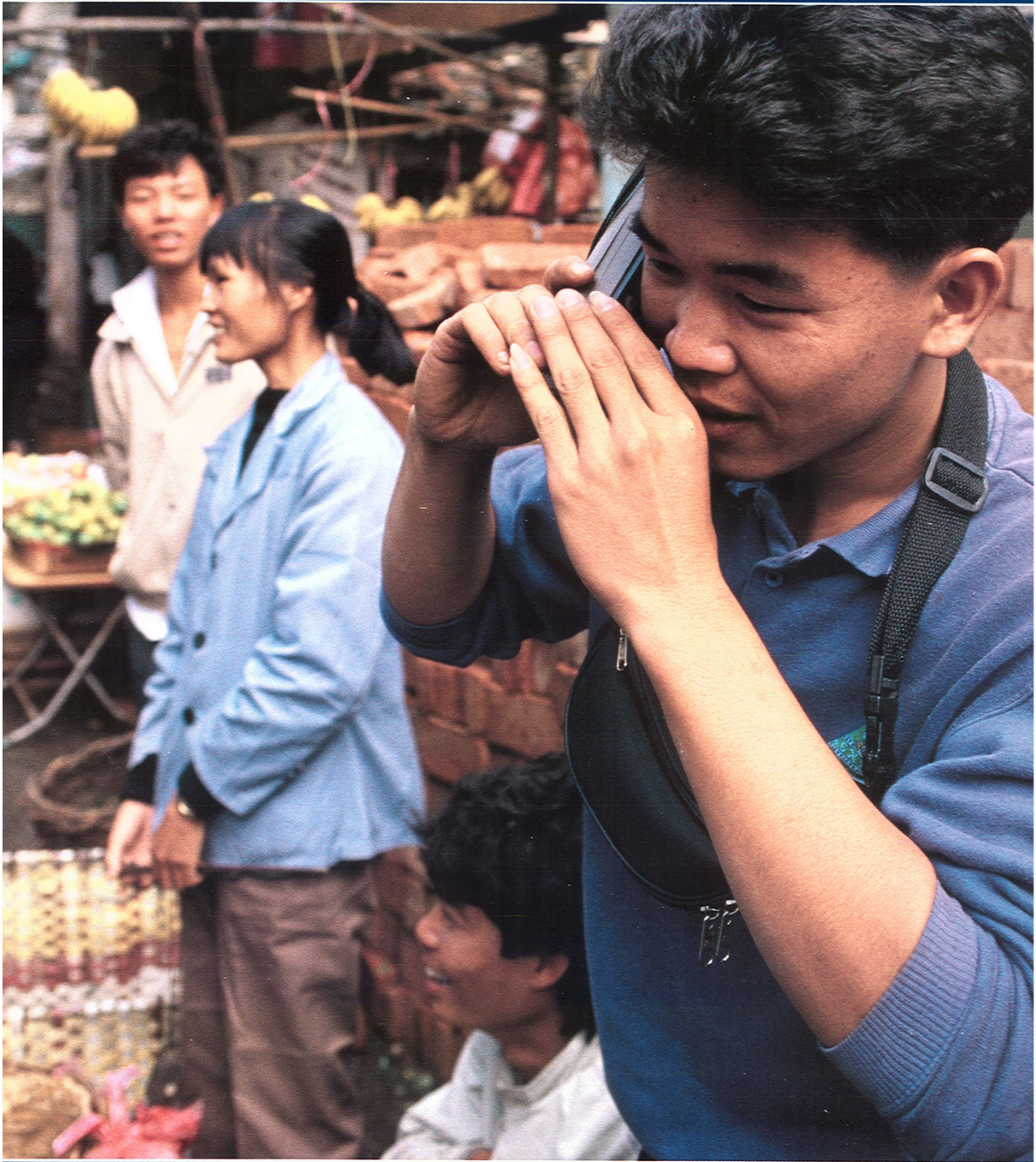
ERICSSON

Annual Report 1988



Annual General Meeting
The Annual General Meeting will be held in the Berwald Hall, Strandvägen 69, Stockholm, at 5.00 p.m. Tuesday, May 16, 1989. For further information, see page 53.

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Cover
The People's Republic of China has become an increasingly important market for Ericsson. Mobile telephony is one of the areas of strong growth. The pocket telephone shown in the cover photograph, taken in Guangzhou, can also be used in Hong Kong and Macao, which are served by the same type of Ericsson system.

Telefonaktiebolaget LM Ericsson

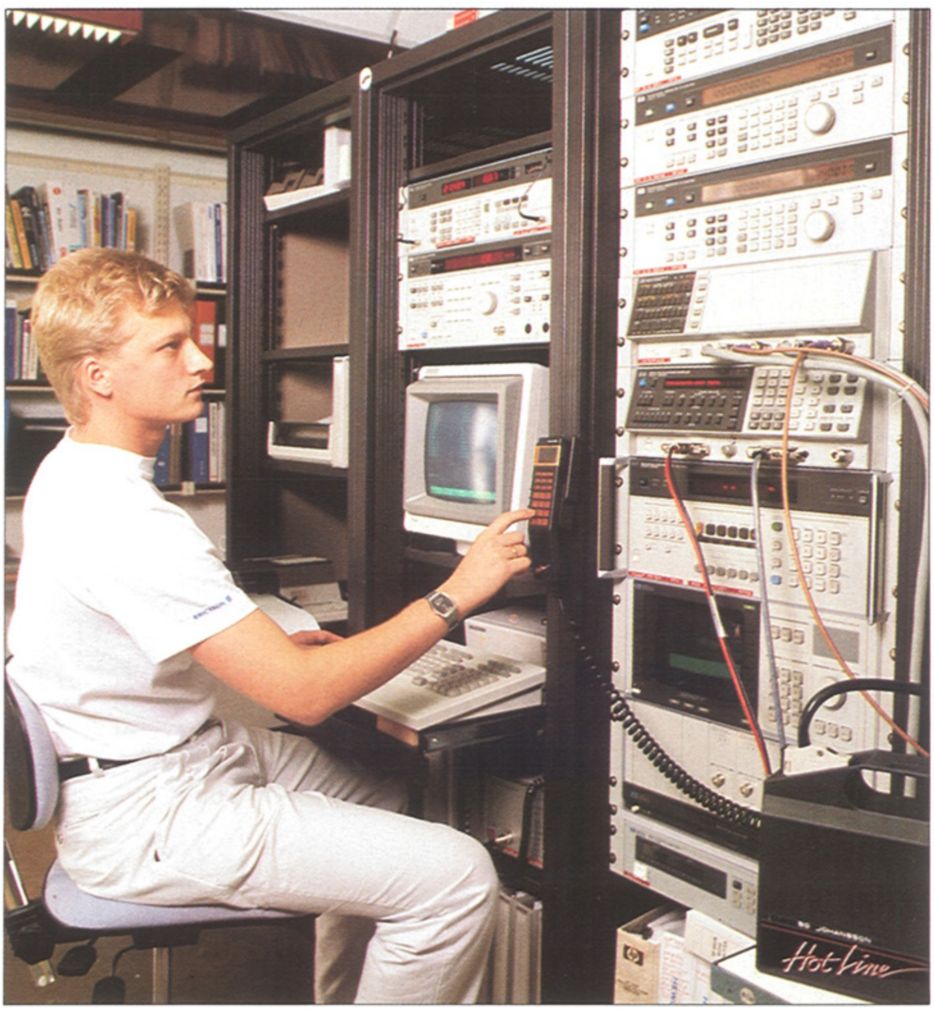
Annual Report 1988

(MSEK = millions of Swedish kronor)

Highlights

	1988 MSEK	1987 MSEK	Percent change
Net sales	31,297	32,400	−3
Order bookings	35,633	33,405	7
Order backlog at year-end	26,876	24,171	11
Income before appropriations and taxes	1,840	1,108	66
Adjusted net income per share after taxes paid, SEK	27.06	17.90	51
after full conversion	24.07	17.79	35
Adjusted net income per share after paid and estimated deferred taxes on appropriations, SEK	31.29	19.26	62
after full conversion	27.79	19.09	46
Dividend per share, SEK	10.50 *	9.00	17

*For 1988, proposed by the Board of Directors



Computer-controlled test system. The HotLine mobile telephone is being developed by Ericsson's Mobile Telephone Terminals Division in Ideon, the research and development community adjacent to Lund Technical Institute in southern Sweden. Close cooperation with colleges and universities is important, particularly in terms of recruiting.

Strong improvement in earnings
The favorable trend of profitability in Ericsson continued during 1988. Consolidated income before appropriations and taxes was sharply higher. The improvement in both operating income and net financial items was further strengthened, and cash flow continued to be highly positive.

Consistent efforts during 1988
Consistent efforts were made during 1988 to further strengthen Ericsson's core businesses to take maximum advantage of opportunities for development of solid long-term profitability. Units not essential from a strategic point of view were divested, while acquisitions were made in principal areas of operation. During the year Ericsson became the sole owner of its operations in Great Britain. Radiosystem Sweden AB was acquired in a move to increase capacity in mobile telephony.

Larger world market share for AXE
Orders for AXE lines rose 33 percent, from 4.8 million in 1987 to 6.4 million.

Compared with other companies, Ericsson was able to record the largest increase in number of local telephone lines installed, from slightly more than three million in 1987 to four million in 1988. This was due to the broad international base achieved by AXE, which made it possible for Ericsson to expand in more markets than any of its competitors. The Company's objective is to further strengthen its position as an independent and profitable supplier of telecommunications equipment, ranking among the four largest in the world in the 1990s.

Continuing leadership in mobile telephony
Of the 3.9 million mobile telephones in service throughout the world in January 1989, 1.6 million were linked to Ericsson's AXE-based system. Ericsson thereby maintained its world-leading position in the system sector, with a market share slightly in excess of 40 percent. The Company has an installed base of mobile telephone systems in 30 countries. Operations in 1988 mainly involved the expansion of existing systems.

Strong increase in number of MD110 lines
With an increase of 45 percent in the number of installed lines, Ericsson continued the successful marketing of its MD110 subscriber exchange during 1988. A new office exchange, the BCS 150, designed for small-to-medium-size companies, was also introduced during the year.

Ericsson in Brief

Ericsson is one of the world's leading telecommunications companies. This position is based on leading edge technology, advanced systems know-how, international experience, and the ability to meet specific customer requirements. Ericsson is also a leading supplier of electronic defence systems.

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

Ericsson has slightly more than 65,000 employees and operations in 80 countries.

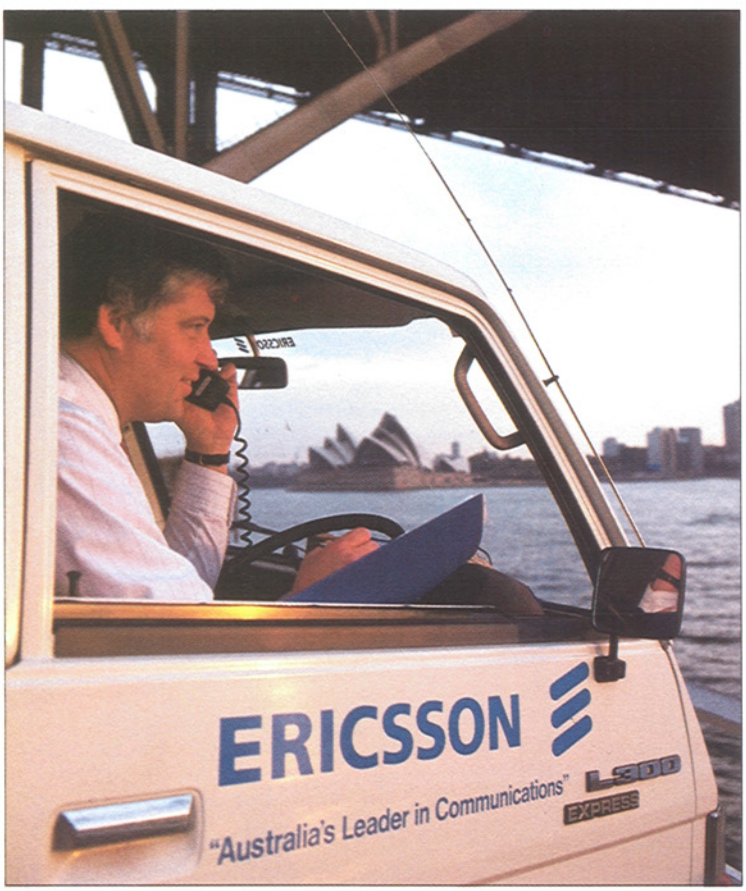
Research and development expenditures amount to eleven percent of Ericsson's sales.

The share capital of Telefonaktiebolaget LM Ericsson totals MSEK 1,911, represented by 38,214,624 shares, each with a par value of SEK 50. Shareholders outside Sweden own 27 percent of the shares.

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

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.

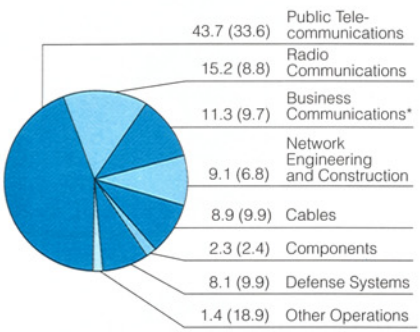
Ericsson's sales in 1988 amounted to MSEK 31,297.



The millionth AXE line in Australia was installed in 1988. AXE is also the core unit in an ISDN (Integrated Services Digital Network) to be placed in commercial operation on a national scale, as well as in the Australian mobile telephone systems.

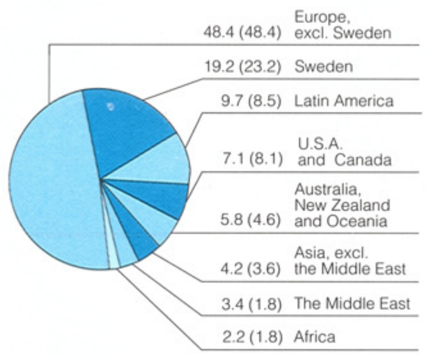
A large number of major contracts were signed in the People's Republic of China during the year. In all, more than half a million local AXE lines have been ordered, not counting the use of AXE systems in other applications.

Sales to external customers, by Business Area, percent.

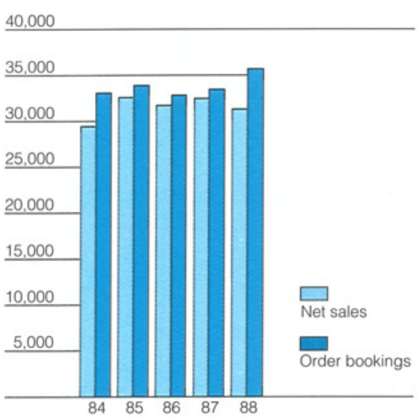


*Adjusted for operations subject to divestment

Geographic distribution of sales, percent.

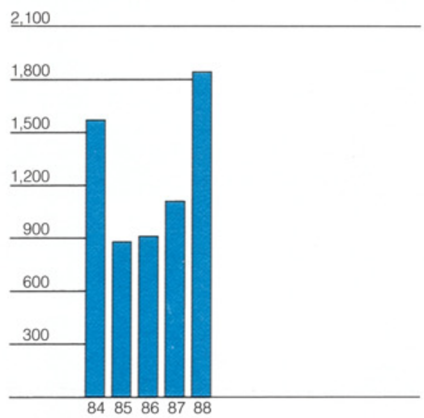


Net sales/ Order bookings, MSEK



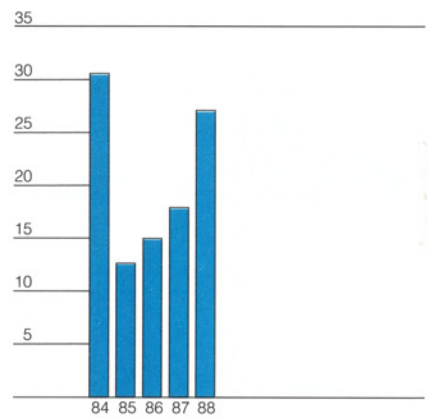
Sales decreased 3 percent in 1988 due to substantial divestments during the year. Sales of comparable units rose 16 percent. Order bookings increased 7 percent and the increase for comparable units was 28 percent.

Income before appropriations and taxes, MSEK



Income improved sharply and amounted to MSEK 1,840, an increase of 66 percent compared with 1987.

Adjusted net income per share after actual taxes paid, MSEK

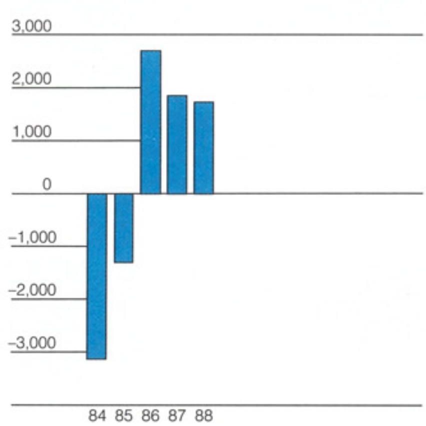


As a result of the higher income in 1988, profit per share after taxes paid increased more than 50 percent, compared with the preceding year.

