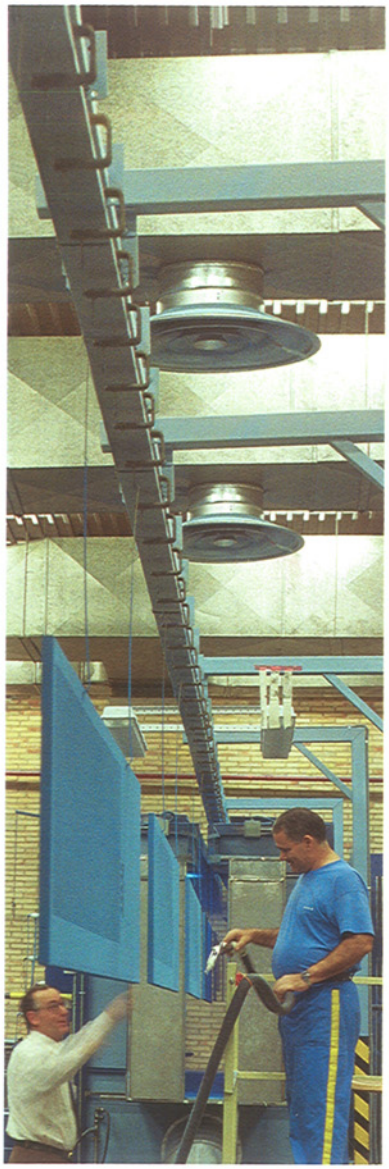
ANNUAL REPORT 1995



ERICSSON

FINANCIAL INFORMATION FROM ERICSSON

Interim report January–March	May 8, 1996
Interim report January–June	August 15, 1996
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Preliminary results 1996	February 6, 1997
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Financial reports are available from:
Telefonaktiebolaget LM Ericsson,
S-126 25 Stockholm, Sweden
Tel: +46 8 719 0000

The Ericsson Corporation,
100 Park Avenue, Suite 2705,
New York, NY 10017, U.S.A.
Tel: +1 212 685 4030

Ericsson information on demand database can be addressed at: WWW.ericsson.com

INVESTOR RELATIONS

Karin Almqvist Liwendahl, Manager
Investor Relations, Corporate Relations,
Telefonaktiebolaget LM Ericsson,
S-126 25 Stockholm, Sweden
Tel: +46 8 719 53 40. Telefax: +46 8 719 19 76
E-mail: lme.lmekaq@memo.ericsson.se

Lars Jonsteg, Vice President,
The Ericsson Corporation,
100 Park Avenue, Suite 2705,
New York, NY 10017, U.S.A.
Tel: +1 212 685 4030, Telefax: +1 212 213 0159
E-mail: tec.tecloj@memo.ericsson.se

"It's about communication between people...

...the rest is technology"

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ERICSSON IN BRIEF

Ericsson is an international leader in telecommunications. It is recognized for its advanced systems and products for wired and mobile telecommunications in public and private networks.

With its strong international presence, Ericsson has unique knowledge of market conditions in all parts of the world. Based on this knowledge and on the Company's high technical expertise, Ericsson is developing telecommunications solutions for customers in more than 100 countries.

Ericsson has always concentrated intensively on technical development. Annual investments in technical development in recent years have amounted to about 20 percent of annual sales. Approximately 18,000 employees in 22 countries are active in Company research and development programs. In 1995 SEK 19,2 billion was invested to ensure Ericsson's continuing technical leadership in the telecommunications field.

The Company's research is focused on products and systems in its core business. Ericsson's strategy in a number of important areas is to form joint ventures with other leading companies. In the field of microelectronic components, which are of strategic importance for the Company, Ericsson has a cooperation with Texas Instruments that gives it access to the most modern microelectronics technology. Comparable joint venture programs are being conducted with Hewlett-Packard with respect to development of operating support systems. Ascom, Bang & Olufsen, Marconi, Microsoft, Novell, Intel and IBM are examples of companies with whom Ericsson in cooperating in specific areas of technology.

