, Inc.	United States	100	USD	80	1,792
I	Facit Inc.	United States	100	USD	—	80
I	Ericsson Communications Inc.	Canada	100	CAD	n.p.v.	57
	Other		—		—	1
<b>Latin America</b>						
II	Cía Argentina de Teléfonos S.A.	Argentina	78	ARA	59	24
I	Cía Ericsson S.A.C.I.	Argentina	100	ARA	5	3
I	Industrias Eléctricas de Quilmes S.A.	Argentina	100	ARA	51	80
I	Ericsson de Colombia S.A.	Colombia	92*	COP	221	27
I	Fábricas Colombianas de Materiales Eléctricos					
	Facomec S.A.	Colombia	100	COP	57	119
I	Teleindustria Ericsson S.A.	Mexico	72	MXP	n.p.v.	291
I	Cía Anónima Ericsson	Venezuela	100	VEB	10	10
	Other		—		—	60
<b>Other Countries</b>						
I	Ericsson Telecommunications Sdn Bhd	Malaysia	70	MYR	2	4
III	Teleric Pty. Ltd.	Australia	100	AUD	20	99
	Other		—		—	26
					Total	4,517
<b>Associated Companies</b>						
I	MET S.A.	France	20***	FRF	50	53
I	Ericsson do Brasil Comércio e Indústria S.A.	Brazil	58**	BRC	534	95
I	Oriental Telecommunication Company Ltd.	Republic of Korea	50	KRW	3,000	29
I	Perwira Ericsson Sdn Bhd	Malaysia	40	MYR	2	5
	Other		—		—	4
					Total	186
<b>Other Companies</b>						
V	AB LM Ericsson Finans	Sweden	75***	SEK	24	26
	Other		—		—	22
					Total	48

Key to functions of companies		
I	Manufacturing and distributing companies	
II	Telephone operating companies	
III	Holding companies	
IV	Development companies	
V	Finance Companies	

\* Through subsidiary holdings, total holdings amount to 100% of Ericsson de Colombia S.A.

\*\* The voting shares total 26%.

\*\*\* The voting shares 0.5 %.

\*\*\*\* Including holdings of subsidiary companies, total holdings in MET S.A. amount to 26%.



**Shares owned by the subsidiaries**

 Percentage  
of ownership

Subsidiaries			
<b>Sweden</b>	I	Ericsson Information Systems Sverige AB .....	Sweden 100
	I	Ericsson Radio Systems Sverige AB .....	Sweden 100
	I	Facit AB .....	Sweden 100
	I	Svenska Elgrossist AB, SELGA .....	Sweden 67
<b>Europe (excluding Sweden)</b>	I	Dansk Signal Industri A/S .....	Denmark 100
	I	Ericsson Information Systems A/S .....	Denmark 100
	I	LM Ericsson A/S .....	Denmark 100
	I	Ericsson Information Systems bv .....	The Netherlands 100
	I	Ericsson Information Systems A/S .....	Norway 100
	I	Ericsson Information Systems GmbH .....	Austria 100
	I	Ericsson Information Systems Ltd. ....	Great Britain 100
	I	Oy LM Ericsson Ab .....	Finland 100
	I	Ericsson Information Systems S.A. ....	France 100
	I	LM Ericsson Ltd. ....	Ireland 100
	I	FATME S.p.A. ....	Italy 71
	I	FIAR S.p.A. ....	Italy 38
	I	Scarfini S.p.A. ....	Italy 71
	I	SIELTE S.p.A. ....	Italy 71
I	Ericsson Information Systems NV/SA .....	Belgium 100	
<b>U.S.A.</b>	I	Ericsson, Inc. ....	United States 100
<b>Latin America</b>	I	Telecomponentes Ericsson S.A. de C.V. ....	Mexico 72
	I	Ericsson de Guatemala S.A. ....	Guatemala 71
<b>Other Countries</b>	I	LM Ericsson Pty. Ltd. ....	Australia 100
	I	Ericsson Network Engineering Pty. Ltd. ....	Singapore 100
<b>Associated Companies</b>	I	Oy DAVA Ab .....	Finland 40
	I	Thorn Ericsson Telecommunications Ltd. ....	Great Britain 49
	I	Fios e Cabos Plásticos do Brasil S.A. ....	Brazil 30
	I	Conductores Latincasa S.A. de C.V. ....	Mexico 25

**Key to functions  
of companies**

- I Manufacturing and distributing companies
- II Telephone operating companies
- III Holding companies
- IV Development companies
- V Finance Companies

- \* Through subsidiary holdings, total holdings amount to 100% of Ericsson de Colombia S.A.
- \*\* The voting shares total 26%.
- \*\*\* The voting shares 0.5 %.
- \*\*\*\* Including holdings of subsidiary companies, total holdings in MET S.A. amount to 26%.

**Note 10 Other Noncurrent Assets**

Other noncurrent assets includes goodwill, net of accumulated amortization, of SEK 150 million at December 31, 1987, and of SEK 7 million at December 31, 1986.

**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, certain assets have been revalued 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	
	1987	1986	1987	1986
<i>Cost</i>				
Land	127	127	31	27
Land improvements	60	60	19	22
Buildings	2,280	2,171	677	675
Telephone plants	873	916	—	—
Machinery and equipment	8,827	8,376	1,992	1,906
Construction in progress	471	518	76	157
	<u>12,638</u>	<u>12,168</u>	<u>2,795</u>	<u>2,787</u>
<i>Accumulated standard depreciation</i>				
Land improvements	62	22	9	10
Buildings	676	633	263	263
Telephone plants	346	359	—	—
Machinery and equipment	5,278	4,860	1,180	1,103
	<u>6,362</u>	<u>5,874</u>	<u>1,452</u>	<u>1,376</u>
Net carrying value	6,276	6,294	1,343	1,411



	Consolidated		Parent Company	
	1987	1986	1987	1986
<i>Accumulated total depreciation</i>				
Land improvements	82	41	15	16
Buildings	1,155*	1,054*	307*	304*
Telephone plants	346	359	—	—
Machinery and equipment	6,343	5,859	1,622	1,581
	7,926	7,313	1,944	1,901
<i>Accumulated depreciation in excess of standard depreciation</i>				
	1,564	1,439	492	525
* After transfer of accumulated depreciation in excess of standard depreciation to revaluation reserve of				
	386	386	303	303
<i>Revaluation adjustments</i>				
Land	176	178	148	151
Buildings	635	643	337	338
Machinery and equipment	96	102	—	—
	907	923	485	489
<i>Less – Accumulated depreciation</i>				
Buildings	313	289	211	198
Machinery and equipment	92	93	—	—
	405	382	211	198
Net carrying value	502	541	274	291
<i>Tax assessment values (Sweden)</i>				
Land and land improvements	264	266	184	185
Buildings	994	1,056	573	639

## 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 SEK 4,065 m. In addition, the Parent Company had unused long-term lines of credit amounting to SEK 586 m.