Return on equity and capital employed, %

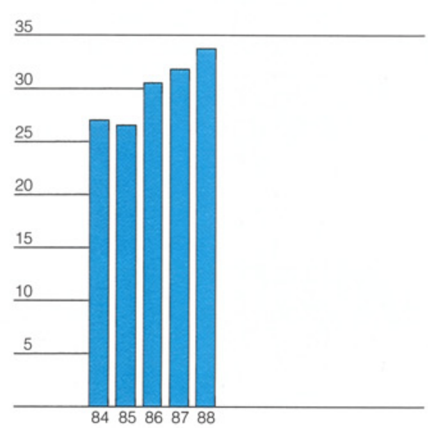
The return on equity rose from 7.5 percent in 1987 to 11.5 percent in 1988 and the return on capital employed increased from 13.2 percent to 16.0 percent during the same period.

Cash flow before external financing, MSEK



A strong positive cash flow, amounting to MSEK 1,728 in 1988, was achieved for the third consecutive year.

Equity ratio, %



The improvement in Ericsson's equity ratio continued during 1988, but acquisitions during the year had a slightly negative effect. Despite this, the equity ratio improved from 31.8 percent in 1987 to 33.7 percent in 1988.

Chief Executive Officer's Comments

Improved level of profitability gives Ericsson financial stability and durability

The factors that will determine Ericsson's position in the 1990s are a strong presence in the market, the ability to offer the technology that is demanded, and financial stability and durability. It is with a great sense of satisfaction that I can report that we are fulfilling these requirements and that we are well equipped for the future.

The battle for markets will be increasingly stiffer in the telecommunications field. The large companies are increasing their shares and the small ones are finding it more and more difficult to keep pace. Among the large companies, Ericsson is the one that has access to most of the major expanding markets. During 1988 we again demonstrated that we can achieve larger volumes of business through higher market shares in many countries simultaneously: both those where we are the primary supplier and others where we are the second supplier.

To remain among the largest in our field requires not only a high level of technology but, above all, the ability to adapt technology to the demands of customers. Systems know-how, international experience and customer-orientation are key concepts in the strategy that in 1988 moved Ericsson toward its objective: to be the leading international supplier of advanced systems and services for telecom networks.

We pursued our strategy consistently throughout the entire organization during 1988, with programs increasingly concentrated in the systems areas where we have our greatest strength. Public telecommunications, business communications and systems for mobile communications are the key sectors. Network construction and engineering operations were streamlined and some divestments were made in the cables and components sectors. Defense electronics is an important complement to our other operations.

Our AXE switching system is being refined continuously and adapted to varying international environments. AXE is the nucleus in a notable ISDN (Integrated Services Digital Network) project in Australia which also includes Ericsson's MD110 subscriber exchange.

Ericsson maintained its world-leading position in the systems sector of mobile telephony. One reason for our success is that we cover the entire chain. We use AXE as the switch in mobile systems. We have the radio base stations. And we have the telephones. We have also been a leader in developing the Pan-European digital mobile telephone system, and in early 1989 we were pleased to note that the technical standard we recommend was also selected in the United States.

Sales of our mobile telephone system in the U.S. have expanded more than we dared count on a few years ago. Nearly one out of every four mobile telephones in that country is connected to an Ericsson system. The MD110 subscriber exchange has also been well received in the U.S.; there have been a number of large orders, primarily from universities. The establishment of AXE in the market for telephone central offices in the U.S. has proceeded more slowly than estimated. The rate of capital expenditures in this area has been declining.

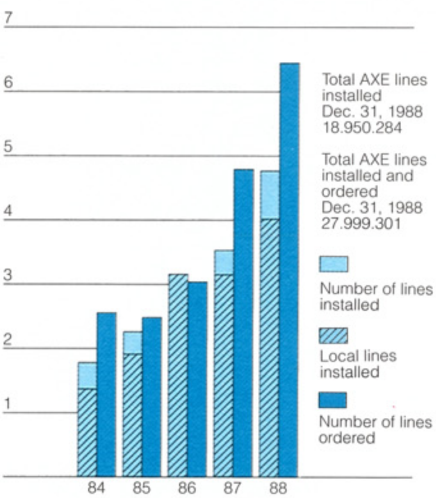
Other markets will also benefit from the results of our development activities in the U.S. The programs in all three systems areas in the U.S. are proceeding according to plan.

The past year has been one of many changes. That our programs were the correct ones was demonstrated in the form of improved operating results, a higher level of profitability and long-term financial stability that also provides necessary durability.

The year 1988 was a good one, and our judgement is that 1989 will be even better.

Björn Svedberg

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



Trends in the telecommunications market

Strongest growth in Western Europe

The telecommunications market was characterized by continued growth during 1988. This growth, which was somewhat greater than expected, was strongest in Western Europe.

The market continued to expand in Southeast Asia and China as well. In the Middle East, capital expenditures for telecommunications began to pick up again following several years of restraint. In the United States, in contrast, a decrease in the rate of investments for replacement of telephone exchanges was noted.

User-influenced development

As a result of the rapid technological development, the choice of products and services has become greater. Users have to a growing degree been able to control this development as deregulation has continued and telephone administration monopolies have been ended.

The integration of voice and data has not, however, proceeded as rapidly as was expected at the beginning of the decade. Plain ordinary telephone services are still totally dominant in telecom networks and will remain so in the foreseeable future.

The fact that the market for various forms of integrated business communications systems is growing at the same time is not a contradiction in terms. What is being demanded are total approaches in which a company's voice and data systems are linked in a cost-effective manner. Customers are demanding that the equipment they already have be supplemented with new equipment in a flexible way.

Rapid-growing mobile telephony

Mobile telephony is the fastest-growing area of telecommunications. The number of subscribers throughout the world has tripled in the past two years, from 1.3 million in January 1987 to 3.9 million in January 1989. The development of digital mobile telephony got under way in earnest during 1988 with the first orders for the new Pan-European digital system, which is scheduled to cover 18 countries by 1991. At year-end 1988, authorities in the United States also selected TDMA – time multiplex technology – for digital systems.

Car telephones have developed into pocket telephones, which will become even smaller and less expensive as the digital systems come into service. The rate of growth in this sector will continue to rise during the next few years.

Ever-larger volumes required

Development work in the components industry has made it possible to integrate more and more functions in smaller and smaller components. The industry is exceptionally capital-intensive, and thus requires ever-larger volumes of business. This does not mean that it is necessary to be the largest producer in all areas. Access to vital components can also be assured through joint venture agreements. Ericsson's cooperation with Texas Instruments is one example.

Volume is a key word throughout the telecommunications industry. Companies need ever-greater volumes, not only to cover research and development costs but to achieve efficient production.

Survival as an independent company requires access to technological expertise, markets and, not least important, stability and durability.

The Ericsson way

Business concept, objectives and strategies

Ericsson's business concept is to provide advanced systems, products and services for telecom networks, and to provide electronic defense systems. The objective in the telecommunications area is to be the leading international supplier of advanced systems and services, and to be one of the market leaders in terms of quality and price/performance.

Ericsson objectives are to attain a good return on shareholders' equity as well as earnings per share so that Ericsson's shares will be a profitable investment.

Delivery test of cable at Facomec, a wholly owned Ericsson cable company in Colombia. A substantial part of Ericsson's cable operations are in Latin America.

Human resources are to be cared for so that they fulfill Ericsson's interests and those of its employees in the best way.

Ericsson's strategy is to further strengthen its position as world leader in network competence, international experience and customer orientation.

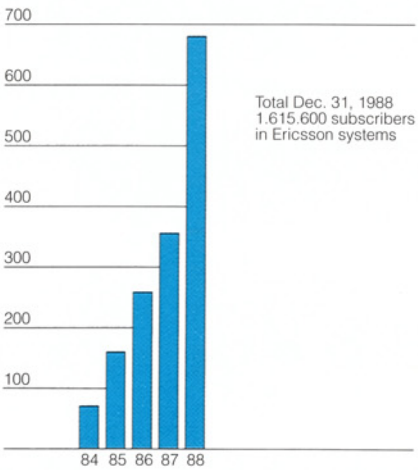
Consistent investments during 1988

Consistent investments to further strengthen the core businesses were made during 1988. The strategy was based on concentrating resources in areas where Ericsson has the greatest strength, in order to thereby best capitalize the opportunities for solid long-term development of profitability. Apart from its three system areas – AXE for public telecommunications, the AXE-based mobile telephone system and the MD110 business communications system – it continues to be important for Ericsson to be able to offer turnkey projects in the field of network engineering and construction, in which cable operations also play an important role. System-oriented component operations assure a supply of important products. The defense system operations should be regarded as a supplementary activity that offers good synergy effects, not least in research and development.

Units that were no longer considered strategically essential were divested. These included the Data Systems and Office Equipment divisions and most of the cable operations in the United States. At the same time, Ericsson became the

Ericsson is the leading supplier of telecommunications equipment in Mexico. A new framework agreement covering the delivery of AXE equipment valued at 1.5 billion Swedish kronor was signed during 1988.

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



sole owner of the operations in Great Britain, which today is the largest single market for the AXE system. Radiosystem Sweden AB, which develops and manufactures base stations, was acquired in order to expand capacity in the field of mobile telephony.

Early in 1989 an agreement in principle was reached covering the takeover by Ericsson of the telecommunications operations of Elektrisk Bureau A/S in Norway, and a simultaneous Norwegian takeover of Ericsson's railway and highway signaling business.

Public telecommunications
Half a billion telephone lines throughout the world

Close to half a billion telephone lines are in service throughout the world. A total of 39 million lines were installed during 1988: one fourth of them in North America, one fourth in Western Europe and the remaining half in other areas of the globe. The market in North America was characterized by a certain decline in volume during the year. The changeover from electromechanical to electronic exchanges approached the final stage while the next step, towards digitalization, did not accelerate as rapidly as had been foreseen earlier.

In Western Europe, the most expansive market area during the year, networks were expanded as a result of rising growth in traffic and the demand for new telecommunications services. The replacement market was only a small part of the total. The market situation was similar in other parts of the industrialized world.

Ranked on the basis of number of local lines installed, the largest players in this market are U.S.-based AT&T, Northern Telecom of Canada, Alcatel of France, Ericsson (4.0 million local lines installed in 1988, a 10 percent market share), NEC of Japan and Siemens of West Germany.

The battle for markets continues to be tough. All the companies are trying to increase their shares of current markets and penetrate new ones at the same time. One route is via mergers with companies that are already established in a market. Siemens showed interest in Plessey in Great Britain and negotiations between AT&T and government-owned Italtel got under way in Italy early in January 1989.

Ericsson was able to show the greatest increase in number of lines installed during 1988. This was because the Company was able to expand in more markets than any of its competitors.

About ten years ago most of the markets available to Ericsson were outside Europe and the United States. But as these markets, too, have opened up, Ericsson has succeeded in making significant breakthroughs. Today, the greater part of Ericsson's operations are in Western Europe.

The AXE system is today installed or has been ordered in 75 markets, including six of the ten largest in the world. In most cases Ericsson is a secondary supplier, with good opportunities for further expansion. It is estimated that the number of local AXE lines installed will reach six million per year in the early 1990s. This excludes AXE exchanges used in transit exchanges, in special applications and in the growing market for mobile telephony.

Ericsson's objective is to further strengthen its leading position as one of the four largest international suppliers of network systems.

Mobile telephony
Still 40 percent of the market for systems

Expansion of the cellular mobile telephony sector has continued at an unusually rapid rate. In January 1987 there were 1.3 million mobile telephones in service throughout the world. A year later the figure was 2.3 million, and in January 1989 it reached 3.9 million. About 1.6 million of these telephones were linked to Ericsson's AXE-based systems. Ericsson thereby retained slightly more than 40 percent of the market in the system sector.

Ericsson's principal competitors where systems are involved are Motorola and AT&T, both American companies. The two share the greater part of their domestic market in the U.S. and Motorola even has a share of the European market. In the Far East, Ericsson competes mainly with NEC.

Pretested remote subscriber switches, ready for connexion to an AXE local exchange, are delivered in the Dockland area of London. They are being used in one of the world's largest digital telephone exchanges with geographically dispersed units.

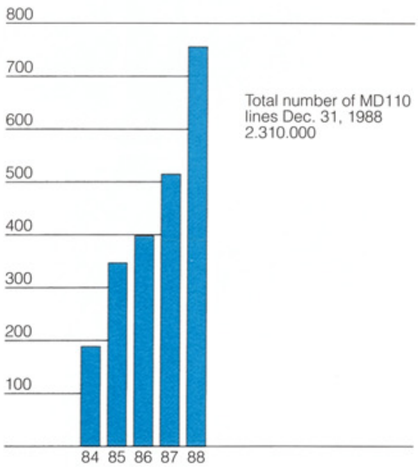
As of January 1989, the number of mobile telephones per inhabitant continued to be largest in the Nordic countries: 3.7 percent in Norway and 2.8 percent in Sweden. Comparable figures for other countries were 0.9 percent for both the U.S. and Great Britain and less than 0.2 percent in Japan and West Germany. One of the explanations for the high telephone density in the Nordic region is that the telecom administrations there reached agreement early on a common system standard, and that the networks were built up rapidly. In addition, it is possible to use the same telephone instrument in all the Nordic countries.

The dominant market in 1988 involved expansion of existing systems and, to a certain degree, the changeover from older systems with inadequate capacity. The situation is expected to be the same in 1989. Ericsson, with a large installed base in 30 countries, therefore has a favorable starting point.

A new Pan-European mobile telephone system serving 18 countries is scheduled to be ready in 1991. At the same time a new, standardized, digital system will be

The Dockland area in London, a much-discussed "city of the future", contains 30,000 new housing units and large office complexes.

MD110, world survey.
Number of lines installed, per annum, thousands.



introduced in the U.S. Even more rapid growth of the market may then be expected.

Business communications Total of 2.3 million MD110 lines installed

For Ericsson, the most important sector of the business communications field is the market for large advanced systems. During 1988 a total of 756,000 lines of MD110 subscriber exchange equipment were installed, 45 percent more than the 515,000 lines installed in 1987.

A total of 12.8 million lines of subscriber exchange equipment were installed throughout the world in 1988. In addition to its MD110 installations, Ericsson also installed smaller exchanges, thus giving the Company a 7.5-percent share of the world market. The share in Europe was much higher.

Ericsson's most important competitors are Siemens (Europe and the U.S.), Northern Telecom (the U.S.and Europe), NEC (the U.S. and Far East), AT&T (the U.S), and Alcatel (Europe).

Trends of Corporate finances

Growth in volume and cost-efficiency measures

The rapid growth in the telecommunications market, notably in Western Europe, combined with Ericsson's expanding market shares, resulted in a sharply higher volume of invoicing for comparable units of the organization. Comprehensive programs to improve cost efficiency were implemented, with the result that it was possible to reduce overhead costs by more than can be attributed to divestments.

Taken as a whole, this meant that Ericsson was able to increase operating income significantly despite the severe problems caused by the conflict in the Swedish labor market in the beginning of the year. High utilization of capacity in Ericsson's production units contributed to good margins.

Strengthened financial position

The continuing, determined program to utilize capital more efficiently enabled Ericsson to further reduce working capital despite a sharp growth in core businesses. As a result of this, and the fact that certain operations were divested, Ericsson's cash flow was strongly positive for the third year in a row.

Thanks to this trend, Ericsson's financial position continued to improve. This provides scope for continuing investments in important markets in the Company's principal operating areas. The equity/assets ratio improved.

In evaluating Ericsson's financial position, the substantial surplus values in the company's property portfolio today should also be considered. The total market value of Ericsson's buildings has more than tripled since the properties were acquired. The greater part of the Swedish real estate portfolio has for several years been administered in a special company, LM Ericsson Fastighetsförvaltning AB.

Impact of foreign exchange rates

Changes in foreign exchange rates can have a substantial impact on companies which, like Ericsson, have a strong international orientation. In Ericsson's case, both sales and production are distributed among many countries. Foreign exchange risks are therefore well-balanced, making the Company relatively invulnerable to fluctuations in rates. It is also Ericsson's policy to reduce its exposure to currency risks substantially through so-called hedging.