In 1995 14.5 million new lines of AXE equipment were installed. At the beginning of 1996, 104.8 million AXE system lines were installed or on order in 113 countries.

At the beginning of 1996 Ericsson's mobile telephone systems were serving about 34 million subscribers in 78 countries. Ericsson, with slightly more than 40 percent of the world market, continues to be the leader in this field. Its share of the market for digital systems is even higher.

Ericsson's share of the market for mobile telephones has risen sharply. The Company is a leader in technical development of digital pocket telephones and has now achieved a leading position in this market.

Consono MD110 subscriber switching systems with a total of 9.6 million lines have now been installed. Approximately 1.2 million lines of this equipment were ordered in 1995. As a result, Ericsson is maintaining its strong position in the market for systems serving more than 100 lines.

Sales of Freeset, the Ericsson cordless telephone system, more than doubled in 1995. In all, 5 500 systems, representing 50 percent of the available world market for such systems, were sold.

The microwave links offered in the Ericsson Mini-Link family are part of the world's leading microwave communications system which is used in radio base stations in mobile telecommunications networks, among other applications.

More than 10 percent of energy systems for telecommunications networks are supplied by Ericsson.

Ericsson's product portfolio

Ericsson's range of products is broader than that offered by any other supplier of telecommunications equipment. Its portfolio contains the following products, among others.

AXE®
Digital exchange systems for wired and mobile networks

ETNA
Transport network products

TMOS®
Operating support systems for telecommunications networks

Radio base stations
Used in analog and digital mobile telephone systems based on all leading international standards

Mobile telephones

Mobitex™
Systems and equipment for mobile data communications

EDACS
Digital system for private radio networks

Consono® and BusinessPhone™
Digital systems for business communications – cordless or via wired business networks

Eripax®
Data network products

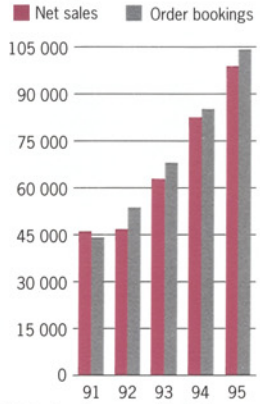
Eripower™
Power supplies for telecommunications equipment, computers and other applications

MiniLink™
Microwave links

Giraffe®
Mobile air defense radar system

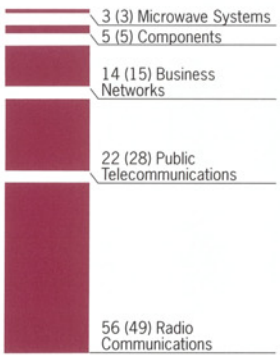
EriEye®
Airborne tracking radar

Net sales/order bookings, SEK m.



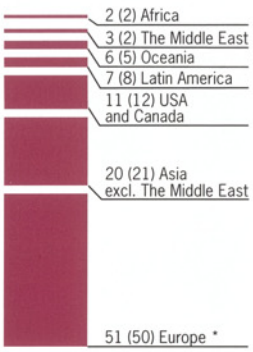
Net sales increased by 20 percent during the year and order bookings by 25 percent.

Sales to external customers, by Business Area,%



Note: ( ) Indicates preceding year

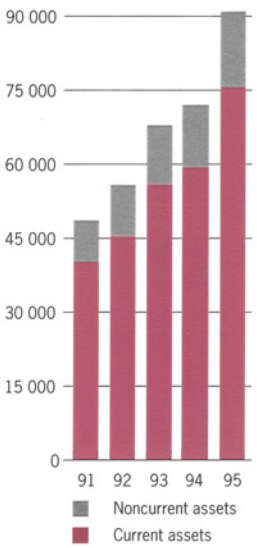
Geographic distribution of sales, %



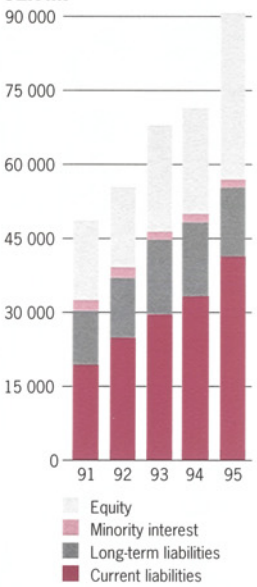
* of which Sweden 9 (10)