## Note 13 Other Current Liabilities

	Consolidated		Parent Company	
	1987	1986	1987	1986
Accrued expenses and prepaid revenues	2,650	2,894	669	694
Other	2,101	2,191	495	482
	4,751	5,085	1,164	1,176

## Note 14 Debentures and Other Long-Term Liabilities

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

Parent Company	1987	1986
	<i>(excl. liabilities to subsidiary companies)</i>	
Debentures (maturing from 1988 to 2004) bearing interest from 6.5% to 13% at December 31, 1987.	1,608	2,860
Other long-term loans (maturing from 1988 to 2002), bearing interest from 7.3% to 13.2% at December 31, 1987	354	737
Other long-term liabilities	133	4
	2,095	3,601
Less – Current maturities	65	116
	2,030	3,485

Subsidiaries	1987	1986
	Mortgage and other collateralized loans (maturing from 1988 to 2039), at December 31, 1987	875
Other long-term loans (maturing from 1988 to 2000) at December 31, 1987	720	1,055
Other long-term liabilities	428	383
	2,023	2,710
Less – Current maturities	507	532
	1,516	2,178
Total	3,546	5,663

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 SEK 37 m., at December 31, 1987 were as follows:

1989	420
1990	944
1991	838
1992	171
1993	150
1994 and thereafter through 2039	632
	3,155

Debentures and other long-term loans, excluding other long-term liabilities in subsidiaries, were repayable in the following currencies:

USD	635
SEK	1,054
ITL	341
DKK	303
KWD	217
ESP	225
Other currencies	380
	3,155

## Note 15 Convertible Debentures

The Parent Company issued three convertible debenture loans during 1987. Two of the loans were made in June, one in the amount of CHF 135 m. (convertible to 1,735,122 B shares) with interest at 2.75 percent. The second loan was in the amount of USD 60 m. (convertible to 1,173,128 B shares) with interest at 6.875 percent. Both loans have a maturity of 15 years and the debentures are convertible up to and including February 1, 2002 at a price of SEK 326 per B share (based on fixed exchange rates of SEK 4.19 to CHF 1.00 and SEK 6.374 to USD 1.00). No conversions took place during 1987.

The third debenture loan was issued during the autumn, exclusively to employees, in the amount of SEK 626.4 m. (convertible to 2,363,950 B shares). The maturity is five years, with interest at 11.25 percent. The debentures may be converted, beginning December 18, 1989, up to and including March 15, 1993 at a price of SEK 265. SEK 43.7 m. of the total loan amount was allotted to presidents, executive vice presidents and other senior executives in Ericsson (122 persons) in blocks of SEK 265,000 to SEK 1.5 m., and SEK 582.7 m. to other employees (18,620 persons) in blocks in the maximum amount of SEK 33,125.

## Note 16 Pension Liabilities

The pension liabilities, SEK 3,414 m., include the Parent Company's and the Swedish companies' obligations in the amount of SEK 2,573 m. in 1987 and SEK 2,330 m. in 1986 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, SEK 1,175 m., include an obligation in the amount of SEK 1,075 m. in 1987 and SEK 989 m. in 1986 in accordance with its agreement with PRI.



## Note 17 Stockholders' Equity

Capital Stock at December 31, 1987 consisted of the following:

	Number of shares out- standing	Aggregate par value
A shares (par value SEK 50)	3,728,515	186
B shares (par value SEK 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 SEK 50) and Class B shares (par value SEK 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 1987 include earnings in associated companies amounting to SEK 166 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	Available retained earnings	Total
Balance, January 1, 1987	1,908	4,423	25	943	7,299
Appropriations to legal reserves	—	329	—	-329	—
Dividends	—	—	—	-344	-344
Changes in cumulative translation adjustments	—	—	-222	—	-222
Net income for 1986	—	—	—	735	735
Balance 1987	1,908	4,752	-197	1,005	7,468

Of the retained earnings, SEK 51 m. 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:

	1987	1986
Balance, January 1	25	38
Aggregate translation adjustments	-222	-26
Gains and losses from hedges of investments in foreign entities	—	+13
Balance, December 31	-197	25

Parent Company	Capital stock	Reserves not available for distribution	Available retained earnings	Total
Balance, January 1, 1987	1,908	2,297	838	5,043
Dividends	—	—	-344	-344
Net income for 1987	—	—	495	495
Balance, December 31, 1987	1,908	2,297	989	5,194

### Note 18 Assets Pledged as Collateral

	Consolidated		Parent Company	
	1987	1986	1987	1986
Real estate mortgages	625	692	110	164
Other mortgages	1,126	1,160	420	390
Shares	321	249	234	234
Accounts receivable — trade	17	14	—	—
Bank deposits	4	6	—	—
	2,093	2,121	764	788

At December 31, 1987, the Parent Company had pledged no assets in favor of subsidiaries. However, under certain conditions, it may pledge collateral for certain subsidiaries' pension obligations.

### Note 19 Contingent Liabilities

	Consolidated		Parent Company	
	1987	1986	1987	1986
Discounted notes receivable	64	40	—	—
Receivables sold with recourse	484	857	380	490
Other guarantees	1,063	1,282	1,847	2,075
	1,611	2,179	2,227	2,565

Of the guarantees assumed by the Parent Company, SEK 1,296 m. in 1987 and SEK 1,111 m. in 1986 related to subsidiary companies.

### Note 20 Investments in Associated Companies

The Company has interests in associated companies which are accounted for under the equity method. Details of such investments are given in Note 9.

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

Dividends received from companies accounted for under the equity method were SEK 50 m. in 1987, SEK 56 m. in 1986 and SEK 40 m. in 1985.

Undistributed earnings of associated companies included in consolidated equity were SEK 520 m. in 1987, SEK 404 m. in 1986 and SEK 293 m. in 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 deducted in determining income before taxes. Accounting principles generally accepted in the United States would not allow such appropriations to be charged to income.

### (c) Capitalization of Interest Expenses

In accordance with Swedish accounting 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 U.S.

### (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. In 1987, all long-term receivables and liabilities have been shown at year-end exchange rates, resulting in a net loss.

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 that was converted and partially redeemed in 1986 at the historic rate. Convertible debenture loans issued during 1987 were translated at year-end exchange rates at December 31, 1987.

### (h) Sale of Property

In 1984, 1986 and 1987, Group Companies sold properties which are being leased to other subsidiaries under contracts which expire in 1997. Under accounting principles generally accepted in the United States, the gain on sales during 1984 and 1986 is reduced by the present value of future rental payments, which are deferred and amortized over the remaining term of the contract whereas the gain on the sale during 1987 is considered a financing arrangement and the income is therefore treated as a liability. In accord-

ance with Swedish accounting practice, no reduction in profit has to be made if the sale price does not exceed the market price and if leasing costs do not exceed normal market leasing rates.

### (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.

The "deferred method" has been used in calculating deferred tax. Accordingly, the liability is the sum of the various years' deferred taxes, calculated by applying the tax rate for each year.

### (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.

Full conversion of outstanding convertible debentures would not significantly affect profit per share calculated in accordance with principles used in the U.S.

Calculation of net income per share has been based on 38,162,382 shares as the weighted average number of shares outstanding in 1987. The weighted average number of shares outstanding in 1986 was 38,010,992 and in 1985 36,951,261.

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.

	1987	1986	1985
(SEK m., except per-share amounts)			
Net income as reported in the consolidated income statements	735	563	837
Items increasing reported income:			
Depreciation on revaluation adjustments including effect on sale	34	39	53
Capitalization of interest expenses	17	28	39
Business combination adjustments	6	22	-12
Deferred income taxes	261	125	-158
	318	214	-78
Items decreasing reported income:			
Appropriations, including depreciation in excess of standard depreciation	51	-6	371
Tax effects of intercompany transactions	36	67	-168
Income taxes on undistributed earnings of associated companies	7	9	-6
Translation of noncurrent receivables and long-term liabilities	170	20	-165
Sale of property	132	33	-8
	396	123	24
Net increase/decrease (-) in reported net income	-78	91	-102
Approximate net income in accordance with accounting principles generally accepted in the United States	657	654	735
Approximate net income per share in accordance with accounting principles generally accepted in the U.S.	17.22	17.21	19.90

(k) Stockholder's Equity	1987	1986	1985
Approximate stockholders' equity in accordance with accounting principles generally accepted in the U.S.	8,684	8,605	8,092



## Supplementary Information required under the Swedish Companies Act

### Average Number of Employees and Remuneration in 1987

	Consolidated		Parent Company	
	Average number of employees	Remuneration	Average number of employees	Remuneration
Sweden	34,503	4,815	12,979	1,637
Other countries	32,674	4,134	388	63
	67,177	8,949	13,367	1,700
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 11 Swedish municipalities and has operations in 19 countries. On a consolidated basis there are 39 operational units in Sweden and operations in 54 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 Financial Control, S-126 25 Stockholm, Sweden.