Ericsson's Swedish production companies invoice foreign subsidiaries mainly in the latter's local currency and purchases from foreign subsidiaries are also made in these currencies. Foreign ex-

Ericsson's MD110 communications system permits simultaneous transmission of voice and data. This capability is important to many users, including this university student, at California State University in San Diego in the United States.

change risks that arise as a result of "internal" sales to Swedish companies are thereby concentrated in Sweden. The Parent Company's central finance department then signs internal forward contracts with the Swedish subsidiaries, and has thereby centralized a great deal of the risk exposure. The finance department neutralizes the net exposure through various external measures. Flows of payments are balanced in a worldwide netting system that minimizes the number of transactions.

California State University in San Diego, U.S. is one of a number of universities that have selected Ericsson's MD110 for their communications systems. The largest MD110 contract in 1988, involving a system serving 34,000 extensions, was received from the University of Massachusetts at Amherst.

Board of Directors' Report

Sales and Order Bookings

Ericsson's consolidated sales in 1988 amounted to MSEK 31,297 (MSEK 32,400 1987), a decrease of 3 percent. The decline was due to substantial divestments during the year. Sales of comparable units rose 16 percent. Customers outside Sweden accounted for 81 percent of total invoicing, as against 77 percent in 1987.

Order bookings increased 7 percent, from MSEK 33,405 in 1987 to MSEK 35,633 in 1988. The increase for comparable units was 28 percent. The order backlog at year-end was MSEK 26,876 (MSEK 24,171).

Income

Consolidated operating income before appropriations and taxes improved sharply in 1988 and amounted to MSEK 1,840 (MSEK 1,108), an increase of 66 percent. Income in 1988 included a net capital loss of MSEK 5 on the sale of shares and fixed assets, compared with a net capital gain of MSEK 377 in 1987.

Operating income after depreciation amounted to MSEK 2,678 (MSEK 2,185). The conflict in the Swedish labor market in January and February seriously disrupted operations. Compensation in the amount of MSEK 192 has been received from the Swedish employers' organizations.

Effective in 1988, shares of earnings in associated companies are included in operating income. Figures for the preceding years have been adjusted for purposes of comparison. These earnings amounted to MSEK 241 (MSEK 166). Figures for 1988 are reported before taxes, which amounted to MSEK 81.

The decrease in Ericsson's net financial expense continued during 1988. Interest expenses declined substantially, primarily due to a positive cash flow.

Minority interest in income before appropriations and taxes amounted to MSEK 285 (MSEK 182). Improvements in income were reported in Ericsson's partly owned subsidiaries in Mexico and Italy, among others.

For the *Public Telecommunications Business Area,* 1988 was another year of substantially improved operating income. This was mainly due to the favorable trend of sales in many markets.

The *Radio Communications Business Area* reported higher operating income. Major successes were recorded in mobile telephony operations, while the profitability of private radio communications systems was unsatisfactory.

Operating income of the *Business Communications Business Area* improved sharply, primarily due to strong increases in sales, notably of the MD110 subscriber exchange.

The *Network Engineering and Construction Business Area* reported higher operating income for the fourth consecutive year, with substantial increases in order bookings and invoicing. The Italian market, which is the Business Area's largest, developed especially favorably.

The *Cables Business Area* divested the greater part of its operations in the United States. This resulted in a decrease in sales, but operating income improved significantly. Major successes were recorded in the Swedish market.

Operating income of the *Components Business Area* was sharply higher. The decrease in invoicing was attributable to the fact that the Business Area divested its capacitor operations during the year.

The *Defense Systems Business Area* reported a loss on operations, largely caused by high project costs for command and control systems and the Swedish JAS military aircraft project.

Financing

Consolidated net financial expense in 1988 amounted to MSEK 553 (MSEK 895), a decrease of MSEK 342. The improvement was attributable mainly to a substantial reduction in consolidated interest expense. As a result of the divestment of units with a high rate of capital turnover, this ratio declined to 0.90, compared with 0.97 in 1987. Inventories were equal to 26 percent of sales, unchanged from the preceding year, while accounts receivable rose by one percentage unit, to 34 percent of sales, due to the strong increase in invoicing in November and December.

The improvement in Ericsson's equity ratio continued during 1988, but acquisitions during the year had a slightly negative effect. Despite this, the equity ratio improved from 31.8 percent in 1987 to 33.7 percent in 1988.

Debentures equal to 52,242 shares were converted during the year by subscribers to the convertible debenture loan issued in Switzerland in 1987. Between January 1 and February 15, 1989 there were additional conversions equal to 375,792 shares, which thereby qualified for dividends for 1988.

The positive cash flow generated in recent years and the increased borrowing at fixed rates of interest have been used in part to repay loans and in part in the form of loans to subsidiaries. Whereas Ericsson a few years ago had a high percentage of borrowing at variable interest rates, it now has a portfolio in which loans at fixed rates of interest account for the greater part of total borrowing.

A finance company was established in Ireland as an instrument for financing the operations of Ericsson companies and external projects.

Research and Development

Ericsson's total costs for research and development in 1988, including customer-related costs, amounted to MSEK 3,529, equal to 11.3 percent of sales, compared with MSEK 3,204, or 9.9 percent in 1987.

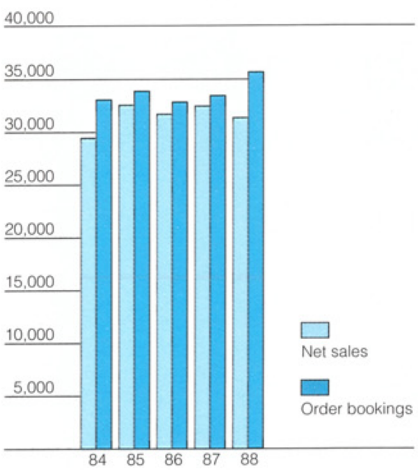
Sales to external customers, by Business Area

	1988	1987	Pct. change
Public Telecommunications	13,677	10,901	25
Radio Communications [1]	4,745	2,839	67
Business Communications	3,540	3,139	13
Network Engineering and Construction	2,850	2,217	29
Cables	2,793	3,206	–13
Components	707	763	–7
Defense Systems [1]	2,548	3,203	–20
Other operations [2]	437	6,132	–93
Total	31,297	32,400	–3

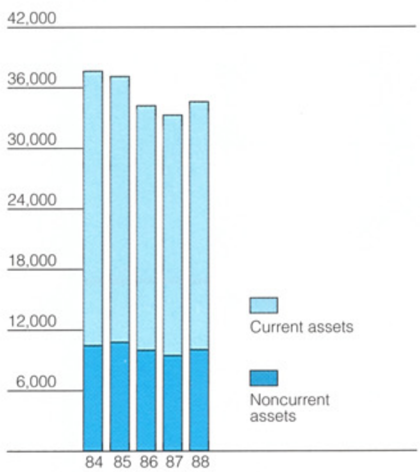
1) Figures for preceding year are not comparable, due to organizational changes.

2) Net sales attributable to divestments within Information Systems are included in Other operations.

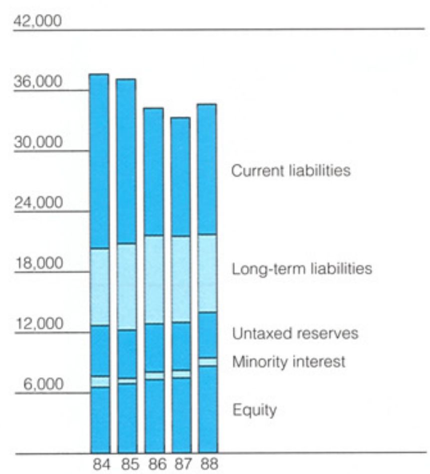
Net sales/Order bookings, MSEK



Assets, MSEK



Liabilities and equity, MSEK

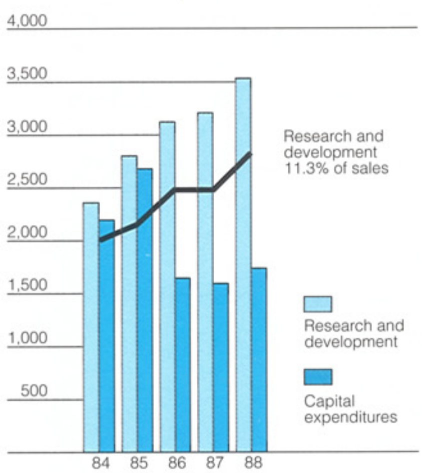


Capital Expenditures
Investments in property, plant and equipment amounted to MSEK 1,739 (MSEK 1,592). Investments in Sweden totaled MSEK 739 (MSEK 756).

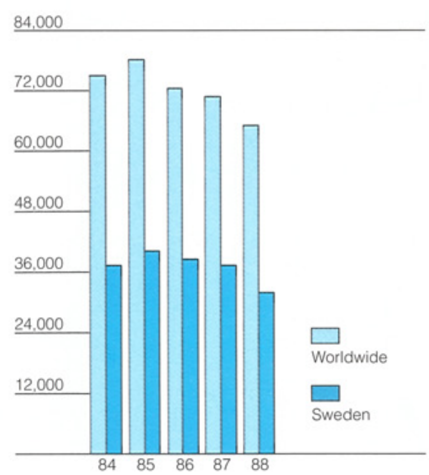
Personnel
At year-end 1988, 65,138 persons were employed within Ericsson, a decrease of 5,755 from the preceding year. A total of 9,740 persons were employed in operations divested during the year; acquisitions and changes in other companies accounted for an increase of 3,985 employees.

Wages, salaries and social costs amounted to MSEK 8,349. Sales per employee were equal to SEK 480,000 (SEK 457,000). Supplementary information on the average number of employees and on wages, salaries and other remuneration appears in a supplement to the financial statements.

Research and Development
Capital expenditures, MSEK



Number of employees



Personnel

Number of employees, December 31	1988	1987
Sweden		
Parent Company	13,654	14,419
Other companies	18,440	22,967
	32,094	37,386
Europe (excluding Sweden)	19,362	19,341
North America	1,820	2,751
Latin America	8,686	8,658
Other countries	3,176	2,757
Total	65,138	70,893

Significant Changes within Ericsson
To further strengthen the ties between Ericsson's most important units, the Corporate Executive Committee was expanded, effective October 1, 1988, to include the managers of the two largest Business Areas.

The greater part of the cable operations within the North American subsidiary, Ericsson, Inc., was divested during the year.

The Parent Company acquired the remaining 51 percent of the shares of Thorn-Ericsson Telecommunications (Holding) Ltd.

During the year, the subsidiary Ericsson Radio Systems AB, acquired shares carrying 98 percent of the voting rights in Radiosystem Sweden AB, a company listed on the Stockholm Stock Exchange. Following the transfer of operations to another company within Ericsson, the shares were sold.

In the beginning of 1988 the Parent Company concluded an agreement with its subsidiary, Ericsson Telecom AB, whereby the latter will conduct operations relating to public telecommunications on a commission basis for the Parent Company.

Ericsson Network Engineering AB, a subsidiary, acquired the outstanding 51 percent of the shares of the previously associated Turkish company, Ericsson Sebeke Insaati A.S.

Network construction operations in Italy were restructured, in connection with which a number of small network construction companies were acquired or formed.

A new Swedish subsidiary to handle sales of systems and products in the Swedish market was formed in the beginning of 1989. The new company, which is 100-percent owned by the Parent Company, was named Ericsson Sverige AB.

An agreement in principle was also signed with Elektrisk Bureau A/S in Norway early in 1989. Under terms of the agreement, Ericsson Holding A/S, a subsidiary, intends to acquire, directly or indirectly, operations comprising the development and production of equipment for telephone exchanges and control communications, 50 percent of Elektrisk Bureau's defense communications business and the 50-percent interest not previously held in EB-Ericsson ANS, a joint venture. The intention is to sell the Railway Signaling Division and the Highway Signaling Division within Network Engineering and Construction to Elektrisk Bureau A/S. Ericsson is thereby divesting all its shareholdings in the Ericsson Signal Systems AB and Ericsson Traffic Systems AB subsidiaries, as well as shares and operations of other subsidiaries organized within the divisions. The agreement is subject to the approval of governmental authorities.

Outlook
Continuing improvement in income and profitability is anticipated during 1989.

Proposed Disposition of Earnings in the Parent Company
Including a General reserve of MSEK 100, the sum of SEK 1,222,417,000 is available for distribution by the shareholders 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 10.50 per share, totaling	SEK	405,199,368
To	be retained in the business	SEK	817,217,632
		SEK	1,222,417,000

Stockholm, March 1989

HANS WERTHÉN
Chairman

JAN WALLANDER
Deputy Chairman

PETER WALLENBERG
Deputy Chairman

KJELL BRÄNDSTRÖM GEORG KARNSUND PAUL KVAMME

SVEN LJUNGBERG SVEN OLVING STANLEY OSCARSSON

STEN WIKANDER SVEN ÅGRUP

BJÖRN SVEDBERG
President

Consolidated Income Statement

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

Years ended December 31, MSEK		1988	1987 1)	1986 1)
Net sales		31,297	32,400	31,644
Cost of sales (exclusive of depreciation shown separately below)		17,579	17,952	16,665
		13,718	14,448	14,979
Share in earnings of associated companies		241	166	181
Other operating revenues	note 1	452	730	634
		14,411	15,344	15,794
Selling, research and development, general and administrative expenses		10,762	11,946	12,366
Depreciation	note 2	971	1,213	1,133
Operating income after depreciation	note 3	2,678	2,185	2,295
Financial income	note 4	666	661	810
Financial expenses	note 4	1,219	1,556	1,990
Income after financial income and expenses		2,125	1,290	1,115
Minority interest in income before appropriations and taxes		−285	−182	−204
Income before appropriations and taxes		1,840	1,108	911
Appropriations to untaxed reserves				
Depreciation in excess of standard depreciation	note 2	−24	−125	−113
Changes in other untaxed reserves	note 5	+260	+172	+72
Minority interest in appropriations		+44	+4	+35
		+280	+51	−6
Income before taxes		2,120	1,159	905
Income taxes		880	488	384
Minority interest in taxes		+73	+64	+42
Reported net income		1,313	735	563

Adjusted net income per share, SEK	note 6			
– after actual taxes paid		27.06	17.90	14.96
after full conversion		24.07	17.79	14.93
– after actual and estimated deferred taxes		31.29	19.26	17.21
after full conversion		27.79	19.09	17.17

1) As previously reported except for reclassification of share in earnings of associated companies

Consolidated Balance Sheet

Telefonaktiebolaget LM Ericsson and consolidated subsidiaries

December 31, MSEK		1988	1987
Assets			
Current assets			
Cash, bank deposits and short-term cash investments	note 7	3,780	3,391
Notes and accounts receivable – trade (less allowance for doubtful accounts, 173 at December 31, 1988 and 250 at December 31, 1987)	note 8	10,159	10,235
Inventories (less advance and progress payments, 2,130 at December 31, 1988 and 1,417 at December 31, 1987)		8,171	8,355
Other current assets	note 9	2,487	1,855
		24,597	23,836
Deposits related to untaxed reserves	note 5	57	78
Investments and other noncurrent assets			
Notes and accounts receivable – trade	note 8	458	499
Investments in associated companies, at equity	note 21	826	807
Other investments		304	161
Other noncurrent assets	note 11	1,704	1,123
		3,292	2,590
Property, plant and equipment	note 12		
Cost		12,191	12,638
Accumulated standard depreciation		6,026	6,362
		6,165	6,276
Revaluation adjustments, net of accumulated standard depreciation		514	502
		6,679	6,778
Assets pledged as collateral 1988: 1,043; 1987: 2,093	note 19		
Total assets		34,625	33,282

December 31, MSEK		1988	1987
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable – trade		2,727	2,391
Advances from customers		2,986	2,485
Accrued taxes		611	329
Short-term borrowings	note 13	621	1,245
Current maturities of long-term debt	note 15	674	572
Other current liabilities	note 14	5,329	4,751
		12,948	11,773
Long-term liabilities			
Debentures	note 15	1,524	1,669
Convertible debentures	note 16	1,528	1,588
Pension liabilities	note 17	3,437	3,414
Other long-term liabilities	note 15	1,251	1,877
		7,740	8,548
Untaxed reserves			
Reserve for accounts receivable and intercompany profits		1,289	1,102
Inventory reserve		1,101	1,742
Reserves for future capital expenditures		528	334
Accumulated depreciation in excess of standard depreciation	note 12	1,588	1,564
		4,506	4,742
Minority interest in equity of consolidated subsidiaries		804	751
Stockholders' equity	note 18		
Capital stock		1,911	1,908
Reserves not available for distribution		5,162	4,752
Cumulative translation adjustments		−84	−197
		6,989	6,463
Retained earnings		1,638	1,005
		8,627	7,468
Contingent liabilities 1988: 1,627; 1987: 1,611	note 20		
Total liabilities and stockholders' equity		34,625	33,282