Note: ( ) Indicates preceding year

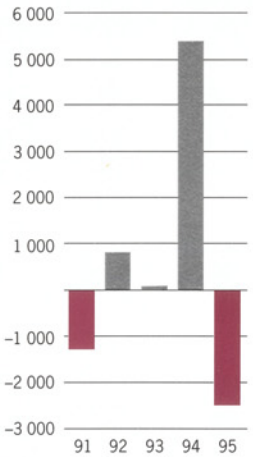
Assets, SEK m.



Liabilities and Equity, SEK m.

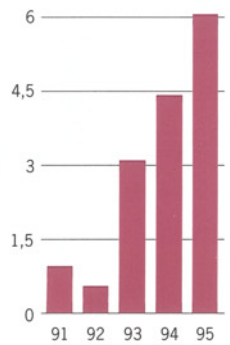


Cash flow before external Financing, SEK m.



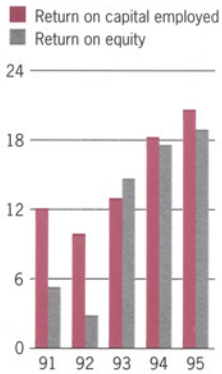
Cash flow during the year was negative, SEK 2,512m.

Net income per share after current and deferred taxes, stock issue and 4-for-1 stock split and after full conversion, SEK



Income per share rose during the year to SEK 6.03, an increase of 35 percent compared with the preceding year.

Return on capital employed and equity, %



The return on capital employed increased to 20.7 percent in 1995 and the return on equity to 18.9 percent

Highlights	1995 SEK m.	1994 SEK m.	Percent change
Net sales	**98 780**	82 554	20
Order bookings	**104 981**	84 140	25
Order backlog at year-end	**48 401**	45 671	6
Income before taxes	**7 615**	5 610	36
Net income per share after current and deferred taxes, stock issue and 4-for-1 stock split and after full conversion, SEK	**6.03**	4.47	35
Dividend per share, SEK	**1.75** *	1.38	27

* For 1995 proposed by the Board of Directors

CHIEF EXECUTIVE OFFICER'S COMMENTS

Nineteen ninety-five was a good year for Ericsson. Order bookings, sales and earnings continued to rise sharply. The operations in mobile telephony, in particular, are continuing to develop very favorably. If we include both systems and telephones in the mobile telephony category, the increase in order bookings during the year was 64 percent – and a full 78 percent, calculated in current U.S. dollars – while the increase in sales was 46 percent, calculated in Swedish kronor, and 58 percent calculated in dollars.

Favorable development for mobile telephony

Particularly favorable was the development of the mobile digital systems designed to the GSM, PDC and D-AMPS standards. GSM (Global System for Mobile Telecommunications) is now a de facto world standard since more than 100 countries have decided to introduce this technology. Slightly more than 13 million subscribers were linked to GSM systems at the end of 1995. The Japanese PDC (Pacific Digital Cellular) is the second-largest digital system standard. Growth in the market for this standard, which had 3 million subscribers at year-end, was fantastically good during the year. The American digital standard, D-AMPS (Digital Advanced Mobile Phone System) also consolidated its position, not only in the United States but in approximately 20 or more other countries. This system passed the 2-million subscriber mark during the year. It may be noted, in summary, that all commercially established digital system standards, are based on the so-called TDMA (Time Division Multiple Access) technology.

Ericsson is still the only company that is delivering systems based on all the established world standards. We were thereby able to strengthen our world-leading position as a mobile system supplier. About 40 percent of the world's mobile telephone subscribers are connected to Ericsson's systems.