### Special Information Regarding the Parent Company

Sales of the Parent Company amounted to SEK 8,120 million (SEK 8,326 million), of which exports accounted for 75 (72) percent. Consolidated companies were customers for 51 (50) percent of the Parent Company's sales, while 51 (54) percent of the Company's total purchases of goods and services were from such companies.

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

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

Loans totaling SEK 9 million have been made to a total of 2,700 employees for the purchase of shares in LM Ericsson's Share Saving Fund. Assets totaling SEK 9 million have been pledged as collateral for loans obtained by employees for the purchase of housing.

### Publications for Investors

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 1987, 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 1987 include only financial gains and losses on foreign exchange as explained in Note (d) under Accounting Policies.

*Working capital.* Current assets less noninterest-bearing current liabilities.

*Property, plant and equipment.* Stated net of accumulated standard depreciation at December 31, 1980–1987, 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 (excluding 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 1987 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.

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 1987.

Stockholm, March 18, 1988

*David Jones*  
*Chartered Accountant*

*Price Waterhouse*

*Nils-Axel Frisk*

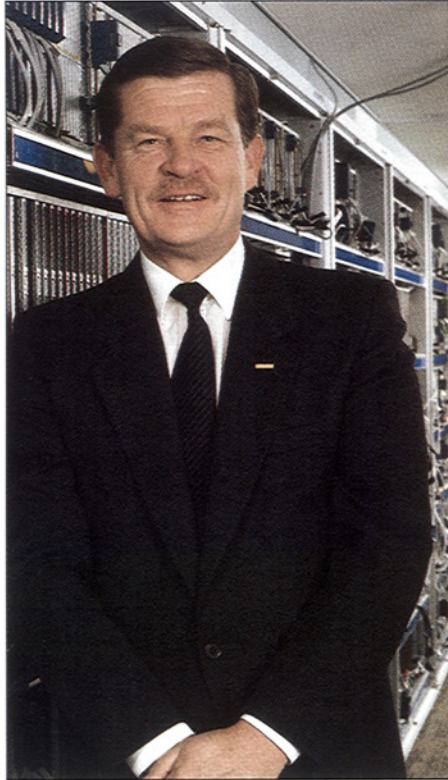
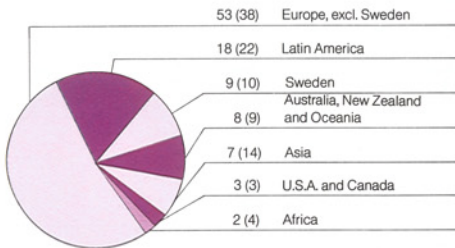
*Jörgen Eskilson*  
*Swedish Authorized Public*  
*Accountant*  
*Price Waterhouse*



## Public Telecommunications

# Increased market shares in Europe AXE exchanges in service in the U.S.

Geographic distribution of external sales, %.



Jan Stenberg

Operations are focused on the development, production and installation of telecommunications equipment for telecommunications administrations (percentages of total sales in parentheses, below):

**Telephone exchanges (78%)**

**Transmission equipment (12%)**

**Telex and data processing equipment (2%)**

Revenues from telephone company operations and miscellaneous activities each amounted to 4 percent of sales (8%)

Sales in 1987 amounted to SEK 12,247 million.

### Increased market share in stiff competition

The position of the AXE system in the market for telephone exchanges was further reinforced in the face of continuing stiff competition. The system's share of the market has increased, notably in Europe.

During the latter part of the year there was a striking rise in order bookings, with important contracts being received in Spain, Great Britain, Switzerland, the Netherlands, Australia and Mexico.

### Europe growing in importance

The markets in Europe and other parts of the industrialized world have become increasingly important. Companies and organizations in these markets are demanding more qualified services, and in higher volumes.

Major efforts have therefore been made, primarily to increase market shares in countries where the AXE system is already well-established, but also to penetrate new, important markets.

### Back in France

In France, which until the mid-1970s was an important market with close to one million installed AXE lines, Ericsson, in association with Matra, the French company, won the prestige-laden battle to be allowed to acquire CGCT (Compagnie Générale de Constructions Téléphoniques).

This acquisition gave access to 16 percent of the French market for telephone exchanges.

CGCT has now been reorganized to form MET S.A., which in a few years will have achieved an annual volume of 300,000 lines for the French market. The first installation of digital AXE equipment in France is scheduled to take place during the latter part of 1988.

### Expansion in Great Britain

Operations have been expanded sharply in Great Britain, which is today the Business Area's largest single market.

An addition to the plant at Scunthorpe, where the main production takes place, was inaugurated during the year. The plant's production capacity is now 700,000 lines per year.

At year-end 1987, the total order backlog from British Telecom amounted to more than one million lines.



### Company in Spain now wholly owned

In Spain, after more than doubling its share during the past three years, Ericsson now has half of the market for public telecommunications.

Operations are carried out through the Intelsa subsidiary, in which Ericsson in 1987 acquired the minority shares formerly held by Spanish interests.

### Development according to plan in the U.S.

Operations in the United States developed according to plan. The first AXE exchange was placed in service in Canon City, Colorado in November.

US West, which placed the order for this exchange, also signed an order valued at SEK 100 m. for AXE equipment to replace electromechanical exchanges in Idaho and has ordered a number of AXE switches in STP (Signal Transfer Point) configurations.

Southwestern Bell, BellSouth and NYNEX have also placed orders for AXE exchanges in various configurations. Commercial relations have thus been established with four of the seven regional Bell operating companies.

### Slight upturn in Asia and the Middle East

During 1987 a slight upturn was noted in Asia and the Middle East, where market growth has been sluggish in recent years. The upward trend was reflected in the larger number of competitive biddings.

As a result, Ericsson signed new contracts with the Republic of Korea, among other countries.

### Important orders in Algeria and Mexico

A contract covering the purchase of AXE exchanges was signed with the authorities in Algeria early in the year. The exchanges will be used in the first phase of a program to digitalize the country's telecommunications network.

Weak economies had a restraining effect on order bookings in Latin America. Mexico, traditionally a large market for Ericsson, was the exception.

### New generation of transmission products

Sales and orders for transmission equipment were both strong in the Nordic countries and in Italy, Mexico and Saudi Arabia. In contrast, demand continued to be weak in other markets, notably the United States.

A new line of products, which should contribute to improved profitability in the transmission field in the future, was developed during the year.

### Cooperation agreement with IBM

A cooperation agreement covering the development of so-called intelligent networks was signed with IBM. By combining AXE technology with IBM's know-how in the fields of data base handling, telecommunications networks can be equipped to handle new services efficiently.

The agreement is fully in line with Ericsson's strategy of seeking cooperative ventures in areas where outstanding expertise can strengthen its own operations.

### Improved operating income

Operating income in 1987 was distinctly higher than in the preceding year, despite the major investments in markets in the United States, Great Britain and France, and the fact that profitability was affected by depressed prices.