Consolidated Statement of Changes in Financial Position

Years ended December 31, MSEK	1988	1987	1986
Cash at January 1	3,391	3,091	3,484
Cash provided from operations			
Net income	1,313	735	563
Minority interest in net income	168	114	127
Depreciation	971	1,213	1,133
Gains(–)/losses on sale of property, plant and equipment	30	–165	–85
Decrease in bank deposits related to untaxed reserves	21	96	139
Appropriations from (–)/to untaxed reserves	–236	–48	5
	2,267	1,945	1,882
Translation adjustments not affecting income statement	84	–265	–19
Sale of property, plant and equipment	941	398	1,200
	1,025	133	1,181
Changes in working capital (excl. cash)			
Notes and accounts receivable – trade	76	–747	1,128
Inventories	184	1,166	942
Other current assets	–632	294	–353
Current liabilities, noninterest-bearing	1,697	430	–127
	1,325	1,143	1,590
Changes in other assets			
Additions to property, plant and equipment	–1,739	–1,592	–1,643
Translation adjustments in property, plant and equipment	–47	205	110
Investments, net	–162	37	–175
Other noncurrent assets	–540	346	102
	–2,488	–1,004	–1,606
Dividends paid	–401	–372	–358
Cash flow	1,728	1,845	2,689
Cash provided from financial transactions			
Changes in short-term liabilities	–522	–1,287	–3,574
Changes in long-term liabilities	–808	–220	202
Conversion of debentures	19	0	182
Additional capital contributed by minority	–28	–38	108
	–1,339	–1,545	–3,082
Cash at December 31	3,780	3,391	3,091

Parent Company Income Statement

Telefonaktiebolaget LM Ericsson

Years ended December 31, MSEK		1988	1987	1986
Net sales		9,211	8,120	8,326
Cost of sales (exclusive of depreciation shown separately below)		4,425	4,067	4,578
		4,786	4,053	3,748
Other operating revenues	note 1	667	579	784
		5,453	4,632	4,532
Selling, research and development, general and administrative expenses		4,051	3,697	3,666
Depreciation	note 2	198	213	215
Operating income after depreciation		1,204	722	651
Financial income	note 4	699	823	826
Financial expenses	note 4	755	608	854
Income before appropriations and taxes		1,148	937	623
Appropriations to untaxed reserves				
Changes in depreciation in excess of standard depreciation	note 2	+109	+24	+35
Changes in other untaxed reserves	note 5	+113	−2	+256
		+222	+22	+291
Contributions to subsidiary companies		733	412	326
Income before taxes		637	547	588
Income taxes		59	52	95
Reported net income		578	495	493

Parent Company Balance Sheet
Telefonaktiebolaget LM Ericsson

December 31, MSEK		1988	1987
Assets			
Current assets			
Cash, bank deposits and short-term cash investments	note 7	2,107	1,865
Notes and accounts receivable from subsidiary companies	note 8	1,588	840
Notes and accounts receivable – trade (less allowance for doubtful accounts, 82 at December 31, 1988 and 47 at December 31, 1987)	note 8	1,468	2,181
Inventories (less advance and progress payments, 61 at December 31, 1988 and 50 at December 31, 1987)		1,896	2,255
Other current assets	note 9	1,200	625
		8,259	7,766
Deposits related to untaxed reserves	note 5	15	13
Investments and other noncurrent assets			
Notes and accounts receivable – trade	note 8		
Subsidiary companies		89	8
Other		341	233
Other accounts receivable from subsidiary companies		503	1,154
Investments	note 10		
Subsidiary companies		5,080	4,517
Associated companies		195	186
Other investments		49	48
Other noncurrent assets		859	671
		7,116	6,817
Property, plant and equipment	note 12		
Cost		2,660	2,795
Accumulated standard depreciation		1,411	1,452
		1,249	1,343
Revaluation adjustments, net of accumulated standard depreciation		260	274
		1,509	1,617
Assets pledged as collateral 1988: 270; 1987: 764	note 19		
Total assets		16,899	16,213

December 31, MSEK		1988	1987
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable – trade		471	477
Advances from customers		193	149
Short-term borrowings		9	1
Current maturities of long-term debt	note 15	424	65
Accounts payable to subsidiary companies		1,697	1,718
Other current liabilities	note 14	1,317	1,164
		4,111	3,574
Long-term liabilities			
Debentures	note 15	1,575	1,568
Convertible debentures	note 16	1,557	1,588
Pension liabilities	note 17	1,210	1,175
Payables to subsidiary companies		631	261
Other long-term liabilities	note 15	199	462
		5,172	5,054
Untaxed reserves			
Reserve for accounts receivable and intercompany profits		682	681
Inventory reserve		948	1,082
Reserves for future capital expenditures		156	136
Accumulated depreciation in excess of standard depreciation	note 12	383	492
		2,169	2,391
Stockholders' equity	note 18		
Capital stock		1,911	1,908
Reserves not available for distribution		2,313	2,297
		4,224	4,205
General reserve		100	100
Retained earnings		545	394
Net income		578	495
		5,447	5,194
Contingent liabilities 1988: 2,383; 1987: 2,227	note 20		
Total liabilities and stockholders' equity		16,899	16,213

Parent Company Statement of Changes in Financial Position

Years ended December 31, MSEK	1988	1987	1986
Cash at January 1	1,865	1,795	2,033
Cash provided from operations			
Net income	578	495	493
Depreciation	198	213	215
Gains (–)/losses on sale of property, plant and equipment	69	–136	–3
Increase (–)/decrease in bank deposits related to untaxed reserves	–2	87	125
Appropriations to untaxed reserves and Parent Company contributions to subsidiary companies	511	381	35
	1,354	1,040	865
Sale of property, plant and equipment	74	208	37
Changes in working capital (excl. cash)			
Notes and accounts receivable – trade	713	7	527
Inventories	359	89	304
Other current assets	–575	77	–125
Current liabilities, noninterest-bearing	170	–730	–567
	667	–557	139
Changes in other assets			
Additions to property, plant and equipment	–233	–200	–217
Investments, net	–573	–1,104	–155
Other noncurrent assets	–474	1,362	1,617
	–1,280	58	1,245
Contributions to subsidiary companies	–733	–412	–326
Dividends paid	–344	–344	–333
Cash flow	–262	–7	1,627
Cash provided from financial transactions			
Changes in short-term liabilities	367	–230	–1,937
Changes in long-term liabilities	118	307	–110
Conversion of debentures	19	0	182
	504	77	–1,865
Cash at December 31	2,107	1,865	1,795

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 consolidated income and stockholders' equity, see Note 22.

(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 21) in which the Company's voting stock interest is at least 20 percent but not over 50 percent 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 attributable to 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 are included in Cost of sales.

Financial gains and losses on foreign exchange are mainly related to liquid funds and loans. Gains and losses attributable to liquid funds for subsidiaries operating in countries with highly inflationary economies, and whose functional currency is considered to be the U.S. dollar, are included in financial income whereas gains and losses attributable to loans are included in financial expenses.

Financial gains and losses on foreign exchange for other companies are included net in financial expenses (see Note 4).

In the consolidated financial statements, receivables and liabilities in foreign currencies have been translated at year-end exchange rates. This means that in certain cases receivables are given a higher value and liabilities are given a lower value than if the receivables and liabilities had been translated at the lowest or highest of year-end exchange rate and historical exchange rate, respectively. Since 1988, the difference resulting from applying the two valuation methods described above is included in untaxed reserves and the change during the period is included in appropriations to untaxed reserves (see Note 5). If this method had also been applied earlier, consolidated income before appropriations and taxes would have been reduced by MSEK 29 in 1986 and by MSEK 169 in 1987.

Parent Company receivables in foreign currencies have been valued at the lowest of year-end exchange rate and historical exchange rate, whereas liabilities in foreign currencies have been valued at the highest of year-end exchange rate and historical exchange rate. In previous years, unrealized foreign exchange gains have been offset against unrealized foreign exchange losses and if the net result has been a foreign exchange gain, such gain has not been included in income. The change in valuation methods has resulted in a MSEK 118 decrease in 1988 income.

The rates of forward exchange contracts are used for valuing receivables 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.

(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) Adjusted Net Income per Share
Adjusted net income per share is based upon the average weighted number of common shares outstanding during each year as well as the average weighted number of common shares including the effect of the conversion of all convertible debentures.

The calculation of adjusted 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 adjusted net income per share are shown before and after conversion, respectively:

(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 net income per share in accordance with accounting principles generally accepted in the United States, see Note 22.

Note 1 Other Operating Revenues

Consolidated	1988	1987	1986
Gains/losses(–) on sale of property, plant and equipment	–30	165	85
Gains on sale of investments and operations	25	212	293
Commissions, license fees and other operating revenues	457	353	256
	452	730	634
Parent Company			
Gains/losses (–) on sale of property, plant and equipment	–69	136	–
Gains on sale of investments	258	115	334
Commissions, license fees and other operating revenues	478	328	450
	667	579	784

Note 2 Depreciation

Consolidated	1988	1987	1986
Total depreciation			
Land improvements	–39	41	2
Buildings	46	172	103
Telephone plants	36	41	43
Machinery and equipment	993	1,064	1,109
Revaluation adjustments	25	30	30
	1,061	1,348	1,287
Less – Depreciation in excess of standard depreciation related to assets sold	66	10	41
Total depreciation	995	1,338	1,246
Standard depreciation			
Land improvements	–38	42	2
Buildings	64	68	65
Telephone plants	36	41	43
Machinery and equipment	884	1,032	993
Revaluation adjustments	25	30	30
Total standard depreciation	971	1,213	1,133
Depreciation in excess of standard depreciation	–24	–125	–113
Parent Company			
Total depreciation			
Land improvements	–	–	–
Buildings	6	46	9
Machinery and equipment	144	166	162
Revaluation adjustments	14	14	14
	164	226	185
Less – Depreciation in excess of standard depreciation related to assets sold	75	37	5
Total depreciation	89	189	180
Standard depreciation			
Land improvements	1	1	1
Buildings	15	16	16
Machinery and equipment	168	182	184
Revaluation adjustments	14	14	14
Total standard depreciation	198	213	215
Changes in depreciation in excess of standard depreciation	+109	+24	+35

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

	1988	1987 *	1986 *
Public Telecommunications	1,929	1,359	1,264
Radio Communications	264	210	260
Business Communications	155	−2	−251
Network Engineering and Construction	195	187	163
Cables	295	210	280
Components	113	88	31
Defense Systems	−87	182	253
Other operations, capital gains and corporate expenses**	−186	−49	295
Ericsson, total	2,678	2,185	2,295

* Figures for 1987 and 1986 have been adjusted for share in earnings of associated companies.

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

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

Operating income attributable to operations divested within Information Systems is included in Other operations.

Note 4 Financial Income and Expenses

Consolidated	1988	1987	1986
Financial income			
Interest income	663	654	799
Dividends	3	7	11
Total financial income	666	661	810
Financial expenses			
Interest expenses	1,164	1,586	2,170
Gains and losses on foreign exchange, net	40	−105	−280
Other financial expenses	15	75	100
Total financial expenses	1,219	1,556	1,990
Financial net	−553	−895	−1,180
Parent Company			
Financial income			
Interest income	488	525	616
Dividends from subsidiaries	183	268	192
Dividends from others	28	30	18
Total financial income	699	823	826
Financial expenses			
Interest expenses	671	639	876
Gains and losses on foreign exchange, net	80	−77	−73
Other financial expenses	4	46	51
Total financial expenses	755	608	854
Financial net	−56	215	−28

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

For Latin American subsidiaries operating in countries with highly inflationary economies, and whose functional currency is the U.S. dollar, financial gains and losses on foreign exchange in 1988 have reduced interest income by MSEK 10 while interest expenses have been reduced by MSEK 258. For 1987 and 1986 these were included in gains and losses on foreign exchange.

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 Swedish national tax rate is 52 percent.

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.

Certain subsidiaries, mainly based in the United States and Argentina, had at December 31, 1988 tax loss carry-forwards, that can be utilized to reduce future taxable income, amounting to approximately MSEK 1,374. Such loss carry-forwards expire as follows (in millions):

Year of expiration	Amount
1989	47
1990	23
1991	20
1992	125
1993	11
1994	13
1995	12
1996	16
1997	323
1998 or later	784
	1,374

In addition, the Parent Company had at Decemer 31, 1988 unutilized tax deduction benefits related to its dividend payments. The benefits may be utilized during a period ending on December 31, 2008. According to present Swedish law, deductions are allowed in determining taxable income, provided that a certain dividend level is attained. If the proposed dividend for the year 1988 is applied to the unutilized benefits on December 31, 1988, an amount of MSEK 840 may be deducted in determining taxable income during the period ending on December 31, 2008. The Parent Company also has unutilized tax deduction benefits of MSEK 309 related to capital losses that may be utilized through 1994.

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. 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 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 1988, 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.

Appropriations to Other Untaxed Reserves

Consolidated	1988	1987	1986
Appropriations to Reserve for receivables and intercompany profits	−187	−117	−57
Transfer from Inventory reserve	+641	+265	+95
Transfer from General and Compulsory reserves for future capital expenditures, net	+2	+24	+34
Appropriations to Currency Exchange reserve	−196	–	–
	+260	+172	+72

Parent Company			
Appropriations to (−)/transfer from (+) Reserve for receivables and intercompany profits	−1	+30	−25
Transfer from Inventory reserve	+134	+15	+210
Appropriations to (−)/transfer from (+) General and Compulsory reserves for future capital expenditures, net	−20	−47	+71
	+113	−2	+256

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

	Consolidated			Parent Company		
	1988	1987	1986	1988	1987	1986
Appropriations to Reserves						
General reserve for future capital expenditures	35	2	9	35	–	–
Compulsory reserve for future capital expenditures	–	–	–	–	–	–
Development reserve	–	–	5	–	–	–
Replacement reserve	–	127	75	–	110	–
	35	129	89	35	110	–
Transfers from Reserves						
General reserve for future capital expenditures	15	119	103	–	45	17
General reserve for future capital expenditures transferred to Swedish subsidiaries	–	–	–	8	10	30
Compulsory reserve for future capital expenditures	–	–	7	–	–	–
Development reserve	22	34	13	15	4	3
Development reserve transferred to Swedish subsidiaries	–	–	–	−8	4	21
	37	153	123	15	63	71
Appropriations, net	+2	+24	+34	−20	−47	+71

Central Bank Deposits Related to Untaxed Reserves

	Consolidated		Parent Company	
	1988	1987	1988	1987
Account for General reserve for future capital expenditures	17	13	6	9
Account for Development reserve	40	65	9	4
	57	78	15	13

Note 6 Adjusted Net Income per Share

Consolidated	1988	1987	1986
Income before appropriations and taxes	1,840	1,108	911
Actual income taxes paid as reported*	−880	−488	−384
Minority interest in taxes paid	+73	+64	+42
Adjusted net income (after actual taxes paid)	1,033	684	569
Per share	27.06	17.90	14.96
Adjusted net income (after actual taxes paid)	1,033	684	569
Interest expenses on convertible debentures net of 50% income taxes	+55	+12	+1
Foreign exchange differences on convertible debentures, net	−42	+13	–
Adjusted net income (after actual taxes paid) after full conversion	1,046	709	570
Per share	24.07	17.79	14.93

Consolidated			
Adjusted net income (after actual taxes paid)	1,033	684	569
Estimated deferred taxes on appropriations	+140	+45	+53
Minority interest in estimated deferred taxes	+22	+7	+32
Adjusted net income (after actual and estimated deferred taxes)	1,195	736	654
Per share	31.29	19.26	17.21
Adjusted net income (after actual and estimated deferred taxes)	1,195	736	654
Interest expenses on convertible debentures net of 50% income taxes	+55	+12	+1
Foreign exchange differences on convertible debentures, net	−42	+13	–
Adjusted net income (after actual and estimated deferred taxes) after full conversion	1,208	761	655
Per share	27.79	19.09	17.17

* Actual taxes paid in 1988 include estimated deferred taxes of MSEK 115 attributable to untaxed reserves in companies sold.

Weighted average number of shares outstanding:
1988 – 38,166,746
1987 – 38,162,382
1986 – 38,010,992

Weighted average number of shares outstanding after full conversion:
1988 – 43,434,582
1987 – 39,863,788
1986 – 38,166,553

Note 7 Cash, Bank Deposits and Short-Term Cash Investments

	Consolidated		Parent Company	
	1988	1987	1988	1987
Cash and bank deposits	1,608	2,086	267	813
Short-term cash investments	2,172	1,305	1,840	1,052
	3,780	3,391	2,107	1,865

Note 8 Notes and Accounts Receivable – Trade

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Due within 12 months				
Subsidiary companies				
Accounts receivable	–	–	1,504	782
Notes receivable	–	–	84	58
	–	–	1,588	840
Other				
Accounts receivable	10,084	10,132	1,412	2,113
Notes receivable	75	103	56	68
	10,159	10,235	1,468	2,181
Due after 12 months				
Subsidiary companies				
Accounts receivable	–	–	89	8
Notes receivable	–	–	–	–
	–	–	89	8
Other				
Accounts receivable	273	258	186	1
Notes receivable	185	241	155	232
	458	499	341	233

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 9 Other Current Assets

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Prepaid expenses and accrued revenues	575	404	195	142
Advances to suppliers	251	193	–	5
Other current assets	1,661	1,258	1,005	478
	2,487	1,855	1,200	625

Note 10 Investments

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company.