In all, there were around 85 million subscribers in the world's mobile telecommunications networks at the end of 1995. Nearly 18 million were linked to digital systems. The total number of subscribers rose more than 60 percent during the year. The increase for the digital systems was close to 200 percent.

During the year we really strengthened our position in the market for mobile telephones. We concentrated on digital telephones and have become one of the world's three largest suppliers in this segment.

Our total mobile telephony operations thus experienced a bright year in 1995. In contrast, unfortunately, we have had to deal with substantial problems in Public Telecommunications. The AXE system certainly continued to sell well in 1995 but the pressure on prices increased strikingly. We have therefore increased the pace of rationalization programs in order to reduce costs. Fortunately, it has been possible to transfer thousands of skilled employees to the expanding radio communications sector.

In the field of broadband communications based on ATM (Asynchronous Transfer Mode) technology, it is now clear that the market in this sector is developing mainly for applications in data communications. We have accepted the consequences of this development and are now concentrating operations in product areas where there will be demand in the near future.

Improved competiveness

We expect Public Telecommunications to continue to be a highly competitive area internationally. We can merely note that a number of our principal competitors have taken very large one-time write-offs in recent years to shore up current operating results. We have attempted to improve our competitiveness through continuing rationalization measures and restructuring; our costs are charged against income as incurred. Through joint ventures with other companies – with Marconi in the field of transport network products, for example – we have also sought to reduce costs and gain time.

Operations in Business Networks improved during the year. The new Consono family of products has made an impact on the market and sales have begun to develop well. The trend has been notably favorable in the market for private systems for cordless telephony. We have further strengthened our leadership position in this area. Network operations – the program of turnkey projects for new operators – developed well.

Success in microelectronics technology

The Components Business Area had a good year, with substantial success in the strategically important field of microelectronics technology. The Business Area has developed substantial expertise in the field of submicroelectronic CMOS technology, as well as with respect to high-frequency transistors for radio applications. Cable business continued to develop very favorably.

The Microwave Systems Business Area is now the world's largest producer of short haul radio links. The links are used mainly to build transmission networks for mobile telephone systems. Development work was also begun on antenna-related products and intelligent antennas for applications in mobile telephony. Military projects, of which the JAS multirole military aircraft project for the Swedish Air Force is the largest, proceeded essentially according to plan.

Ericsson's successful quality management program continues to attract distinct honors. It is gratifying to be able to report to shareholders that the Company received the national quality prizes in both Australia and Sweden during 1995. I view these awards as evidence that our continuing quality improvement programs are of the highest class internationally.

Financially strengthened

Our expansion in 1995 resulted in a negative cash flow. It means that our earnings were not fully adequate to cover the very strong growth, primarily in the area of mobile telephony. We therefore asked the shareholders for a contribution to capital through a so-called rights issue of shares in the amount of SEK 7.8 billion during the year. The issue was fully subscribed, with the result that Ericsson is better equipped to take advantage of the future market potential.

Advanced telecommunications systems

What, then does the immediate future look like for Ericsson? Our mission, our objectives and our strategies remain firm. Our mission is to offer telecomunications solutions that are better adapted to customers' needs than the solutions that can be offered by our competitors. Our basic objective is, with a good level of profitability, to be the leading international supplier of advanced telecommunications systems. Our strategy is to concentrate operations on advanced public and private telecommunications systems for mobile communications and for wired systems, for both conventional telephony and broadband solutions for the coming multimedia market. Because of the dynamics of the market for telecommunications and information technology, we are currently conducting an in-depth study of strategies.

It is clear, however, that the continuing strategy will be based on the fact that our products offer value for the money and absolutely world-class quality. We can assure our customers of this based on our strong research and development programs.

Research and development

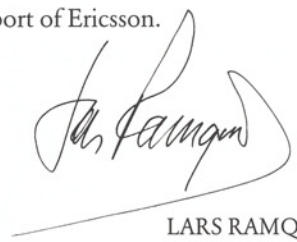
We therefore continued with our large research and development investments during the year. This is being done in the knowledge that order bookings, sales and profits in recent years underscored the importance of customer-driven research and development as our decisive competitive tool. In the areas in which Ericsson has now captured a world-leading position, we know that our research and development efforts are more than comparable to those of our competitors. In an increasingly competitive world, there are no shortcuts to success – success is increasingly linked to high-quality and advanced development activities.