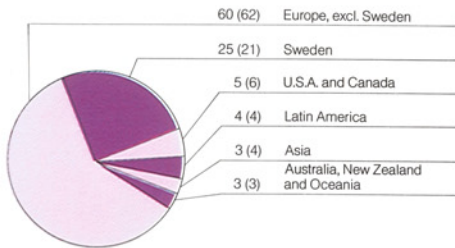
### The Business Area in brief SEK millions and percentage of Ericsson totals

	1987		1986		1985	
Order bookings, external	11,687	35.0%	10,268	31.3%	11,136	32.9%
Net sales, external	10,901	33.6%	10,316	32.6%	10,561	32.5%
Net sales, internal	1,346	—	1,190	—	32	—
Operating income after depreciation	1,301	—	1,165	—	1,282	—
Employees	29,854	42.1%	29,250	40.3%	29,594	37.9%



**Information Systems**  
**Effective April 1, 1988: Business Communications**  
**Following substantial improvement:**  
**Concentration on Communications**

Geographic distribution of external sales, %



Stig Larsson

Operations of the Information Systems Business Area in 1987 comprised products and systems used for the transmission of voice and data in private networks. The Business Area was divided as follows (percentages of total sales in parentheses):

**Communications systems** – Large subscriber exchanges (MD 110), Eripax data networks, modems, small subscriber exchanges, intercom systems and telephone sets (35%)

**Data systems** – Data terminals, personal computers, business communications systems/minicomputers, and bank systems (45%)

**Office equipment** – Typewriter-based word processing, calculators and printers, sales of office furniture (20%)

Sales in 1987 amounted to SEK 9,584 million.

**Focusing on business communications**

Agreements covering divestment of the Office Equipment and Data Systems Divisions were signed in January 1988. Operations are now concentrated in the communications field, where the MD 110 subscriber exchange forms the nucleus for system approaches in companies and other organizations.

Other products offered include telephone sets, data network systems (local networks and Eripax), small subscriber exchanges, modems and intercom systems.

The name of the Business Area has been changed to Business Communications.

The new Senior Vice President of the Business Area, effective April 1, 1988, is Ronny Lejdemalm, former head of the Components Business Area.

**Improvement in efficiency and operating results**

Operations in 1987 were characterized by a slight increase in demand for the Business Area's products and systems.

The gradual improvement in the operating results of the Business Area continued during the third year of comprehensive restructuring.

The efficiency-improvement program involved all three Business Area divisions. Overhead costs were reduced sharply, as was the amount of capital tied up in production, inventories and accounts receivable. Tied-up capital has been reduced by nearly half since 1985.

**8,000 fewer employees**

In the peak year 1985 the Business Area had 22,900 employees. As a result of the programs of corrective measures that were implemented, the work force has been reduced by a total of 8,000 employees, of whom 2,000 during 1987.

Prior to the divestments of the Office Equipment and Data divisions, the Business Area had 14,500 employees.

Despite the reduction in personnel, sales were maintained at the earlier level.

**Substantial demand for systems**

Demand for the Business Area's products and systems developed favorably during the year. This was particularly true of communications systems and data systems.

The market for office equipment was characterized by overproduction and consequent pressure on prices during the early part of the year.



### **Important order from West German Bundespost**

In the face of severe competition, the Business Area received an important order from the West German Bundespost (postal authority) covering delivery of a total of 8,000 personal computers and terminals.

An increasing number of banks are procuring their own systems for computerized payment transactions. Orders for systems of this type were received from banks in the United States and Great Britain, among other markets.

Fellesdata A/S, the data processing organization of the Norwegian savings banks, ordered 4,000 payment terminals.

### **Universities in U.S. select MD 110**

The MD 110 communications system for the transmission of voice and data has proved to be highly suitable for universities in particular. A large number of contracts have been signed with such institutions in the United States.

MD 110 systems with more than one and a half million lines have now been installed, including half a million during 1987.

### **Increased emphasis on system solutions**

The break-up of monopolies in the field of private communications networks has contributed to a growing market for system solutions.

Ericsson has therefore introduced a system based on the linking of personal computers and data terminals of various makes with communications systems to form an integrated facility.

This system solution, which has already been launched in five pilot countries will be further developed, now that the operations of the Business Area are being consolidated.

### **Sale of the Data Systems Division**

In January 1988 a contract was signed with the Finnish-based Nokia Group covering the divestment of the Data Systems Division.

As a result of the increased standardization of data processing products, it is no longer strategically necessary for Ericsson to have its own development and production in this field.

The Nokia Group's purchase of the Data Systems Division, effective as of January 1, 1988, is subject to the approval of governmental authorities. The purchase covers plants in Barkaby, Bräkne-Hoby and Ronneby, as well as sales companies in nine countries. Approximately 5,000 employees, including 3,200 in Sweden, are affected.

### **Ericsson part owner of Nokia's data company**

Ericsson's former Data Systems Division will constitute the core of Nokia's new data systems company with head offices in Stockholm. Ericsson has a one-fifth interest in this company.

Ericsson will handle the distribution of certain products in a number of countries where the new organization does not have sales companies.

### **Office Equipment Division becomes Facit**

The greater part of the Office Equipment Division was transferred to Design Function A/S, a Norwegian company, effective January 1, 1988, with the remainder to be transferred by stages during the first half of 1988. The business will be operated under the Facit name.

The sale includes the division's plants in Örsätter and Svängsta, as well as Facit AB. Approximately 2,600 employees are affected.

### **7,000 employees in Business Communications**

The remaining operations in the reorganized Business Area employ 7,000 persons.

Development and management functions are located in Stockholm. Production is carried out primarily in the plants in Karlskrona and Vedeby in Sweden, as well as in Ericsson's factories in Italy, Great Britain, Spain, Mexico and Australia.

Marketing, directly to end-users and through telecom administrations, is being handled by Ericsson's sales companies.

### **The Business Area in brief** SEK millions and percentage of Ericsson totals

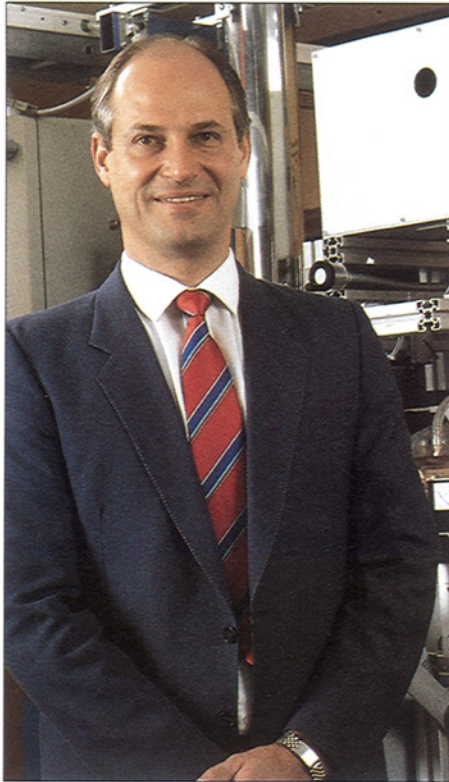
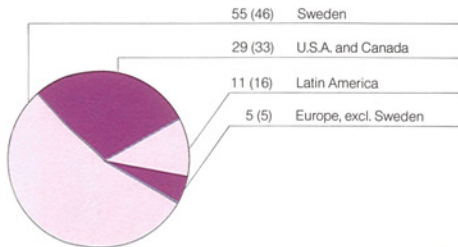
	1987		1986		1985	
Order bookings, external	8,985	26.9%	8,867	27.0%	9,874	29.2%
Net sales, external	9,205	28.4%	9,187	29.0%	9,986	30.8%
Net sales, internal	379	—	384	—	575	—
Operating income after depreciation	-58	—	-284	—	-806	—
Employees	14,481	20.4%	16,755	23.1%	20,785	26.6%



## Cables

# Growth in Sweden and Latin America Sharp decline in the U.S. market

Geographic distribution of external sales, %



Lars Berg

The Business Area operates in the following product areas (percentages of total sales in parentheses):

**Telecommunications cable** used for the transmission of telecommunications (35%)

**Power cable** used in the distribution of electric power (20%)

**Specialty cables**, including those used in the data processing industry (10%)

Business Area operations also include harness cables, fiber optical systems and components, as well as electrical equipment wholesaling (35%)

Sales in 1987 amounted to SEK 3,461 million.