A complete listing of shareholdings, prepared in accordance with the Swedish Companies Act and filed with the Swedish Patent and Registration Office, may be obtained upon request to Telefonaktiebolaget LM Ericsson, Corporate Financial Control, S-126 25 Stockholm, Sweden.

Shares directly owned by the Parent Company

				Percentage of ownership		Par value	Carrying value
Subsidiaries Sweden	IV	ELLEMTEL Utvecklings AB	*Sweden*	50	SEK	5	6
	I	Ericsson Business Communications AB	*Sweden*	100	SEK	360	349
	I	Ericsson Cables AB	*Sweden*	100	SEK	140	140
	I	Ericsson Components AB	*Sweden*	100	SEK	58	49
	I	Ericsson Radar Electronics AB	*Sweden*	100	SEK	30	128
	I	Ericsson Radio Systems AB	*Sweden*	100	SEK	50	154
	I	Ericsson Network Engineering AB	*Sweden*	100	SEK	25	26
	III	Ericsson Sverige AB	*Sweden*	100	SEK	45	45
	I	Ericsson Telecom AB	*Sweden*	100	SEK	–	–
	I	Radiosystem Sweden AB	*Sweden*	100	SEK	20	20
		Other		–	SEK	–	180
Europe (excluding Sweden)	III	Ericsson Treasury Ireland Ltd.	*Ireland*	100	USD	81	503
	III	LM Ericsson Holdings Ltd.	*Ireland*	100	IEP	2	14
	III	SETEMER S.p.A.	*Italy*	71	ITL	15,259	97
	III	Ericsson Holding Company bv	*The Netherlands*	100	NLG	175	556
	III	Swedish Ericsson Company Ltd.	*United Kingdom*	100	GBP	34	343
		Other		–		–	12
U.S.A. and Canada	I	Ericsson Communications Inc.	*Canada*	100	CAD	n.p.v.	57
	III	Ericsson North America Inc.	*United States*	100	USD	n.p.v.	1,792
	I	FTU Corporation	*United States*	100	USD	–	80
		Other		–		–	2
Latin America	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	Ericsson de Colombia S.A.	*Colombia*	92*	COP	221	27
	I	Teleindustria Ericsson S.A.	*Mexico*	72	MXP	n.p.v.	278
	I	Cía Anónima Ericsson	*Venezuela*	100	VEB	10	10
		Other		–		–	52
Other Countries	III	Teleric Pty. Ltd.	*Australia*	100	AUD	20	99
	I	Ericsson Telecommunications Sdn Bhd	*Malaysia*	70	MYR	2	4
		Other		–		–	30
					Total	–	5,080
Associated Companies	I	Ericsson do Brasil Comércio e Indústria S.A.	*Brazil*	58**	BRC	534	95
	I	MET S.A.	*France*	20****	FRF	50	53
	I	Perwira Ericsson Sdn Bhd	*Malaysia*	40	MYR	2	5
	I	Oriental Telecommunication Company Ltd.	*Republic of Korea*	50	KRW	3,000	29
		Other		–		–	13
					Total	–	195
Other Companies	V	AB LM Ericsson Finans	*Sweden*	75***	SEK	24	26
		Other		–		–	23
					Total	–	49

Shares owned by the subsidiaries

				Percentage of ownership
Subsidiaries Sweden	I	Ericsson Radio Systems Sverige AB	*Sweden*	100
	I	Svenska Elgrossist AB, SELGA	*Sweden*	67
Europe (excluding Sweden)	I	Ericsson Business Communications NV/SA	*Belgium*	100
	I	LM Ericsson A/S	*Denmark*	100
	I	Oy LM Ericsson Ab	*Finland*	100
	I	LM Ericsson Ltd.	*Ireland*	100
	I	FATME S.p.A.	*Italy*	71
	I	FIAR S.p.A.	*Italy*	45
	I	SIELTE S.p.A.	*Italy*	71
	III	Ericsson Holding A/S	*Norway*	100
	I	Industrias de Telecomunicación S.A. (Intelsa)	*Spain*	100
	I	Ericsson Telecommunicatie bv	*The Netherlands*	100
	I	Ericsson Ltd.	*United Kingdom*	100
U.S.A.	I	Ericsson, Inc.	*United States*	100
Latin America	I	Industrias Eléctricas de Quilmes S.A.	*Argentina*	100
	I	Fábricas Colombianas de Materiales Eléctricos Facomec S.A.	*Colombia*	100
	I	Ericsson de Guatemala S.A.	*Guatemala*	71
	I	Telecomponentes Ericsson S.A. de C.V.	*Mexico*	73
Other Countries	I	LM Ericsson Pty. Ltd.	*Australia*	100
	I	Ericsson Network Engineering Pty. Ltd.	*Singapore*	100
	I	Ericsson Sebeke Insaati A.S.	*Turkey*	100
Associated Companies	I	Fios e Cabos Plásticos do Brasil S.A.	*Brazil*	30
	I	Conductores Latincasa S.A. de C.V.	*Mexico*	32

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 total 0.5 %.
**** Including holdings of associated companies, total holdings in MET S.A. amount to 26%.

Not 11 Other Noncurrent Assets

Consolidated	1988	1987
Goodwill, net		
Balance, January 1	150	7
Aquisitions/divestments	388	135
Depreciation	–63	8
Net carrying value, December 31	475	150
Other noncurrent assets	1,229	973
	1,704	1,123

Note 12 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 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Cost				
Land	116	127	31	31
Land improvements	18	60	19	19
Buildings	2,202	2,280	635	677
Telephone plants	973	873	–	–
Machinery and equipment	8,221	8,827	1,849	1,992
Construction in progress	661	471	126	76
	12,191	12,638	2,660	2,795
Accumulated standard depreciation				
Land improvements	22	62	10	9
Buildings	661	676	245	263
Telephone plants	390	346	–	–
Machinery and equipment	4,953	5,278	1,156	1,180
	6,026	6,362	1,411	1,452
Net carrying value	6,165	6,276	1,249	1,343

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Accumulated total depreciation				
Land improvements	41	82	15	15
Buildings	1,097*	1,155*	274*	307*
Telephone plants	390	346	–	–
Machinery and equipment	6,086	6,343	1,505	1,622
	7,614	7,926	1,794	1,944
Accumulated depreciation in excess of standard depreciation	1,588	1,564	383	492
*After transfer of accumulated depreciation in excess of standard depreciation to Revaluation reserve of	386	386	303	303
Revaluation adjustments				
Land	192	176	148	148
Buildings	589	635	336	337
Machinery and equipment	148	96	–	–
	929	907	484	485
Less – Accumulated depreciation				
Buildings	298	313	224	211
Machinery and equipment	117	92	–	–
	415	405	224	211
Net carrying value	514	502	260	274
Tax assessment values (Sweden)				
Land and land improvements	472	264	321	184
Buildings	1,305	994	791	573

Note 13 Short-Term Borrowings

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

The unused portion of lines of credit for the Company amounted to MSEK 3,019. In addition, the Parent Company had unused long-term lines of crédit amounting to MSEK 615.

Note 14 Other Current Liabilities

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Accrued expenses and prepaid revenues	3,287	2,650	946	669
Other	2,042	2,101	371	495
	5,329	4,751	1,317	1,164

Note 15 Debentures and Other Long-Term Liabilities

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

Parent Company	1988	1987
(excl. liabilities to subsidiary companies)		
Debentures (maturing from 1989 to 2004) bearing interest from 7.3% to 13% at December 31, 1988	1,654	1,608
Other long-term loans (maturing from 1989 to 2003), bearing interest from 7.3% to 13.2% at December 31, 1988	422	354
Other long-term liabilities	122	133
	2,198	2,095
Less – Current maturities	424	65
Total Parent Company	1,774	2,030
Remeasurement using year-end exchange rate*	–75	–

Subsidiaries	1988	1987
Mortgage and other collateralized loans (maturing from 1989 to 2004), at December 31, 1988	633	875
Other long-term loans (maturing from 1989 to 2013) at December 31, 1988	477	720
Other long-term liabilities	266	428
	1,376	2,023
Less – Current maturities	300	507
Total Subsidiaries	1,076	1,516
Total	2,775	3,546

* MSEK 50 attributable to current maturities.

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 MSEK 6, at December 31, 1988 were as follows:

1990	674
1991	851
1992	185
1993	154
1994	115
1995 and thereafter through 2013	536
	2,515

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

USD	641
SEK	995
ITL	262
DKK	285
FIM	91
ESP	174
Other currencies	67
	2,515

Note 16 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 MCHF 135 (convertible to 1,735,122 B shares) with interest at 2.75 percent. The second loan was in the amount of MUSD 60 (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).

The third debenture loan was issued during the autumn of 1987, exclusively to employees, in the amount of MSEK 626.4 (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. MSEK 43.7 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 MSEK 1.5, and MSEK 582.7 to other employees (18,620 persons) in blocks in the maximum amount of SEK 33,125.

During 1988 debentures amounting to MCHF 4.1 were converted into 52,242 shares. As a result, the capital stock increased by MSEK 3 to MSEK 1,911 and the number of shares increased to 38,214,624.

If all the outstanding debentures corresponding to the three loans were converted, the number of shares would increase by 5,219,958.

Additional debentures amounting to MCHF 29.2 have been converted into 375,792 shares during the period January 1 to February 15, 1989. Consequently, the total number of shares entitled to a dividend on the record date amount to 38,590,416.

Note 17 Pension Liabilities

The pension liabilities, MSEK 3,437, include the Parent Company's and the Swedish companies' obligations in the amount of MSEK 2,567 in 1988 and MSEK 2,573 in 1987 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, MSEK 1,210, include an obligation in the amount of MSEK 1,116 in 1988 and MSEK 1,075 in 1987 in accordance with its agreement with PRI.

Note 18 Stockholders' Equity

Capital Stock at December 31, 1988 consisted of the following:

	Number of shares outstanding	Aggregate par value
A shares (par value SEK 50)	3,728,515	186
B shares (par value SEK 50)	34,486,109	1,725
	38,214,624	1,911

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 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 1988 include earnings in associated companies amounting to MSEK 175.

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

Consolidated	Capital stock	Reserves not available for distribution	Cumulative translation adjustments	Available retained earnings	Total
Balance, January 1, 1988	1,908	4,752	−197	1,005	7,468
Appropriations to legal reserves	–	341	–	−341	–
Conversion of debentures	3	16	–	–	19
Dividends	–	–	–	−344	−344
Changes in cumulative translation adjustments	–	–	113	–	113
Revaluation of fixed assets	–	53	–	5	58
Net income for 1988	–	–	–	1,313	1,313
Balance December 31, 1988	1,911	5,162	−84	1,638	8,627

The increase of MSEK 3 in capital stock resulting from conversion of debentures was not registered with the Patent and Registration Office on December 31, 1988. Registration was made in 1989.

Of the retained earnings, MSEK 44 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.

Parent Company	Capital stock	Reserves not available for distribution	Available retained earnings	Total
Balance, January 1, 1988	1,908	2,297	989	5,194
Conversion of debentures	3	16	–	19
Dividends	–	–	−344	−344
Net income for 1988	–	–	578	578
Balance, December 31, 1988	1,911	2,313	1,223	5,447

Note 19 Assets Pledged as Collateral

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Real estate mortgages	409	625	110	110
Other mortgages	629	1,126	160	420
Shares	–	321	–	234
Accounts receivable – trade	3	17	–	–
Bank deposits	2	4	–	–
	1,043	2,093	270	764

At December 31, 1988, 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 20 Contingent Liabilities

	Consolidated 1988	Consolidated 1987	Parent Company 1988	Parent Company 1987
Discounted notes receivable	23	64	–	–
Receivables sold with recourse	671	484	665	380
Other guarantees	933	1,063	1,718	1,847
	1,627	1,611	2,383	2,227

Of the guarantees assumed by the Parent Company, MSEK 1,271 in 1988 and MSEK 1,296 in 1987 related to subsidiary companies.

Note 21 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 10.

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 MSEK 71 in 1988, MSEK 50 in 1987 and MSEK 56 in 1986.

Undistributed earnings of associated companies included in consolidated equity were MSEK 602 in 1988, MSEK 520 in 1987 and MSEK 404 in 1986.

Note 22 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 United States.

(d) Business Combination Adjustments
In accordance with Swedish accounting practice, the Company shows negative goodwill as a deferred credit which is released as income over a period not exceeding ten years (also see Accounting Policies (b) and Note 11). 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 tax 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. As described under Accounting Policies (d), receivables and liabilities in foreign currencies have been translated at year-end exchange rates. Thereafter the receivables and liabilities are translated using the lowest or highest of year-end exchange rate and historical rate of exchange, respectively. The difference resulting from applying the two valuation methods described above is included in untaxed reserves and the change during the period is included in appropriations to untaxed reserves (see Note 5). In 1987, all noncurrent receivables and liabilities were translated at the year-end exchange rate, which resulted 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 and 1988.

(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. The liability attributable to a 1986 sale has effected income in 1988 when the lease contract was transferred. In accordance 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.

Net income per share has been calculated on the annual weighted average number of shares outstanding as well as the annual weighted average number of shares after full conversion of outstanding convertible debentures (also see Note 6).

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.

	1988	1987	1986
(MSEK, except per share amounts)			
Net income as reported in the consolidated income statements	1,313	735	563
Items increasing reported income:			
Depreciation on revaluation adjustments including effect on sale	47	34	39
Capitalization of interest expenses	28	17	28
Business combination adjustments	65	6	22
Tax effects of intercompany transactions	258	−36	−67
Sale of property	34	−132	−33
	432	−111	−11
Items decreasing reported income:			
Deferred income taxes	223	−261	−125
Appropriations, including depreciation in excess of standard depreciation	280	51	−6
Income taxes on undistributed earnings of associated companies	14	7	9
Translation of noncurrent receivables and long-term liabilities	–	170	20
	517	−33	−102
Net increase/decrease (−) in reported net income	−85	−78	91
Approximate net income in accordance with accounting principles generally accepted in the United States	1,228	657	654
Approximate net income per share in accordance with accounting principles generally accepted in the United States	32.17	17.22	17.21
after full conversion	29.05	16.79	17.21

(k) Stockholders' Equity	1988	1987	1986
Approximate stockholders' equity in accordance with accounting principles generally accepted in the United States	9,694	8,684	8,605

Supplementary Information Required under the Swedish Companies Act

Average Number of Employees and Remuneration in 1988

	Consolidated		Parent Company	
	Average number of employees	Remuneration	Average number of employees	Remuneration
Sweden	29,405	4,123	11,528	1,628
Other countries	32,709	4,226	415	61
	62,114	8,349	11,943	1,689
Paid to Board of Directors, President and Corporate Executive Vice Presidents				7

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

The Parent Company has operational units with 20 or more employees in 9 Swedish municipalities and has operations in 20 countries. On a consolidated basis there are 35 operational units in Sweden and operations in 57 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 MSEK 9,211 (MSEK 8,120), of which exports accounted for 82 (75) percent. Consolidated companies were customers for 61 (51) percent of the Parent Company's sales, while 55 (51) percent of the Company's total purchases of goods and services were from such companies.

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

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

Loans totaling MSEK 6 have been made to a total of 3,000 employees for the purchase of shares in LM Ericsson's Share Saving Fund. Assets totaling MSEK 5 have been pledged as collateral for loans obtained by employees for the purchase of housing.

Publications for Investors

Financial publications, including 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, Ericsson Media, S-126 25 Stockholm, Sweden.

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 1988 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 1988.

Stockholm, March 10, 1989

David Jones
Chartered Accountant
Price Waterhouse

Nils-Axel Frisk

Olof Herolf
Swedish Authorized Public Accountant
Price Waterhouse

Personnel

Ericsson attaches great weight to the personal development and expertise of its employees and accordingly invests heavily in programs to increase and stimulate the motivation and involvement of its personnel. Job content, the work environment, performance requirements and compensation programs are evaluated on a continuing basis. The objective is to provide the best possible benefits and security for the employees. Regulations and action programs are designed to create a sense of unity within Ericsson.

Opportunities for job rotation are provided. Priority is given to internal recruitment. Applicants for jobs have equal opportunities and are assigned on the basis of criteria related to the position in question.

Ericsson has a continuous need for qualified personnel. The most important sources of recruits are the graduating classes from various schools. Those who are employed are given further training, for future jobs and needs as well as current ones.