Much of Ericsson's strength lies in its broad market presence. Our strategy is based on training personnel locally, on transferring essential technology and on being a good citizen in the countries where we operate. We are active in 100 countries today and we have very good diversification of our business in the largest markets. Ericsson's largest single market is the United States – which confirms the high degree of the Company's international competitiveness, since this market is extremely competitive. Ericsson is also very well represented within the European Union – which, collectively, is by far our largest market – and, to a growing degree, in Asia. China, Japan and Malaysia are already among our ten largest markets. Our positions in Latin America and Australia continue to be very solid. Even though Ericsson has complete operations in each of the large trading blocs, we are strong supporters of the efforts of the World Trade Organization to increase global free trade.

Assuming that there are no serious disturbances in the world economy, we expect continuing positive growth for mobile telephony internationally, with the strongest growth in Asia, for digital systems and telephones. We also anticipate a relatively stable increase in volume for conventional telephony and for our AXE switch, the digital switching system sold most widely throughout the world. We also expect that demand for broadband communications will increase during the next few years, mainly in data communications to begin with, and later for voice and video. All in all, we expect continuing positive growth in the market and in demand for our system products in coming years. But we also expect the competition to increase markedly.

Competence development

To meet the increasingly stiffer international competition, it is extremely important that we, in our core areas, succeed in continuously improving our ability to strengthen the competitive and creative abilities of our employees. The number of employees within Ericsson rose to nearly 85,000 during the year, representing an increase of more than 8,000. In addition, several thousand persons were transferred internally. This means that more than 10,000 persons were trained to handle new jobs during the year. Extensive internal transfers will continue year after year and that it will impose very great demands on both individuals and companies. It is essential that all our employees become involved in the process of change that Ericsson is now experiencing, and that we in management ensure the resources necessary for the continuing development of the employees' skills. All our activities in the personnel field are based on Ericsson's shared values: professionalism, respect and perseverance. With the help of our employees we will make Ericsson a skilled, flexible and, in a long term perspective, a profitable, top-quality international enterprise. I began by noting that 1995 was a good year for Ericsson. Let me emphasize that this success is the combined result of our employees' fine efforts. It has certainly been a strenuous year for many of our employees but I know that it has also been a stimulating one. We who have the privilege of working at Ericsson are proud of what we accomplished jointly during the year. I want to conclude by offering sincere thanks to all our employees, and to our shareholders, for their continuing support of Ericsson.



LARS RAMQVIST

A MARKET IN PROCESS OF CHANGE

The market for telecommunications has been characterized by major changes in recent years. There are many driving forces for the new world picture of telecommunications that is now beginning to take shape. Continuing deregulations of the world's telecommunications is perhaps the most important force of all. As a result, new players have appeared on the scene and have already changed its character and behavior to a high degree. In many countries, a large number of operators are now competing for subscribers in both the fixed-wire and mobile networks.

The continuing strong expansion in the field of mobile telephony is another strong driving force behind the revolution now being experienced in the telecommunications market. 1995 was the year when expansion of the new digital mobile telephone systems really accelerated. The analog systems also continued to grow at the same time. At year-end there was a total of slightly more than 85 million subscribers, of whom 18 million were linked to the digital systems and 67 to the analog. The number of subscribers in the digital networks increased by nearly 200 percent, and in analog systems by 44 percent, compared with the preceding year. The total number of mobile subscribers in the world is expected to be close to 350 million in the year 2000; of this number, 80 percent will then be connected to digital systems.