The decrease in sales and order bookings was due to the fact that, effective July 1, 1986, Ericsson has held only a minority interest in Ficap, the Brazilian company, which was formerly consolidated. The very weak trend of business in the telecom cable market in the United States was also a contributing factor.

Sales increased in the Business Area's other markets.

### Favorable trend in Sweden

The full impact of the decentralization and restructuring of operations in Sweden in recent years is now being felt in the form of greater efficiency and higher profitability.

The market in Sweden, for power cable in particular, improved during the year, as the result of rising investments in housing construction and industry.

In the field of fiber optical cable, Ericsson's position as the principal supplier of cable being used in the Swedish Telecommunications Administration's national network was strengthened through the receipt of new orders for delivery in 1988 and 1989.

### Continuing profitability in Latin America

Sales and operating income developed favorably in all of Ericsson's cable operations in Latin America.

The Mexican company made its first deliveries of optical cable to the national telecom administration. At year-end a large order for telecom cable was received in Colombia.

### Dramatic deterioration of U.S. market

There was a dramatic deterioration of the market for telecom cable — and fiber optical cable in particular — in the United States during the first half of the year. Weak demand and overcapacity in the industry depressed prices and caused a sharp reduction in order bookings.

Comprehensive restructuring measures were initiated during the year to adapt operations to the changed conditions.

The prospects of achieving satisfactory profitability within a reasonable period without making substantial investments were deemed to be small. Accordingly, letters of intent have been signed covering the divestment of the greater part of Ericsson's cable operations in the U.S.

### Lower operating income

The lower operating income in 1987 was attributable in part to the reduction of the holding in Ficap, noted earlier, but mainly to the negative trend of business in the U.S.

### The Business Area in brief

SEK millions and percentage of Ericsson totals

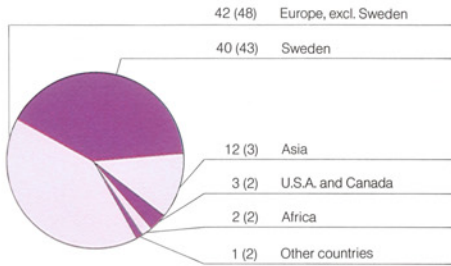
	1987		1986		1985	
Order bookings, external	3,324	10.0%	3,569	10.9%	4,341	12.8%
Net sales, external	3,206	9.9%	3,618	11.4%	4,225	13.0%
Net sales, internal	255	—	215	—	184	—
Operating income after depreciation	176	—	261	—	336	—
Employees	4,567	6.4%	4,744	6.5%	5,750	7.4%



## Defense Systems

# Swedish operations organized in new company, Ericsson Radar Electronics AB

Geographic distribution of external sales, %



Ulf H. Johansson

The Business Area comprised five product areas during 1987 (percentages of total sales in parentheses):

**Avionics and missile electronics** (34%)

**Defense communications** (16%)

**Local and mobile defense systems** (26%)

**Control and computer systems** (11%)

**Microwave and satellite communications** (13%)

Sales in 1987 amounted to SEK 3,372 million.

External sales increased 15 percent, as planned. With the exception of operations in Italy, order bookings were weak, primarily due to the deferment of projects. This, in turn, was caused by adjustments in tight defense budgets in Sweden and other markets. Profitability was affected by high costs of projects within the Control and computer systems product area.

### Substantial research and development

An amount equal to more than 20 percent

of sales was invested in research and development again in 1987.

New development projects include work on an artillery locating radar, ordered jointly by the Swedish and Norwegian defense authorities.

Substantial product development investments were made in the field of airborne radar.

### JAS project proceeding

Development of electronic systems for the Swedish JAS 39 Gripen multi-role military aircraft is proceeding according to plan.

The ten-year program of deliveries of equipment used in the Swedish Viggen aircraft has now been completed.

Ericsson has received an important contract for new telecommunications exchanges to be used at Swedish air bases. The MXD 2000 is an advanced AXE-based system for civilian and military control and monitoring functions.

### Leader in field of tactical networks

With launchings in the United States, Sweden and other countries, Ericsson became the first company in the world market to introduce frequency-hopping radio links for defense systems. Ericsson thereby reinforced its position as one of the leading global suppliers of tactical telecommunications networks.

Large follow-on orders for radio links used in the U.S. Army's "MSE" tactical communications system were received from GTE, the prime contractor.

### Integration of operations in new company

During the latter part of the year a new facility for the development and production of integrated microwave circuits was placed in service in Mölndal. Another plant for the development and design of advanced electronics is under construction. Bringing together formerly dispersed operations will result in faster and more efficient production.

Effective January 1, 1988, the greater part of the Business Area's Swedish operations was transferred to a new company, Ericsson Radar Electronics AB. In order to more effectively exploit the opportunities for technological cooperation the Defense communications product area will continue to be part of Ericsson Radio Systems AB.

### The Business Area in brief SEK millions and percentage of Ericsson totals

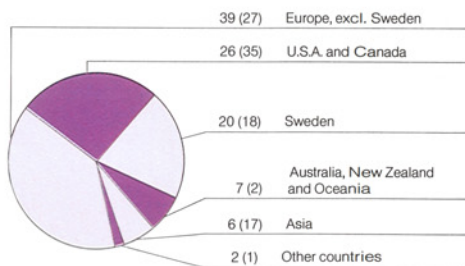
	1987		1986		1985	
Order bookings, external	2,767	8.3%	4,560	13.9%	2,857	8.4%
Net sales, external	3,203	9.9%	2,795	8.8%	2,143	6.6%
Net sales, internal	169	—	205	—	18	—
Operating income after depreciation	176	—	255	—	178	—
Employees	6,874	9.7%	6,366	8.8%	4,746	6.1%



## Radio Communications

# 40 percent of world's mobile telephones are connected to Ericsson systems

Geographic distribution of external sales, %



Åke Lundqvist

The Business Area comprises the following product areas (percentages of total sales within parentheses):

**Mobile telephony**, systems and terminals (67%)

**Mobile radio**, including systems with stationary and mobile units for closed networks (13%)

**Personal paging systems** for local networks (15%)

**Miscellaneous operations** (5%)

Sales in 1987 amounted to SEK 2,883 million.

The striking increase in order bookings reflects the rapid growth in the field of mobile telephony. Calculated in number of channels, contracts for systems doubled during the year. Ericsson continues to be the world leader in this field. At year-end, more than 40 percent of the world's slightly more than two million fully automatic cellular mobile telephones were linked to Ericsson systems.

### Expansion of systems

The totally dominant percentage of orders for mobile telephone equipment was attributable to expansion of systems delivered earlier. Growth in the field in the U.S. continued to be strong, notably in California, which is now served virtually completely by Ericsson systems.

During the year six more countries – Venezuela, the United Arab Emirates, Macao, Cyprus, Morocco and Mexico – were added to Ericsson's list of mobile telephony customers, making a total of 28. The first two mobile telephone systems in the People's Republic of China were placed in service during the year.

A completely new program of products for the NMT 450 and NMT 900 mobile telephone systems was launched under the HotLine label during the year. Market response to the program, including a compact pocket telephone, was strong.

### Cooperation on pan-European system

During the year thirteen European governments reached agreement on a common digital pan-European system for mobile telephony, to be placed in service in the early 1990s.

Ericsson has entered into important cooperation agreements with Siemens and Matra covering the development and marketing of this system.

### Mobile data communications

Ericsson and the Swedish Telecommunications Administration have formed a new company, Eritel AB, in order to devote increased resources to MOBITEX, a mobile data communications system.

This system, in operation in Sweden since the end of 1986, will now be further developed for export markets.

A new mobile radio set – the C 700 – was introduced during the year. It is designed for advanced voice and data communication.