To assure that employees' expertise keeps pace with today's rapid developments, Ericsson works with various training organizations, primarily in the technical field. This cooperation is developed in a number of ways. Grants are made for research. Employees attend college courses and work toward doctoral and other degrees. Ericsson specialists serve as adjunct professors.

Executive development

As part of the program to improve operating results, executive training has been intensified. A number of international seminars for approximately 200 top managers have provided the base for a Company-wide Ericsson Management Program (EMP). One of the objectives is to integrate the organization as an industrial unit that transcends national boundaries.

Ericsson works closely with, and utilizes the services of, leading management training experts and institutions.

Employee and organizational development

To evaluate and develop the motivation and involvement of its employees, Ericsson has introduced a program that has been designated OPUS (a Swedish acronym for opinion poll). The situation within an organization is determined through surveys, following which the employees involved are given an opportunity to discuss and correct possible problems with managers at various levels.

OPUS studies, which cover all employees, are conducted on a regular basis and the results for Ericsson as a whole are summarized. This makes it possible to monitor changes and to make appropriate timely decisions in dealing with developments.

The OPUS index of employees' motivation has gradually improved and has become increasingly reliable.

Funds and grants

Grants totaling MSEK 1.2 were made to eleven recipients in 1988. Four of the awards were given to employees based in Sweden and the remainder went to employees in Algeria, Brazil, Mexico and the United States.

The Björn Lundvall Award makes it possible for employees to visit Ericsson companies in other parts of the world for a period of about one week. The purpose is to enable them to broaden their knowledge and to promote understanding and cooperation among the various units.

Sixteen Björn Lundvall Awards were distributed in 1988. Six of the recipients were employed in Sweden and the others worked in Australia, Brazil, Ecuador, Egypt, Great Britain, Ireland, Mexico, Spain, Uruguay and the United States.

A number of local grants were also made.

Leisure-time activities

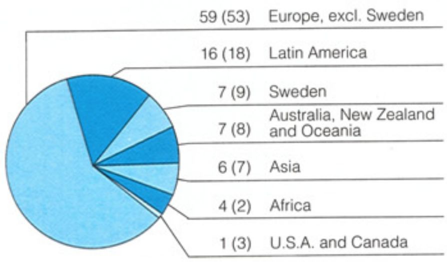
Ericsson companies throughout the world sponsor club activities, exercise programs, sports competitions and other activities for employees and their families.

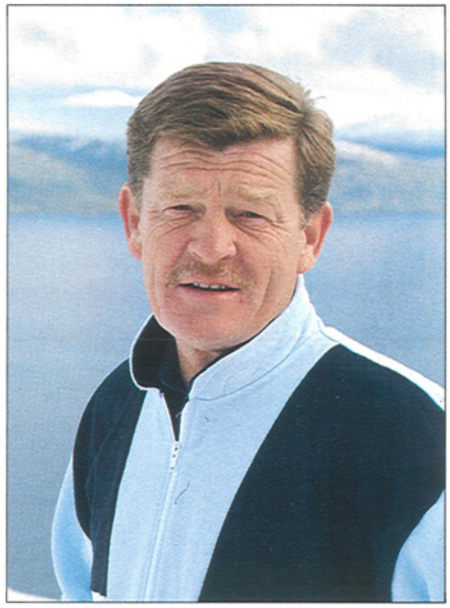
Leisure-time activities at the various work sites are supported financially by Ericsson.

Ericsson has a continuous need for qualified manpower and womanpower. In order to attract new graduates of colleges and universities, it is important that the Company be perceived as an attractive place to work.

AXE: A leading international system European market increases in importance

Geographic distribution of external sales, percent.





Jan Stenberg

Sales in 1988 amounted to MSEK 14,979

Operations are focused on the development, production and installation of telecommunications equipment for telecom operators (percentage of total sales within parentheses).

Telephone exchanges (82%)

Transmission equipment (10%)

Telex and data processing equipment (2%)

Revenues from telephone operations and miscellaneous activities each amounted to 3% of sales.

Industrialized countries are major customers

The AXE system's position as the international leader among telecommunications systems was consolidated during 1988. The year was a highly favorable one and a large number of substantial orders were obtained. The large customer countries include Great Britain, Spain, Mexico, the People's Republic of China, Saudi Arabia and several of the Nordic countries.

As was the case in 1987, the largest orders were received from some of the industrialized countries. The heavy investments made earlier to strengthen the position of the AXE system in these markets has proved to be correct.

The versatility of the AXE system was demonstrated through the receipt of large orders for AXE as the exchange in the rapidly expanding networks for mobile telephony.

Stronger position in Great Britain

During the year, with the purchase of Thorn EMI's 51-percent interest in a company formerly owned jointly for business in Great Britain, Ericsson became the sole owner of Ericsson Ltd. The purchase price was approximately MSEK 300.

Great Britain is the largest single market for AXE. Total orders booked from British Telecom during the year amounted to more than one million local lines. The millionth line was handed over to British Telecom early in 1989.

Ericsson also signed a substantial contract with Racal Vodafone covering delivery of 17 AXE exchanges for mobile telephony and transit traffic. Racal now has a total of 27 AXE exchanges in service or on order.

Mercury Telecommunications, which is owned by Cable & Wireless, ordered an international AXE exchange from Ericsson, making Mercury the third British telecommunications company to use the AXE system.

Spain: Strong expansion of telecommunications

In Spain, where the trend of the economy was favorable, the telecommunications network was expanded sharply during 1988.

The high rate of capital expenditures is expected to continue. The AXE system gained market shares and the volume of deliveries more than doubled, compared with 1987. During the year, Intelsa, Ericsson's Spanish subsidiary, received substantial orders for transmission equipment. These contracts represented a breakthrough in addition to sales of AXE.

Exports from Italy
Ericsson's share of the market in Italy increased during the year. An important breakthrough was recorded in the Rome area, where AXE is to be delivered for use as transit exchanges. At the end of the year a contract was signed covering AXE exchanges to be exported to Malta from FATME, the Italian subsidiary.

Orders for AXE from Greece
Ericsson achieved a breakthrough in the Greek market during 1988. AXE exchanges will be delivered from Sweden and from Intracom, a Greek licensee partner.

Restraint in the U.S. market
Growth in the American market was weak during the year. The rate of replacement of older exchanges continued to decline and total installations of telephone exchanges decreased, compared with the preceding year.

At year-end, excluding exchanges in mobile telephone systems, 190,000 lines of AXE had been installed and another 100,000 lines were on order, plus AXE for cellular radio systems.

Continuing strong growth in China
The trend of sales in the People's Republic of China has been highly favorable. Many large contracts were signed during the year, establishing Ericsson as the dominant supplier of equipment for public telecommunications.

One million AXE lines in Australia
Australia is one of Ericsson's largest and most important markets. The number of AXE lines installed in the country passed one million during the year.

A number of exchanges for use in an ISDN (Integrated Services Digital Network) were handed over to the Australian PTT at the end of the year. The exchanges are part of a network providing advanced telecommunications services for business subscribers. This network, the first of its type in the world, offers data communications parallel with telephony over the switched connections.

Important orders from the Middle East and North Africa
Over a period of a quarter of a century, Ericsson has participated in the build-up of Saudi Arabia's telecommunications network, which is now one of the most advanced in the world. An order worth half a billion Swedish kronor, covering telephone exchanges and transmission equipment, was received during the year.

In Algeria, the PTT signed a contract for the purchase of additional AXE exchanges and transmission equipment. Simultaneously an agreement covering local production was signed. Authorities in Tunisia placed an order calling for the delivery of 20,000 AXE lines. In both Algeria and Tunisia, the contracts represented follow-ons to earlier large deliveries.

Markets in Latin America continue to be important
Latin America is still a major market and stronghold for Ericsson.

A general agreement was signed during 1988 with the Mexican telecommunications administration. The order, in an amount of SEK 1.5 billion, comprises AXE equipment to be delivered mainly during 1990. In all, Ericsson received orders valued at slightly more than SEK 2.5 billion in Mexico during 1988. Ericsson is the leading supplier of telecom equipment in the Mexican market.

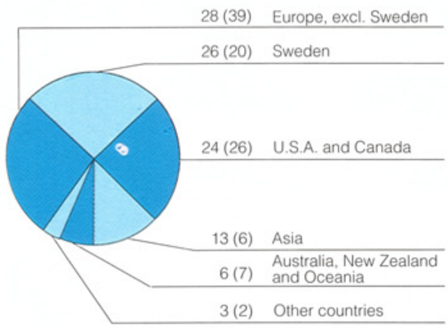
Ericsson's business in Colombia picked up following several slow years. In Brazil, the weaker economy had a restraining effect on order bookings.

The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	15,868	44.5%	11,687	35.0%	10,268	31.3%
Net sales, external	13,677	43.7%	10,901	33.6%	10,316	32.6%
Net sales, internal	1,302	–	1,346	–	1,190	–
Operating income after depreciation	1,929	–	1,359	–	1,264	–
Employees	32,386	49.7%	29,854	42.1%	29,250	40.3%

Continuing to be a world leader in mobile telephony and personal paging

Geographic distribution of external sales, percent.



Lars Ramqvist
(Became manager of Business Area October 1, 1988, succeeding Åke Lundqvist)

Sales in 1988 amounted to MSEK 4,836
The Business Area comprises the following product areas (percentage of total sales within parentheses):
Mobile telephone systems (51%)
Defense communications (16%)
Mobile telephones (13%)
Personal paging systems (11%)
Mobile voice and data systems (7%)
Miscellaneous operations (2%)

Part of the increase in order bookings and sales in 1988 was attributable to the transfer of Defense communications operations from the Defense Systems Business Area. The profitability of private mobile radio operations was unsatisfactory, which affected the Business Area's earnings.

Mobile communications growing rapidly

The Radio Communications Business Area showed strong growth in 1988. Major successes were recorded primarily by mobile telephone systems, along with HotLine mobile telephones.

The personal paging business also showed stable growth. The head office and production facilities are located in the Netherlands, where planning for a new factory was begun. Ericsson has 40 percent of the European market for local personal paging systems.

Sales in the Defense communications product sector rose significantly. In contrast, order bookings in this distinctively project-oriented segment were weak. A number of orders were deferred, which may have an effect during 1990 and 1991.

Mobile telephony – a boom market

There was continuing strong growth in existing analog mobile telephone systems in the United States, Canada, Great Britain, Scandinavia, Australia and other areas. In addition, orders for new systems were received in Italy, China, Hong Kong and the United States. A large U.S. order involves replacing a system in Florida to achieve greater geographic coverage and higher capacity.

Ericsson, in a partnership with Matra, the French company, was also selected as a supplier for the new "GSM" digital Pan-European mobile telephone system. Racal Vodafone ordered a system that is scheduled to be in service in Great Britain in 1991. In France, a system serving the Paris area will be delivered.

Successful demonstrations of Ericsson's digital mobile telephone system based on TDMA (Time Division Multiple Access) technology were carried out in Los Angeles during 1988 and in January 1989 this technology was selected as the American standard. This is the same principle that will be used in the Pan-European mobile telephone system in the 1990s.

40-percent world market share
Again in 1988, despite the exceptionally strong growth in volume in the sector, Ericsson maintained a 40-percent share of the world market for systems used in mobile telephony. One mobile telephone out of four in the highly competitive U.S. market is connected to an Ericsson system.

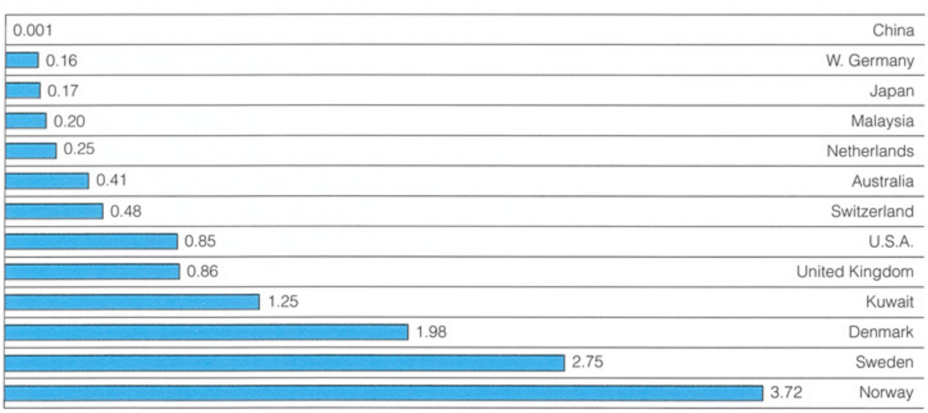
Mobitex for mobile data transmission
Following a period of careful testing in Sweden, the first large order for the Mobitex digital mobile data transmission system, a joint project of Ericsson and the Swedish Telecommunications Administration, was received outside Scandinavia. Cantel Inc., Ericsson's mobile telephony customer in Canada, is building a mobile data network covering all of Canada, with service being offered initially in Toronto and Montreal. Substantial interest in the system was also shown in the United States.

Increase in capacity
The Business Area's Swedish factories in Gävle and Kumla were expanded parallel with the increasing order bookings for mobile telephony equipment. The purchase of Radiosystem Sweden AB not only strengthened production capacity but reinforced research and development capabilities in the radio field. Planning for a new factory for personal pagers in Emmen, the Netherlands was begun.

Mobile communications in the 1990s
The rapidly expanding need for mobile communications is attracting many new players to this market. There were 3.9 million mobile telephones throughout the world in 1988. It is estimated that the number will have reached 50 million by the year 2000. If this is to occur, the prices of both subscriber services and products will have to come down. This, in turn, will require continuing heavy investments in research and development.

There is also a risk of overcrowding in this attractive market. The initial procurement programs for the Pan-European mobile telephone system revealed a fragmented picture of the players. Many new consortia were involved. Ericsson is concentrating on continuing to maintain a strong position in mobile communications based on its present position as a world leader and strong performance in research and development.

Penetration in countries
Number of mobile telephone subscribers per 100 inhabitants. January 1989.



Source: Ericsson

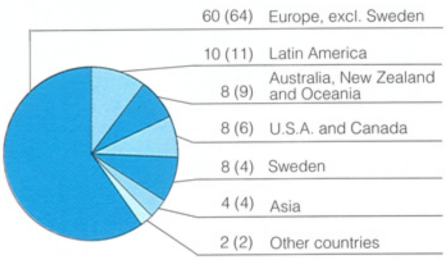
The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	5,107	14.3%	3,267	9.8%	2,362	7.2%
Net sales, external	4,745	15.2%	2,839	8.8%	2,688	8.5%
Net sales, internal	91	–	44	–	64	–
Operating income after depreciation	264	–	210	–	260	–
Employees	6,298	9.7%	4,777	6.7%	4,587	6.3%

Business Communications

Customer-oriented communications systems centered on the MD110 subscriber exchange

Geographic distribution of external sales, percent.



Sales in 1988 amounted to MSEK 3,703
The Business Area is active in the following product areas (percentage of sales within parentheses):
MD110 subscriber exchange (51%)
Other subscriber exchanges (26%)
Telephone instruments (13%)
Eripax Data Network, modems and other products (10%)

The Business Area was restructured, effective April 1, 1988, following the divestment of operations in the Data Systems and Office Equipment divisions. Activities are now concentrated on communications systems, with the MD110 subscriber exchange as the core product.

A strong increase in sales, combined with continued measures to increase operating efficiency, resulted in a substantial improvement in earnings, compared with 1987.

Ronny Lejdemalm

Large order in the U.S.

During the year the Business Area received one of the largest orders ever placed for subscriber exchanges. The University of Massachusetts ordered an MD110 network with 34,000 extensions, under a contract valued at MSEK 190. Successes for the MD110 in the U.S. market included a number of sales to other universities and a framework agreement with the Los Angeles County Office of Education.

Increased market shares in Europe

The Business Area has a strong position in Europe, where its market shares have increased steadily. Important orders for the Eripax Data Network were received in Great Britain. A system of this type was installed at the London Stock Exchange.

In West Germany, contracts for MD110 were received from Lufthansa, the University of Bremen and other customers.

License agreement with People's Republic of China

During the year an agreement was concluded covering production of the MD110 in the People's Republic of China. The agreement provides for cooperation in the form of transfer of know-how, as well as local manufacturing.

ISDN field tests

Field tests of the use of MD110 exchanges in ISDN (Integrated Services Digital Network) were conducted in a number of countries. An advanced test in which MD110 was connected with AXE was carried out at the end of the year in Australia in association with Telecom Australia.

New small office exchange

A new office exchange, the BCS 150, designed for small to medium-size companies that require up to 150 extensions, was introduced during the year. The exchange is highly advanced technically and is one of the first in the world to offer forwarding of voice messages as a standard feature. It also permits the exchange of text messages. Each telephone instrument is equipped with a keyboard for entering the message, and with a text display screen.