Ericsson is benefiting

The trend of business in the industrialized countries has increasingly come to be controlled by end-users' demand for greater mobility and accessibility. Mobility is a key concept for planners of the telecommunications networks of the future. Emphasis in the market is thereby shifting to precisely the areas in which Ericsson has a unique position and strength. The Company is a leader in mobile telephone systems, with slightly more than 40 percent of the world market, calculated in number of connected subscribers. During 1995 Ericsson also strengthened its position in the market for mobile telephones, where its world market share rose markedly. Its greatest successes were scored in the market for digital mobile telephones, where Ericsson's share is approximately as large as those of its principal competitors, Nokia and Motorola.

The Company's strong market presence in more than 100 countries is unique in the industry and represents a great asset in its cooperation with operators who are also becoming increasingly global. Ericsson has established a very strong position as an international partner in the markets for both fixed-wire networks and mobile telephone systems.

Shift toward wireless

In today's changing telecommunications world, the ability to adapt to new patterns of behavior in the market is of ever-greater importance. Flexibility and responsiveness to the demands of the market and end customers are indispensable requirements for a company that wants to play a leading role in the increasingly dynamic telecommunications market of the future. They are characteristics that to a very high degree characterized Ericsson's operations during the past year. Ericsson is not the same company it was a few years ago. Most of its customers are new, its products are new, the organization in many fields is new, and a large percentage of the employees have new job responsibilities.

What is now taking place within Ericsson is a shift of operations so that it corresponds more closely to the needs of the new telecommunications market. Of the Company's 85,000 employees, more than 10,000 were assigned new responsibilities during the year. This was necessary to handle the sharp expansion of business in the Radio Communications Business Area. The Business Area's net sales rose by 38 percent in 1995. Its sales of SEK 56 billion were equal to 56 percent of the total for the Company.

Change of course

A great deal of the additional resources that were required in the radio field were made available through the refocusing and increased efficiency of operations in the Public Telecommunications Business Area, which was also begun during the year.

The change of course that Ericsson is now implementing is a consequence of the increasingly severe competition in the market for conventional public telephony via fixed-wire networks. The past year was characterized by continuing strong pressure on prices at the same time that customers in many markets changed their

procurement procedures. The era of the framework agreements that earlier were common in the Business Area's relationships with customers is now past. Order cycles have become considerably shorter; contracts are shorter and involve deliveries over shorter periods than before. The consequence for Ericsson is that its production and development departments will have to move faster in the future.

The market for ATM/broadband, which initially developed most rapidly in the area of data communications applications, is one concrete example of the need for rapid reorientation. As a result of the trend during the year, Ericsson has substantially refocused its development programs in the broadband field to product areas in which there will be the greatest demand in the years immediately ahead. This refocusing is an important part of the change of course in the Public Telecommunications Business Area.

Focus on AXE

The AXE exchange is still the most important single product in Ericsson's total product portfolio. AXE is an extremely "live" product that has constituted the backbone of the Company's operations for 20 years. During these years AXE has been modernized continuously and the lion's share of development work in Public Telecommunications is now being focused on further enhancement and expansion of the system. Since the AXE exchange is also a key component in Ericsson's mobile telephone systems, a substantial portion of this development work is directed toward further increasing the value of AXE applications in this area.

Measured in number of subscriber lines of equipment delivered, 1995 was the most successful year to date for AXE. Following an increase of 14.5 million lines during the year, the installed base or lines in order of AXE is close to 104.8 million lines. It is therefore the world's most sold digital telephone system. Due to the strong pressure on prices, invoiced sales of AXE were lower than 1994, however.

Cordless systems

For Ericsson's Business Networks Business Area, 1995 was a year of recovery. As a result of the general improvement in economic conditions in 1994 and 1995 in a number of Ericsson's key markets for subscriber switches, customers showed a greater willingness to make investments. Sales of the Consono MD110, the flagship of Ericsson's range of products for business communications, rose 18 percent during the year. Order bookings were up 28 percent.

Freeset, Ericsson's system for cordless business communications, helped boost sales of the Consono MD110 switching system. The market for this type of advanced telephone system began to pick up during the past year. Ericsson, with more than half of the world market, totally dominates this field.