### Alphanumerical personal paging

In its personal paging systems operations, which are centered in the Netherlands, Ericsson introduced two notable product innovations, an alphanumerical personal pager for transmitting text information and a mini-pager the size of a credit card.

Ericsson continues to be a world leader in local personal paging systems and its market shares in Europe have risen.

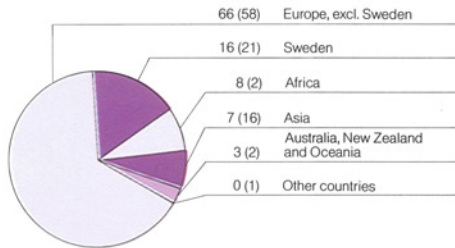
### The Business Area in brief SEK millions and percentage of Ericsson totals

	1987		1986		1985	
Order bookings, external	3,267	9.8%	2,362	7.2%	2,569	7.6%
Net sales, external	2,839	8.8%	2,688	8.5%	2,480	7.6%
Net sales, internal	44	–	64	–	176	–
Operating income after depreciation	210	–	254	–	253	–
Employees	4,777	6.7%	4,587	6.3%	5,122	6.6%



## Network Engineering and Construction Improved profitability in 1987 Important markets more expansive

Geographic distribution of external sales, %



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 telesignaling installations (77%)

**Signal systems**, including signaling and safety systems for rail traffic as well as street and highway signaling systems (23%)

Sales in 1987 amounted to SEK 2,484 million.

Despite the postponement of a number of large orders, profitability of the Business Area continued to improve during 1987.

A favorable trend was noted in a number of important markets, including Southeast Asia, the Middle East and Italy.

### Five-year project in Thailand

Southeast Asia continues to be an expansive market. In Thailand, in the beginning

of the year, Ericsson received an order involving expansion of local networks in slightly more than 150 locations in the Bangkok area and in northern parts of the country.

Substantial marketing activities are under way in other sectors of the region. These included formation of a new company in Brunei, a small but attractive market.

### Fiberoptic network in the Middle East

Following several slack years, the market for network construction in the Middle East has again become active, with good potentials for orders. Ericsson received an important contract to construct a private 1,500-kilometer fiberoptic network for a pipeline project.

The Business Area's network construction project in Nigeria is proceeding on schedule. There are good opportunities for additional orders from African companies.

### Investments by Italian state railway system

Order bookings in the signaling equipment sector in Italy have increased sharply. The Italian state railway system has projected a substantial program of capital expenditures for the next few years.

Two new Italian network construction companies were acquired, while some branch offices with weak profitability were divested.

### Increased market for data networks in Sweden

The rapid expansion of data networks continued in Sweden. An important Ericsson project involved installation of the data network in the new SAS headquarters building, which was completed during the year.

In the signal systems sector, installation of a computerized switching station was completed in Hallsberg, Sweden.

In the field of street and highway signaling systems, separate companies were formed in Sweden and Denmark following acquisition of Fiskars' signaling operations.

### The Business Area in brief SEK millions and percentage of Ericsson totals

	1987		1986		1985	
Order bookings, external	2,540	7.6%	2,349	7.2%	2,046	6.1%
Net sales, external	2,217	6.8%	2,201	7.0%	2,013	6.2%
Net sales, internal	267	—	134	—	100	—
Operating income after depreciation	185	—	153	—	154	—
Employees	5,531	7.8%	5,570	7.7%	5,945	7.6%

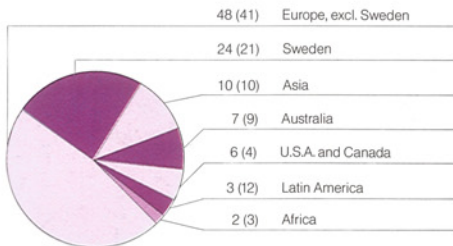


## Components

### Streamlining of operations

### Investments in microelectronics

Geographic distribution of external sales, %



Ronny Lejdemalm

Based on substantial in-house research and development, the Business Area manufactures and markets components and power supplies for the electronics industry. Operations comprise three product areas (percentages of total sales within parentheses):

**Microcircuits (40%)**

**Power systems and units (30%)**

**Capacitors and standard components (30%)**

Sales in 1987 amounted to SEK 1,810 million.

There is a striking increase in Ericsson's order bookings for microcircuits. Exports of all of the Business Area's products to the United States, West Germany and Great Britain increased in importance. Operating income improved significantly as the result of efficient utilization of resources.

#### Emphasis on new product concept

Investments were made in new product concepts in the area of microelectronics. These included resistance networks, hybrid modules and line circuits for use in telecommunications. Major resources have also been applied to the further development of power supplies.

A high level of technology and good product and market coverage are essential for continued strong competitiveness.

#### Important cooperation agreement

During the year an important cooperation agreement that offers great opportunities for the Business Area's operations in microelectronics was signed with Texas Instruments. The agreement provides access to advanced technology related to the design, development and production of VLSI (Very Large Scale Integrated) circuits. At the same time, it strengthens Texas Instrument's position as a supplier of advanced semiconductor components to Ericsson.

For Ericsson, technological cooperation of this type is a strategic alternative to large investments.

#### Divestment of capacitor operations

To permit increased emphasis on more specialized components and power supply operations, an agreement covering the sale of capacitor operations was signed during the latter part of the year.

Combining these operations with those of another Nordic company will strengthen their future competitiveness. This will also benefit Ericsson, which is retaining an ownership interest and distribution rights in certain countries.

#### Change of name to Ericsson Components

The sale of the capacitor business, which is effective March 1, 1988, subject to approval of the appropriate authorities, includes the RIFA AB company name. Ericsson's components operations are being transferred to a new company, Ericsson Components AB. Effective April 1, 1988, Bert Jeppsson is the new Senior Vice President in charge of the Business Area.

#### The Business Area in brief SEK millions and percentage of Ericsson totals

	1987		1986		1985	
Order bookings, external	768	2.3%	768	2.3%	735	2.2%
Net sales, external	763	2.4%	788	2.5%	852	2.6%
Net sales, internal	1,047	—	721	—	609	—
Operating income after depreciation	88	—	31	—	22	—
Employees	3,578	5.0%	3,919	5.4%	4,343	5.6%