Strong increase in sales of networks for data communications

Sales of private networks for data communication increased sharply in a rapidly expanding market. The Business Area recorded substantial successes in this field in Italy, Mexico. Sweden and Great Britain.

Production of telephones to be moved

During the autumn of 1988 Ericsson announced plans to discontinue production of telephone instruments in Karlskrona (Sweden) not later than 1991. The Business Area will in the future locate this production in Southeast Asia, among other sites. Telephone instruments are also being manufactured in Ericsson plants in the Netherlands, Finland and Mexico, as well as on license in India.

Deregulation in Europe

Deregulation in the fields of subscriber exchanges and telephone instruments is continuing in Europe. The market in Norway was deregulated during 1988, and the Swedish and Dutch markets will similarly be open for competition in 1989.

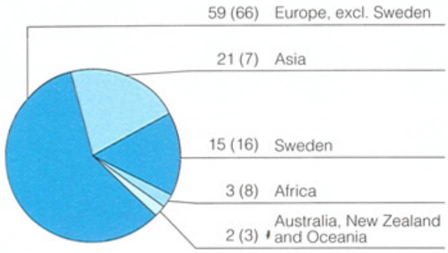
The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	4,113	11.6%	3,303	9.9%	3,030	9.2%
Net sales, external	3,540	11.3%	3,139	9.7%	3,078	9.7%
Net sales, internal	163	–	175	–	160	–
Operating income after depreciation	155	–	−2	–	−251	–
Employees	7,138	11.0%	6,580	9.3%	7,085	9.8%

Network Engineering and Construction

Strong expansion during 1988
Order bookings increased 40%

Geographic distribution of external sales, percent.



Sales in 1988 amounted to MSEK 3,086.

In 1988, the Business Area comprised two product areas (percentage of total sales within parentheses):

Network construction, including planning and construction of telecommunications networks, data networks and telesignaling installations (79%)

Signal systems, including signaling and safety systems for rail traffic, as well as street and highway signaling systems (21%).

Björn Linton
(Succeeded by Lars Berg February 1, 1989)

The Network Engineering and Construction Business Area expanded sharply in 1988, with an increase of 40 percent in order bookings. Income rose for the fourth year in a row.

Italy, the Business Area's largest market by far, developed favorably during the year in terms of both network construction and signaling systems.

Saudi Arabia again a large customer

A number of large contracts were received in the Middle East during the year, notably in Saudi Arabia. There are good prospects for additional orders in this country, particularly in the field of dedicated networks: facilities especially adapted for corporations and public authorities. Following several years of declining orders, Saudi Arabia has again become one of the Business Area's largest markets.

Southeast Asia an important market

The Business Area's operations also continued to expand in Southeast Asia. The large network construction project in Thailand is proceeding on schedule. The prospects for continuing projects in Thailand are good, offering the Business Area probably its greatest future potential in the region. A new operation was established in the Philippines.

Important markets for data networks in Europe

The rapid increase in business in the field of data networks continued in Sweden. Italy is another market in which data network operations expanded. During the year efforts to enter additional markets in Western Europe were intensified.

Important orders for data networks, including one from a bank in London, were received in Great Britain. British Telecom placed orders for the public network.

Wholly owned company in Turkey

The Business Area's position in the Turkish market was strengthened through the acquisition of the outstanding shares of Ericsson Sebeke Insaati A.S., the former joint venture network construction company. The company developed favorably during 1988.

Agreement on ATC in France

Substantial orders for signaling equipment were placed in Sweden, where one of the larger railway projects involved the Stockholm Central Station. At year-end a licensing agreement was signed with Alsthom, a French company, covering ATC (Automatic Train Control) equipment for the French State Railways.

Restructuring of the Business Area was intensified during the latter part of the year. The Sweden Division within Ericsson Network Engineering AB was transferred to the newly formed company Ericsson Sverige AB, and preparations were made to bring the Network Engineering and Construction Business Area and the Cables Business Area closer together. In the beginning of 1989 negotiations on the divestment of Signal systems were initiated. Ericsson is thereby continuing to consolidate its resources in the core business, telecommunications.

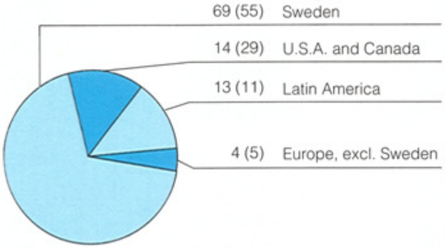
The Business Area in brief MSEK and percentage of Ericsson totals

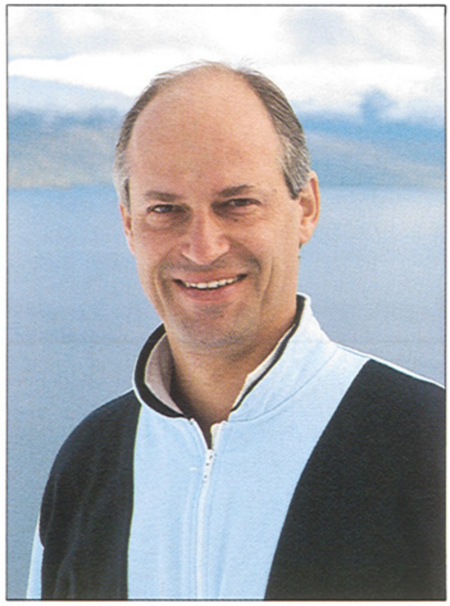
	1988		1987		1986	
Order bookings, external	3,551	10.0%	2,540	7.6%	2,349	7.2%
Net sales, external	2,850	9.1%	2,217	6.8%	2,201	7.0%
Net sales, internal	236	–	267	–	134	–
Operating income after depreciation	195	–	187	–	163	–
Employees	6,225	9.5%	5,531	7.8%	5,570	7.7%

Cables

Sharp improvement in earnings
Stronger position in Sweden

Geographic distribution of external sales, percent.





Lars Berg

Sales in 1988 amounted to MSEK 2,983.

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

Power cable used for the distribution of electric power (33%)

Telecommunications cable used for the transmission of telecommunications (20%)

Specialty cables, including cables used in the data processing industry (7%)

Business Area operations also include harness cables and seat heaters, fiber optical equipment and components, as well as electrical equipment wholesaling (40%)

The decrease in sales and order bookings was attributable to the divestment of the greater part of the operations in the United States. Sales were higher in the Business Area's other markets.

Sharp improvement in earnings
The trend of earnings in most of the operations was favorable. Despite the fact that income was affected adversely by costs related to the divestment in the U.S., earnings of the Business Area were sharply higher, compared with the preceding year.

Stronger position in Sweden
Ericsson Cables strengthened its position in the Swedish market during 1988. The Telecom Cables Division, which is the main supplier to the Swedish Telecommunications Administration, increased its share of optical cable deliveries in particular. A new agreement was signed covering deliveries of conventional cables during 1989 and 1990.

The Telecom Cables Division expanded its program to include fusion splicers, joint closures and connectorized fiber and optical cables. A fourth generation of fusion splicers (FSU 900) again established Ericsson in a front-rank position in this field. The market for power cable was strong, partly as a result of rising investments in housing construction and industry. SELGA, the Business Area's electrical wholesaling company, benefitted from the situation, recording a strong increase in sales and earnings.

Töckfors Verkstads AB (TVAB), the cable harness manufacturing company, further strengthened its position as a market leader in seat heaters for the automotive industry.

Purchase of company in Latin America
The trend of income in Latincasa in Mexico was highly favorable and the company supplemented its operations through the purchase of a small company in the specialty cables field.

Facomec, in Colombia, also developed strongly, while Ficap, in Brazil, reported a lower trend of earnings during the latter part of the year, due to economic conditions in that country.

100th anniversary
Ericsson Cables AB, the largest company in the Business Area, celebrated its hundredth anniversary in 1988.

Effective February 1, 1989, Lars Berg, manager of the Cables Business Area, also became manager of the Network Engineering and Construction Business Area.

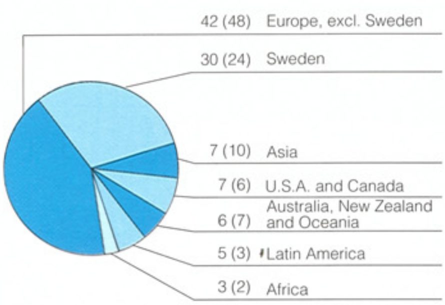
The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	2,667	7.5%	3,324	10.0%	3,569	10.9%
Net sales, external	2,793	8.9%	3,206	9.9%	3,618	11.4%
Net sales, internal	190	–	255	–	215	–
Operating income after depreciation	295	–	210	–	280	–
Employees	3,621	5.6%	4,567	6.4%	4,744	6.5%

Components

Concentration on special areas
Comprehensive research and development

Geographic distribution of external sales, percent.



Bert Jeppsson

Sales in 1988 amounted to MSEK 1,739

Based on in-house research and development, the Business Area manufactures and markets electronic components and power supply equipment. Standard components are sold in certain markets on an agency basis. Operations comprises three product areas (percentage of total sales in parentheses):

Microelectronics (42%)

Power supply equipment (38%)

Standard components (20%)

The sale of the capacitor business to Oy Finvest, a Finnish company, in the beginning of 1988 accounted for the 4 percent decrease in sales, compared with 1987. Capacitor operations had contributed one fifth of the Business Area's sales.

The number of employees in the Business Area declined by slightly more than 1,400 as a result of the divestment.

Sales of products in the current operating areas rose 18 percent, while order bookings for comparable operations increased 26 percent compared with 1987.

Strong market growth

The market developed in a strong fashion in 1988 but towards the end of the year there were signs of weaker demand for certain components used in industrial and peripheral data processing equipment.

Power systems showed the greatest increase in sales and orders booked.

Sales of standard components and microelectronics also developed well.

Concentration on system components

The Business Area further consolidated its position as the leading supplier of linear circuits, power modules and power systems. The Erisistor, which represents a new concept in resistor production, was launched in 1988. In line with the Business Area's strategic plan, operations have been concentrated on system-oriented, user-specific components and equipment for power supplies.

As a result of the focus on these core businesses, the operations in the field of wind and solar power were divested in December 1988.

Leadership in specific market segments

With a stable base in Ericsson's systems know-how, and with its own development of advanced technology, the Business Area maintained a leading position in specific market segments despite stiffening competition during the year.

The cooperation with Texas Instruments has developed well.

Comprehensive R&D

Expenditures for research and development were equal to 16 percent of sales.

Ericsson Components AB functions as a central development unit in certain specialized areas and conducts research projects for other Business Areas within Ericsson. During the year substantial resources were invested in the development of the next generation of line circuits.

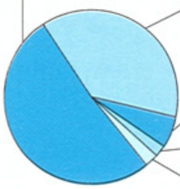
The Business Area is participating in the development of components for fiber optics as part of Ericsson's involvement in European RACE programs, and in the Swedish program in the field of information technology. Development of process and design systems for VLSI (Very Large Scale Integrated) circuits, conducted as part of the Swedish microelectronics program, was concluded during 1988.

The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	676	1.9%	768	2.3%	768	2.3%
Net sales, external	707	2.3%	763	2.4%	788	2.5%
Net sales, internal	1,032	–	1,047	–	721	–
Operating income after depreciation	113	–	88	–	31	–
Employees	2,160	3.3%	3,578	5.0%	3,919	5.4%

Important orders at end of year New search radar presented

Geographic distribution of external sales, percent.



Ulf H Johansson

Sales in 1988 amounted to MSEK 2,828.

Operations of the Business Area were conducted in four different product areas during the year (percentage of total sales within parentheses):

Avionics and airborne electronics (40%)

Mobile defense systems (26%)

Command and control systems (19%)

Microwave and satellite communications (15%)

Growth in the market and order bookings were weak during 1988, except for the Business Area's Italian operations.

The Business Area reported an operating loss, due to high project costs in the command and control systems product area and in the Swedish avionics and airborne electronics operations. The Italian operations developed favorably. The decrease in sales and order bookings was due mainly to the transfer of defense communications operations to the Radio Communications Business Area.

New search radar presented

During the year the Business Area presented a new family of search radars at a number of international shows. The Business Area also received important contracts covering development of the next generation of mobile search radars, electronic countermeasures and electronic display systems for the Swedish defense authorities.

JAS 39 Gripen

Ericsson's development of electronic display equipment, airborne radars, system computers and electronic countermeasures for the JAS 39 Gripen multi-role military aircraft is proceeding on schedule. Initial series deliveries are planned to take place during 1993.

Important orders at the end of the year

In December, the Swedish Defense Material Administration signed a MSEK 400 contract for a new mobile search radar system – the PS90.

In December, GTE, the American company, placed a comprehensive additional order for microwave radio links. The Canadian armed forces signed a new contract for deliveries of the shipborne SeaGIRAFFE search radar for the new frigates currently in production.

Deliveries of control systems

Following several years' development work, the Business Area completed an advanced integrated base-system concept consisting of computer systems, operator work stations and software for military and civil control and information systems. During the year substantial deliveries based on this system were made to the Swedish defense (STRIL) and to military and civil export customers.

Profit improvement measures

A comprehensive efficiency improvement program was begun to reverse the negative trend of earnings in Ericsson Radar Electronics AB, the Business Area's largest company. This program is yielding more efficient and better-controlled product development, as well as lower overhead costs and reductions in the amount of capital tied up in design and construction. The workforce is being reduced, in view of the uncertainty regarding the timing and volume of future orders, notably those from the Swedish defense authorities. A new, advanced plant for more rapid and more efficient development and production of integrated microwave circuits was inaugurated in Mölndal in April.

The Business Area in brief MSEK and percentage of Ericsson totals

	1988		1987		1986	
Order bookings, external	3,286	9,2%	2,767	8.3%	4,560	13.9%
Net sales, external	2,548	8.1%	3,203	9.9%	2,795	8.8%
Net sales, internal	280	–	169	–	205	–
Operating income after depreciation	–87	–	182	–	253	–
Employees	6,070	9.3%	6,874	9.7%	6,366	8.8%

Ten-Year Summary

MSEK	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Results for Year										
Net sales	31,297	32,400	31,644	32,496	29,378	25,244	19,470	16,194	12,174	9,329
Operating income	2,678	2,185	2,295	1,671	2,334	2,530	1,988	2,304	1,242	866
Financial net	−553	−895	−1,180	−952	−914	−802	−949	−1,134	−307	−80
Income before appropriations and taxes	1,840	1,108	911	878	1,569	1,758	1,349	1,192	935	786
Year-End Position										
Total assets	34,625	33,282	34,232	37,122	37,632	30,606	25,737	21,896	17,711	12,959
Working capital	12,944	13,880	14,724	16,707	17,042	12,828	10,250	9,133	7,895	6,047
Property, plant and equipment, net	6,679	6,778	6,835	7,549	7,144	6,176	5,817	4,783	3,833	1,840
Long-term liabilities	7,740	8,548	8,768	8,566	7,658	6,673	7,230	6,383	4,932	3,817
Untaxed reserves	4,506	4,742	4,789	4,794	5,030	4,333	3,617	3,251	3,233	1,915
Stockholders' equity	8,627	7,468	7,299	6,901	6,560	6,219	4,156	3,654	3,010	2,947
Adjusted stockholders' equity	10,880	9,839	9,694	9,298	9,075	8,386	5,965	5,280	4,627	4,384
after full conversion	12,421	11,454	9,695	9,501	9,281	8,597	6,203	5,503	4,627	4,384
Other Information										
Adjusted net income per share, SEK										
– after actual taxes paid	27.06	17.90	14.96	12.62	30.54	34.46	25.05	21.12	19.19	19.53
after full conversion	24.07	17.79	14.93	12.55	29.89	33.67	24.35	21.06	19.19	19.53
– after actual and estimated deferred taxes	31.29	19.26	17.21	15.15	19.99	22.05	17.13	16.73	13.57	11.43
after full conversion	27.79	19.09	17.17	14.99	19.70	21.67	16.78	16.69	13.57	11.43
Net income per share in accordance with U.S. GAAP, SEK	32.17	17.22	17.21	19.90	19.49	24.76	16.09	–	–	–
after full conversion	29.05	16.79	17.21	18.96	19.49	24.48	16.09	–	–	–
Adjusted stockholders' equity per share, SEK	285	258	254	252	246	227	183	242	212	201
after full conversion	286	264	254	249	243	225	182	236	212	201
Cash dividends per share	10.50*	9.00	9.00	9.00	9.00	9.00	7.50	6.50	5.67	4.67
Shares outstanding – average (in thousands)	38,167	38,162	38,011	36,951	36,899	35,331	32,683	21,788	21,788	21,788
Additions to property, plant and equipment	1,739	1,592	1,643	2,677	2,192	1,645	1,662	1,275	718	508
Depreciation	971	1,213	1,133	1,308	1,039	945	774	621	409	307
Research and development										
– expenses	3,529	3,204	3,117	2,798	2,355	1,973	1,638	1,359	1,013	817
– in percent of net sales	11.3	9.9	9.9	8.6	8.0	7.8	8.4	8.4	8.3	8.8
Ratios										
Return on equity, percent	11.5	7.5	6.9	6.1	8.5	10.9	10.0	11.0	10.4	9.2
Return on capital employed, percent	16.0	13.2	13.1	11.3	13.6	17.8	16.5	18.8	14.4	13.1
Equity ratio, percent	33.7	31.8	30.5	26.5	27.0	31.4	26.9	28.4	31.6	33.2
Risk-bearing capital ratio, percent	40.2	38.9	37.5	32.9	33.7	38.5	33.9	35.8	40.7	40.5
Debt-equity ratio	0.8	1.0	1.1	1.5	1.5	1.1	1.5	1.4	1.2	1.1
Current ratio	1.9	2.0	1.9	1.6	1.6	1.8	1.7	1.9	2.1	2.3
Year-End Statistics										
Backlog of orders	26,876	24,171	23,625	23,055	25,161	21,565	20,991	17,701	11,914	10,147
Number of employees										
worldwide	65,138	70,893	72,575	78,159	75,116	70,783	66,300	69,860	65,910	55,690
Sweden	32,094	37,386	38,559	40,172	37,458	34,543	31,130	31,030	27,970	27,950

* For 1988, proposed by the Board of Directors

Definition of terms used above are given on page 52.