## Ten-Year Summary

SEK m.	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
<b>Results for Year</b>										
Net sales	32,400	31,644	32,496	29,378	25,244	19,470	16,194	12,174	9,329	9,021
Operating income	2,019	2,114	1,637	2,203	2,464	1,841	2,198	1,195	741	1,118
Financial net	-895	-1,180	-952	-914	-802	-949	-1,134	-307	-80	-463
Income before appropriations and taxes	1,108	911	878	1,569	1,758	1,349	1,192	935	786	721
<b>Year-End Position</b>										
Total assets	33,282	34,232	37,122	37,632	30,606	25,481	21,896	17,711	12,959	12,767
Working capital	13,880	14,724	16,707	17,042	12,828	10,250	9,133	7,895	6,047	5,793
Property, plant and equipment, net	6,778	6,835	7,549	7,144	6,176	5,596	4,783	3,833	1,840	1,989
Long-term liabilities	8,548	8,768	8,566	7,658	6,673	7,230	6,383	4,932	3,817	3,647
Untaxed reserves	4,742	4,789	4,794	5,030	4,333	3,617	3,251	3,233	1,915	1,554
Stockholders' equity	7,468	7,299	6,901	6,560	6,219	3,973	3,654	3,010	2,947	2,869
<b>Other Information</b>										
Adjusted net income per share, SEK										
– after actual taxes paid	17.90	14.96	12.62	30.54	34.46	25.05	21.12	19.19	19.53	14.69
– after actual and estimated deferred taxes	19.26	17.21	15.15	19.99	22.05	17.13	16.73	13.57	11.43	12.23
Cash dividends per share	9.00	9.00	9.00	9.00	9.00	7.50	6.50	5.67	4.67	3.67
Shares outstanding – average (in thousands)	38,162	38,011	36,951	36,899	35,331	32,683	21,788	21,788	21,788	21,788
Additions to property, plant and equipment	1,592	1,643	2,677	2,192	1,645	1,662	1,275	718	508	501
Depreciation	1,213	1,133	1,308	1,039	945	760	621	409	307	329
Research and development										
– expenses	3,204	3,117	2,798	2,355	1,973	1,638	1,359	1,013	817	746
– in percent of net sales	9.9	9.9	8.6	8.0	7.8	8.4	8.4	8.3	8.8	8.3
<b>Ratios</b>										
Return on equity, percent	7.5	6.9	6.1	8.5	10.9	10.0	11.0	10.4	9.2	11.3
Return on capital employed, percent	13.2	13.1	11.3	13.6	17.8	16.5	18.8	14.4	13.1	16.8
Equity ratio, percent	31.8	30.5	26.5	27.0	31.4	26.9	28.4	31.6	33.2	31.8
Risk-bearing capital ratio, percent	38.9	37.5	32.9	33.7	38.5	33.9	35.8	40.7	40.5	37.8
Debt-equity ratio	1.0	1.1	1.5	1.5	1.1	1.5	1.4	1.2	1.1	1.1
Current ratio	2.0	1.9	1.6	1.6	1.8	1.7	1.9	2.1	2.3	2.1
<b>Year-End Statistics</b>										
Backlog of orders	24,171	23,625	23,055	25,161	21,565	20,991	17,701	11,914	10,147	10,586
Number of employees										
worldwide	70,893	72,575	78,159	75,116	70,783	66,300	69,860	65,910	55,690	61,400
Sweden	37,386	38,559	40,172	37,458	34,543	31,130	31,030	27,970	27,950	27,500

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



# LM Ericsson Share Data

## Capital stock

LM Ericsson's capital stock of SEK 1,908 m. currently consists of 3,728, 515 "A" shares and 34,433,867 "B" shares. The par value of each share is SEK 50. Of the total number of "A" shares outstanding, 2,479,684 are restricted shares and 1,248,831 nonrestricted, each carrying one vote. All "B" shares are nonrestricted, each carrying one thousandth of a vote.

The Articles of Association of LM Ericsson stipulate that not more than 35 percent of the shares in the Company may be nonrestricted shares, which may be owned by foreign citizens as well as by 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 held by foreign citizens amounted to 0.4 percent.

During 1987, Ericsson issued three convertible debenture loans. Two of these loans, in the amounts of CHF 135 m. and USD 60 m., have 15-year terms with convertible debentures corresponding to 2,908,250 "B" shares. The third loan was issued only to Ericsson employees in the amount of SEK 626.4 m. It has a term of five years, with convertible debentures corresponding to 2,363,950 "B" shares. If all three convertible debenture loans

are converted to shares, capital stock would increase SEK 263.6 m. and the number of "B" shares, 5,272,200.

## Employee ownership in LM Ericsson

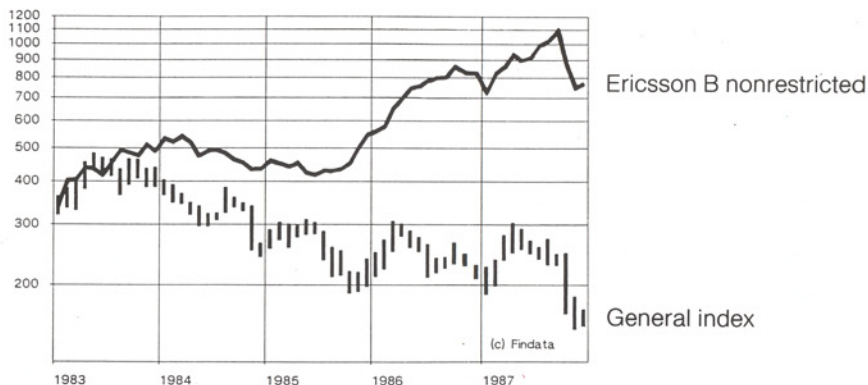
Ericsson employees can purchase company stock through attractive bank loans arranged by the Company. Since 1973, when Ericsson began this program, slightly more than 5,800 employees have taken advantage of this opportunity, purchasing a total of approximately 420,000 shares.

In 1981, Ericsson started its Aktiesparfond (share savings fund) and, in 1984, its Allemansfond (a mutual fund program allowing for tax-free capital gains). There are 3,754 holders of units in the Aktiesparfond and 3,328 in the Allemansfond. At year-end, the funds' investments in Ericsson shares amounted to 253,275 shares, or about 0.7 percent of shares outstanding. The Company's Allemansfond has also subscribed for 2,600 blocks, corresponding to 65,000 shares, in the convertible debenture loan offered to employees during the autumn of 1987. More than 18,700 employees have subscribed for convertible debentures in this loan, which may be converted to stock at the earliest during December 1989 and, at the latest, March 1993.

## 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. The most active trading in Ericsson shares takes place in Stockholm, London and New York. In the U.S., the Company's American Depositary Receipts (ADRs) are quoted in the over-the-counter market through NASDAQ (National Association of Securities Dealers Automated Quotation System). Each ADR represents one "B" share.



## Trading volume

The turnover of LM Ericsson shares during the years 1983-1987, as recorded on the Stockholm Stock Exchange, is shown in the accompanying table. Ericsson shares accounted for 3.3 percent of the total number of shares traded on the Exchange during 1987, and for 3.8 percent of the volume in Swedish kronor.

Year	Number of shares
1987	21,189,730
1986	21,321,417
1985	13,379,300
1984	7,347,305
1983	8,779,949

## Growth in dividend

Average increase per year, percent

Period	Growth in dividend	Consumer price index
1978-1987	10.9	8.5
1983-1987	4.0	6.8



Share	1987	1986	1985	1984	1983
Dividend	9.00	9.00	9.00	9.00	9.00
Profit per share					
– after taxes paid	17.90	14.96	12.62	30.54	34.46
– after taxes paid and estimated deferred taxes	19.26	17.21	15.15	19.99	22.05
P/E ratio I Ericsson B share <sup>1)</sup>	8.5	14.3	17.8	8.3	11.5
P/E ratio II Ericsson B share <sup>2)</sup>	7.9	12.4	14.9	12.7	18.0
Share price, December 31					
Stockholm Stock Exchange					
– Series "A" restricted	300	325	260	300	400
– Series "A" nonrestricted	300	325	250	260	400
– Series "B" nonrestricted	153	214	225	254	398
High for year					
– Series "B" nonrestricted	304	307	311	405	483
Low for year					
– Series "B" nonrestricted	149	208	189	241	323

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, SEK 75	2,563,352	128,167,600
1982 1-for-2 stock dividend	10,894,248	544,712,400
1983 Special new issue, USD 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
1987 No changes	–	–
1987 December 31	38,162,382	1,908,119,100

### Distribution of shares

(Year-end 1987)

At December 31, 1987, approximately 34 percent of the Company's shares were held by shareholders outside Sweden. The voting rights accruing to these shares amounted to about 0.4 percent of the total.

Size of holding	Shareholders		Shares		Number of Shares per shareholder
	Number	%	Number	%	
1– 500	70,495	94.9	6,963,000	18.2	100
501– 1 000	2,195	3.0	1,653,000	4.3	750
1 001– 2 000	800	1.1	1,197,000	3.1	1,500
2 001– 5 000	405	0.5	1,373,000	3.6	3,390
5 001– 10 000	140	0.2	1,081,000	2.8	7,720
10 001– 20 000	85	0.1	1,291,000	3.4	15,190
More than 20 000	165	0.2	24,604,000	64.5	149,120
Total	74,285	100.0	38,162,382	100.0	515

### Stockholders

The largest stockholders, ranked by voting rights, at December 31, 1987 were as follows:

	Number of shares	Percent of voting
AB Industrivärden	840,000	22.3
Knut och Alice Wallenbergs Stiftelse	530,296	14.1
Förvaltnings AB Providentia	444,000	11.8
AB Investor	394,000	10.5
Svenska Handelsbankens Pensionsstiftelse	188,000	5.0
Pensionskassan SHB Försäkringsförening	188,000	5.0
Stockholms Enskilda Banks Pensionsstiftelse	136,673	3.6
Patricia AB *)	111,961	3.0
Handelsbankens Skattefond	111,603	2.4
Wallenbergs Stiftelse Marianne och Marcus	90,000	2.4

\*) according to the list of trust-registered shares at September 25, 1987

### Exports/Imports

Exports of LM Ericsson shares from Sweden and imports of such shares to Sweden during the years 1983-1987 were as shown in the accompanying table.

Year	Exports (SEK m.)	Imports (SEK m.)	Net
1987	401	1,233	–832
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

Sources: Bank of Sweden and Swedish Bank Inspection Board



## Board of Directors

### Members

---

**HANS WERTHÉN**

Chairman  
Honorary Doctor of Technology, Chairman of the Board of AB Electrolux  
Member since 1981

**JAN WALLANDER**

Deputy Chairman  
Doctor of Philosophy, Chairman of the Boards of Svenska Handelsbanken and Tidnings AB Marieberg  
Member since 1970

**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, STORA and the Federation of Swedish Industries  
Member since 1972

**KJELL BRÄNDSTRÖM**

President of AB Industrivärden, Chairman of the Board of AB Nils Dacke  
Member since 1986

**GEORG KARNSUND**

President and Chief Executive Officer of Saab-Scania AB, Chairman of the Board of Industrigruppen JAS AB  
Member since 1987

**PAUL KVAMME**

Employee representative  
Member since 1981

**SVEN OLIVING**

Doctor of Science, President of Chalmers University of Technology, Chairman of the Board of AB Volvofinans  
Member since 1980

**STANLEY OSCARSSON**

Employee representative  
Member since 1987

**STEN RUDHOLM**

Honorary Doctor of Law, Former Marshal of the Realm, Member of the Swedish Academy  
Member since 1983

**STEN WIKANDER**

President of The National Pension Insurance Fund, Fourth Fund Board, Chairman of the Board of Hennes & Mauritz AB  
Member since 1987

**SVEN ÅGRUP**

Chairman of the Board of AGA AB  
Member since 1983

**BJÖRN SVEDBERG**

President and Chief Executive Officer, Honorary Doctor of Technology  
President and member since 1977

### Deputy Members

---

**SVEN LJUNGBERG**

Employee representative  
Member since 1986

**ARNE MOHLIN**

Executive Vice President  
Member since 1976

**THOMAS OLSSON**

Employee representative  
Member since 1985

**CARL WILHELM ROS**

Executive Vice President  
Member since 1986

**JAN STENBERG**

Executive Vice President  
Member since 1982

## Corporate Officers

### Corporate Executive Committee

---

**BJÖRN SVEDBERG**

Chief Executive Officer  
President, Telefonaktiebolaget LM Ericsson

**ARNE MOHLIN**

Executive Vice President  
(Until April 30, 1988)

**LARS RAMQVIST**

Executive Vice President

**CARL WILHELM ROS**

Executive Vice President and Chief Financial Officer

### Business Areas

---

**LARS BERG**

Senior Vice President, Cables  
President, Ericsson Cables AB

**BERT JEPPSSON**

Senior Vice President, Components  
President, Ericsson Components AB

**ULF H. JOHANSSON**

Senior Vice President, Defense Systems  
President, Ericsson Radar Electronics AB

**RONNY LEJDEMALM**

Senior Vice President, Business Communications  
(Formerly Information Systems)  
President, Ericsson Business Communications 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

**JAN STENBERG**

Executive Vice President,  
Public Telecommunications  
President, Ericsson Telecom AB

### Corporate Staffs

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Senior Vice President, Corporate Treasury

**LARS EDMARK**

Senior Vice President,  
Corporate Market Coordination

**LENNART GRABE**

Senior Vice President and General Counsel,  
Corporate Legal Affairs

**HARRY JOHANSSON**

Senior Vice President, Corporate Audit

**BO LANDIN**

Senior Vice President,  
Corporate Market Coordination

**MAGNUS LEMMEL**

Senior Vice President,  
Corporate Market Coordination

**GÖSTA LINDBERG**

Senior Vice President, Corporate Technology and Standards, and Chief Technical Officer

**NILS INGVAR LUNDIN**

Senior Vice President, Corporate Relations

**BRITT REIGO**

Senior Vice President,  
Corporate Human Resources and Organization

**ÅKE STAVLING**

Senior Vice President, Corporate Financial Control

## Auditors

### Statutory Auditors

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**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

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**OLOF HEROLF**

Authorized Public Accountant, Price Waterhouse

**KRISTER HERTZEN**

President, Swedish Staff Pension Fund

**CARL-ERIC BOHLIN**

Authorized Public Accountant, Price Waterhouse

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Björn Svedberg Sven Olving



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Georg Karnsund Kjell Brändström



Thomas Olsson



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



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Bureaux Techniques d'Algérie  
El Djazair  
Lars Johansson

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Buenos Aires

Compañía Argentina de Teléfonos  
S.A.  
Buenos Aires  
Björn Jönsson

Industrias Eléctricas de Quilmes  
S.A.  
Quilmes  
Arvid Jauring

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Lars Estberger

Ericsson Defense Systems Pty.  
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Preston  
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Ericsson Amazonia S.A.  
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Telefonaktiebolaget LM Ericsson  
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Tehran  
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John Whyte

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Athlone  
John Whyte

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Telecomunicazioni S.p.A.  
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Gianluigi Molinari

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Selangor  
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Woerden  
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**Ericsson Holding A/S**

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Ericsson Signal Systems AB  
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Ericsson Telecom AB  
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Ericsson Traffic Systems AB  
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Töcksfors  
Lars Wahlberg

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Ericsson Finanz AG  
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Kurt Rohrer

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Taipei  
Christer Hohenthal

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Branch Office Thailand  
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Ericsson Thai Networks Company  
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Brighton  
Duncan MacDougall

Swedish Ericsson Company Ltd.  
Horsham  
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Thorn Ericsson Telecommuni-  
cations Ltd.  
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#### **United States**

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M. Peter Thomas

Ericsson Systems, Inc.  
Richardson, Texas  
M. Peter Thomas

– Network Systems  
Richardson, Texas  
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– Information Systems  
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Lars G. Jarnryd

– Radio Systems  
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Manfred M. Buchmayer

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Overland Park, Kansas

The Ericsson Corporation  
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RIFA, Inc.\*  
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#### **Venezuela**

Compañía Anónima Ericsson  
Caracas  
Stig Johansson

Sistemas Ericsson C.A.  
Caracas  
Alvaro Cifuentes

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# Annual General Meeting

The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Thursday, May 19, 1988.

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 9, 1988. Shareholders whose shares are registered in the name of an agent must reregister the shares temporarily in their own names in order to participate in the meeting.

In addition to the above-mentioned requirements, shareholders shall give notice of attendance to the Headquarters of Telefonaktiebolaget LM Ericsson, S-126 25 Stockholm, between 10.00 a.m. and 4.00 p.m. not later than Monday, May 16, 1988 at 4.00 p.m.

## **Dividend**

The Board of Directors has proposed May 25, 1988 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, 1988.

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.

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