LM Ericsson Share Data

Capital stock

The capital stock of the Parent Company, Telefonaktiebolaget LM Ericsson, amounted at December 31, 1988 to MSEK 1,911, represented by 38,214,624 shares. The par value of each share is SEK 50. Of the total number of shares outstanding, 2,479,684 are restricted "A" shares and 1,248,831 are unrestricted "A" shares, all carrying one vote, and 34,486,109 are unrestricted "B" shares, each of which carries one thousandth of a vote.

The Articles of Association of the Parent Company stipulate that not more than 35 percent of the voting rights in the Company may be represented by unrestricted shares that may be owned by foreign citizens as well as citizens of Sweden. At year-end the maximum possible voting rights of unrestricted shares outstanding amounted to 34.1 percent of the total voting rights, and the actual voting rights of unrestricted shares outstanding represented 0.3 percent of the total.

During 1988 MCHF 4.1 of the convertible debenture loan in Swiss francs was converted to 52,242 "B" shares. During the period between January 1, 1989 and February 15, 1989 an additional MCHF 29.2 was converted to "B" shares, thereby increasing to 38,590,416 the total number of shares entitled to dividends as of the record date.

Employee ownership of Ericsson shares

Ericsson employees are able to purchase the Company's shares via bank loans arranged on favorable terms by the Company. Since 1973, when Ericsson began to arrange such loans, more than 5,900 employees have taken advantage of this opportunity, purchasing a total of approximately 425,000 shares.

Ericsson's Share Savings Fund was started in 1981 and Ericsson's General Savings Fund in 1984. There are 3,165 participants in the Share Savings Fund and 3,229 in the General Savings Fund. The funds have invested in Ericsson shares and at year-end the total holdings of the two funds amounted to 196,300 shares, or approximately 0.6 percent of the total number outstanding. Ericsson's General Savings Fund has also subscribed for 2,600 blocks representing 65,000 shares of the convertible debenture loan issued to Ericsson employees in the autumn of 1987. In addition to the participants in the General Savings Fund, slightly more than 15,000 employees own convertible debentures issued in connection with this loan. The debentures may be converted to Ericsson shares not earlier than December 1989 and not later than March 1993.

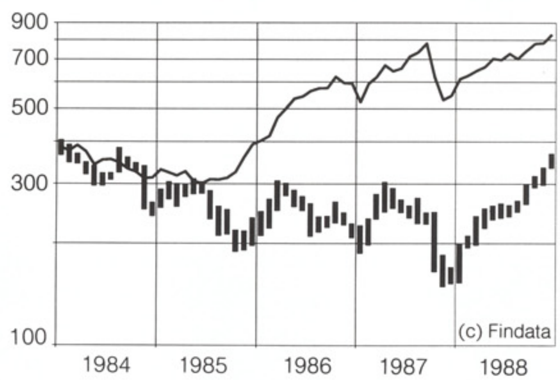
Volume of trading

Ericsson's shares are traded more actively outside Sweden than those of any other Swedish company. During the second half of 1988 only 28 percent of the total trading in the Company's shares took place on the Stockholm Stock Exchange. Most of the remaining trading occurred in London and via the NASDAQ system in the United States. The one-percent tax on share trading introduced in Sweden in 1984 and increased to two percent in 1986 is certainly one of the reasons accounting for the shift in trading to markets abroad.

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 1984-1988, as recorded on the Stockholm Stock Exchange, is shown in the accompanying table. Ericsson shares accounted for 2.3 percent of the total number of shares traded on the Exchange during 1988, and for 3.3 percent of the volume in Swedish kronor.

Year	Number of shares
1988	15,404,776
1987	21,189,730
1986	21,321,417
1985	13,379,300
1984	7,347,305

Exports/Imports

Exports of LM Ericsson shares from Sweden and imports of such shares to Sweden during the years 1984-1988 were as shown in the accompanying table.

Year	Exports (MSEK)	Imports (MSEK)	Net
1988	585	635	−50
1987	401	1,233	−832
1986	1,319	1,398	−79
1985	1,374	1,165	209
1984	1,176	705	471

Sources: Bank of Sweden and Swedish Bank Inspection Board

Share

Share	1988	1987	1986	1985	1984
Dividend	10.50*	9.00	9.00	9.00	9.00
Adjusted net income per share					
– after actual taxes paid	27.06	17.90	14.96	12.62	30.54
after full conversion	24.07	17.79	14.93	12.55	29.89
– after actual and estimated deferred taxes	31.29	19.26	17.21	15.15	19.99
after full conversion	27.79	19.09	17.17	14.99	19.70
Net income per share in accordance with U.S. GAAP	32.17	17.22	17.21	19.90	19.49
after full conversion	29.05	16.79	17.21	18.96	19.49
P/E ratio I Ericsson B share[1]	13.6	8.5	14.3	17.8	8.3
P/E ratio II Ericsson B share[2]	11.8	7.9	12.4	14.9	12.7
Share price, December 31 Stockholm Stock Exchange					
– Series "A" restricted	470	300	325	260	300
– Series "A" nonrestricted	470	300	325	250	260
– Series "B" nonrestricted	368	153	214	225	254
High for year					
– Series "B" nonrestricted	369	304	307	311	405
Low for year					
– Series "B" nonrestricted	155	149	208	189	241

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

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

* For 1988, proposed by the Board of Directors

Changes in capital stock

Year		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
1988	Conversions	52,242	2,612,100
1988	December 31	38,214,624	1,910,731,200

Distribution of shares

(Year-end 1988)

At December 31, 1988, approximately 27 percent of the Company's shares were held by shareholders outside Sweden. The voting rights accruing to these shares amounted to about 0.3 percent of the total.

	Shareholders		Shares		
Size of holding	Number	%	Number	%	Number of shares per shareholder
1– 500	69,079	94.9	5,779,259	15.1	84
501– 1,000	2,120	2.9	1,691,641	4.4	798
1,001– 2,000	790	1.1	1,259,817	3.3	1,595
2,001– 5,000	403	0.6	1,421,657	3.7	3,528
5,001–10,000	160	0.2	1,310,059	3.4	8,188
10,001–20,000	88	0.1	1,376,606	3.6	15,643
More than 20,000	159	0.2	25,375,585	66.5	159,595
Total	72,799	100.0	38,214,624	100.0	525

Stockholders

The largest stockholders, ranked by voting rights, at December 31, 1988 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	137,673	3.7
Handelsbankens Skattefond	116,807	2.6
Förvaltnings AB Delus	110,000	2.9
Wallenbergs Stiftelse, Marianne och Marcus	90,000	2.4
Oktogonen, Stiftelsen	80,000	1.6
Jan Wallanders Stiftelse för Samhällsvetenskap	56,000	1.5
Svenska Handelsbankens Personalstiftelse	54,000	1.4

Board of Directors

Members

Hans Werthén
(1919)*
Chairman
Honorary Doctor of Technology, Chairman of the Boards of AB Electrolux and Stockholms Optionsmarknad OM Fondkommission AB
Member since 1981
Shares held: B 3,000

Kjell Brändström
(1931)*
President of AB Industrivärden, Chairman of the Boards of AB Nils Dacke and PLM AB
Member since 1986

Sven Ljungberg
(1944)*
Employee representative
Member since 1986
Shares held: B 4
*Convertible debentures: 125***

Jan Wallander
(1920)*
Deputy Chairman
Doctor of Philosophy, Chairman of the Boards of Svenska Handelsbanken, Investment AB Bahco and the Wennergren Center Foundation
Member since 1970
Shares held: A 15, B 337

Georg Karnsund
(1933)*
President and Chief Executive Officer of Saab-Scania AB, Chairman of the Board of Industrigruppen JAS AB
Member since 1987

Sven Olving
(1928)*
Doctor of Science, President of Chalmers University of Technology, Chairman of the Board of AB Volvofinans
Member since 1980

Peter Wallenberg
(1926)*
Deputy Chairman
Honorary Doctor of Economics, First Vice Chairman of the Board of Skandinaviska Enskilda Banken, Chairman of the Boards of Atlas Copco AB, AB Investor, Förvaltnings AB Providentia, STORA and President of the International Chamber of Commerce (ICC).
Member since 1972
Shares held: A 8,865, B 5,635

Paul Kvamme
(1937)*
Employee representative
Member since 1981
Shares held: B 86
*Convertible debentures: 63***

Stanley Oscarsson
(1927)*
Employee representative
Member since 1987

Deputy Members

Claes-Göran Larsson
(1954)*
Employee representative
Member since 1988
*Convertible debentures: 50***

Thomas Olsson
(1944)*
Employee representative
Member since 1985
Shares held: B 300
*Convertible debentures: 125***

Arne Mohlin
(1921)*
Executive Vice President
(Until April 30, 1988)
Chairman of the Board of the Swedish Standards Association
Member since 1976
Shares held: B 1,819
*Convertible debentures: 4,325***

Carl Wilhelm Ros
(1941)*
Executive Vice President
Member since 1986
Shares held: B 1,006
*Convertible debentures: 4,325***

Corporate Officers

Sten Wikander
(1927)*
Chairman of the Boards of Hennes & Mauritz AB and the Swedish Export Credit Corporation
Member since 1987

Sven Ågrup
(1930)*
Chairman of the Board of AGA AB
Member since 1983

Björn Svedberg
(1937)*
President and Chief Executive Officer, Honorary Doctor of Technology
Member of the Boards of AGA AB, Atlas Copco AB and the Federation of Swedish Industries
President and member since 1977
Shares held: B 3,755
*Convertible debentures: 5,650***

Jan Stenberg
(1939)*
Executive Vice President
Member since 1982
Shares held: A 4, B 4
*Convertible debentures: 4,325***

Tommy Lindbohm
(1947)*
Employee representative
Member since 1988
Shares held: B 323
*Convertible debentures: 500***

Corporate Executive Committee

Björn Svedberg
Chief Executive Officer
President, Telefonaktiebolaget LM Ericsson

Lars Ramqvist
Executive Vice President

Carl Wilhelm Ros
Executive Vice President and Chief Financial Officer

Jan Stenberg
Executive Vice President
(Member of the Corporate Executive Committee from October, 1988)

Corporate Staffs

Stephan Almqvist
Senior Vice President, Corporate Treasury

Lars Edmark
Senior Vice President, Corporate Markets

Lennart Grabe
Senior Vice President and General Counsel, Corporate Legal Affairs

Harry Johansson
Senior Vice President, Corporate Audit

Bo Landin
Senior Vice President, Corporate Markets and Corporate Planning

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

Björn Linton
Senior Vice President, Corporate Markets

Nils Ingvar Lundin
Senior Vice President, Corporate Relations

Åke Lundqvist
Senior Vice President, Business Development

Britt Reigo
Senior Vice President, Corporate Human Resources and Organization

Åke Stavling
Senior Vice President, Corporate Financial Control

Business Areas

Lars Berg
Senior Vice President, Network Engineering and Construction, and Cables
President, Ericsson Network Engineering AB and Ericsson Cables AB

Bert Jeppsson
Senior Vice President, Components
President, Ericsson Components AB

Ulf H. Johansson
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Ronny Lejdemalm
Senior Vice President, Business Communications
President, Ericsson Business Communications AB

Lars Ramqvist
Executive Vice President, Radio Communications
President, Ericsson Radio Systems AB

Jan Stenberg
Executive Vice President, Public Telecommunications
President, Ericsson Telecom AB

Auditors

Statutory Auditors

David Jones
Chartered Accountant, Price Waterhouse

Nils-Axel Frisk
Former Executive Vice President (Finance), Swedish Staff Pension Fund

Olof Herolf
Authorized Public Accountant, Price Waterhouse

Deputy Auditors

Krister Hertzen
President, Swedish Staff Pension Fund

Carl-Eric Bohlin
Authorized Public Accountant, Price Waterhouse

Stephan Tolstoy
Authorized Public Accountant, Price Waterhouse

* Year of birth
** Each convertible debenture corresponds to one "B" share

Ericsson

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

Algeria

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

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I. Bensmail

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Buenos Aires
Björn Jönsson

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

Industrias Eléctricas de Quilmes S.A.
Quilmes
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Broadmeadows
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Preston
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Manáus
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Liaison Office
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Telefonaktiebolaget LM Ericsson
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Massy
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Nira S.A.
Nanterre
Jacques François

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Bengt Linder

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Haneef Mokhtar

Perwira Ericsson Sdn Bhd
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Rijen
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Abu Dhabi
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London
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Horsham
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Richardson, Texas
M. Peter Thomas

Ericsson, Inc.
Richardson, Texas
M. Peter Thomas

– Network Systems
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M. Peter Thomas

– Business Communications
Richardson, Texas
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– Radio Systems
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Manfred M. Buchmayer

The Ericsson Corporation
New York
Tom Potworowski

Ericsson Components, Inc.
Richardson, Texas
John Davidson

Uruguay

Compañía Ericsson S.A.
Montevideo
Augusto D. Bazzi

Venezuela

Compañía Anónima Ericsson
Caracas
Stig Johansson

Sistemas Ericsson C.A.
Caracas
Alvaro Cifuentes

Definitions of Terms Used in "Ten-Year Summary" on page 43

Operating income. Takes into account standard depreciation in the years 1980 through 1988, total depreciation in the year 1979.

Financial net. Financial income less financial expenses. Financial expenses include both operational and financial gains and losses on foreign exchange in the years 1979 through 1981. Financial expenses in 1982 through 1988 include only financial gains and losses on foreign exchange as explained in (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, 1980–1988, and net of total depreciation at December 31, 1979.

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

Current ratio. Current assets divided by current liabilities.

Adjusted stockholders' equity. 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 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).

Return on capital employed. Defined as the total of operating income plus financial income 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 noninterest-bearing debts and 50 percent of untaxed reserves. For the years 1979–1985 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 full interest-bearing liabilities divided by the total of stockholders' equity, 50 percent of untaxed reserves, and minority interest in equity of consolidated subsidiaries.

Net income per share after full conversion. If adjusted net income per share after full conversion is higher than adjusted net income per share before full conversion, the lower amount is shown.

Financial information from Ericsson

Interim Report January-June	August 24
Interim Report January-September	November 16
Preliminary results, 1989	February 8, 1990
Results, 1989	March 15, 1990
Annual Report 1989	Mid April, 1990

Financial reports are available from Ericsson Media:
Telefonaktiebolaget LM Ericsson, S-126 25 Stockholm, Sweden (Tel: +46 8 719 1000),
The Ericsson Corporation, 100 Park Avenue, Suite 2705, New York, N.Y. 10017, U.S.A.
(Tel: +1 212 685 4030).

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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. Tuesday, May 16, 1989.

Shareholders intending to participate in the Annual General Meeting must be entered as shareholders in the share register kept by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than May 5, 1989. Shareholders whose shares are registered in the name of an agent must reregister the shares temporarily in their own names in order to participate in the meeting.

In addition to the above-mentioned requirements, shareholders shall give notice of attendance to the Headquarters of Telefonaktiebolaget LM Ericsson, S-126 25 Stockholm, between 10.00 a.m. and 4.00 p.m. not later than Thursday, May 11, 1989 at 4.00 p.m.

Dividend

The Board of Directors has proposed May 19, 1989 as the record day for payment of dividends. Provided this proposal is approved, the dividend is expected to be paid by Värdepapperscentralen VPC AB on May 26, 1989.

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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