Total solutions

Ericsson's substantial success in marketing to the new telecom operators can be attributed to its Network Construction Division. This unit, which is part of Business Networks, accounted for nearly half of the Business Area's activities. Its operations are based on a long tradition as a supplier of total solutions for telecommunications networks, and on solid knowledge of the field that today is supported by highly advanced data processing tools used in planning and engineering large telecommunications projects.

During 1995 Network Construction recorded major successes in Southeast Asia and Europe, in particular, with a number of large projects in the range of one billion SEK each. The dominant portion of the equipment for such projects comes from Ericsson; but Network Construction's philosophy also includes procurement of products from other suppliers when this is required to meet customers' wishes or needs.

Emphasis on partnership

Ericsson's new submicroelectronics plant was placed in operation during 1995. In this highly advanced facility silicon chips with a line width down to 50 thousandths of a millimeter are produced.

It was possible to build the plant thanks to the cooperation between Ericsson and Texas Instruments within the microelectronics area. This is a prominent example of the Company's strategy of seeking partnerships with leading companies in areas that are closely related to its own operations. The cooperation with Hewlett-Packard in the field of operating support systems is another striking example of this strategy.

Ericsson's strong international presence is an important asset at a time when telecom operators are becoming increasingly global.

Ericsson is currently involved in large- or small-scale joint ventures with a large number of leading companies and organizations, notably in the data field. Telecommunications and data are two fields that are facing a common future, and fields whose development programs support each other to a high degree. Ericsson's joint venture partners in this area include such companies as IBM, Intel and Microsoft. During 1995 joint venture agreements were signed with General Datacom regarding ATM switches, and with Sun Microsystems with respect to the integration of subscriber switches and computers. The Company's most important new joint venture program during the year was signed with Marconi, the Italian company. The two companies are now creating a common product portfolio for SDH products.

In Croatia, Ericsson acquired a 49-percent interest in Nikola Tesla which, under the Ericsson Nikola Tesla name, will continue to be the Company's primary marketing channel to a number of countries in Eastern Europe. Beginning of 1996 Ericsson acquired full ownership of Ericsson Raynet, jointly owned with Raychem Corp., a U.S. company. In Spain, the Company increased its holding in Industria Electronica de Comunicaciones S.A. through the purchase of additional shares.

Since July of 1989, Ericsson's products, systems and services for cellular telephone systems in North America have been provided through a joint venture with General Electric ("GE"). The joint venture agreement with GE includes conditions to be applied if and when one of the parties should wish to terminate the cooperation. However, such a termination may, by GE, not take place until April 1, 1998 and not later than March 31, 2000, and by Ericsson no later than January 1, 2003.

FINANCIAL EXPOSURE

Table 1. Cash flow, net, to and from Sweden, translated to SEK m.

Specification of currencies with net flows exceeding SEK 500 m.

		95	94
USD-related currencies of which			
USD	U.S. dollar	**7,421**	6,653
AUD	Australian dollar	**2,469**	1,724
CAD	Canadian dollar	**–622**	–454
HKD	Hong Kong dollar	**740**	266
MYR	Malaysian ringgit	**1,766**	2,158
Other USD-related currencies		**350**	293
		12,124	10,640
Other currencies, of which			
CHF	Swiss franc	**710**	506
DKK	Danish krone	**329**	582
ESP	Spanish peseta	**1,492**	1,222
GBP	British pound	**550**	1,005
ITL	Italian lira	**866**	1,575
NOK	Norwegian krone	**369**	587
Other currencies		**662**	1,001
		4,978	6,478
	Total	**17,102**	17,118

NOTE: The table is based on statistical data for flows from the Ericsson companies in Sweden. These are considered to represent about 90 percent of Ericsson's total currency flows.

Table 2. Shareholders' equity in current companies in currencies at beginning of 1995 (including associated companies) SEK m.

ATS	Austrian schilling	566
AUD	Australian dollar	799
BEF	Belgian franc	15
CAD	Canadian dollar	320
CHF	Swiss franc	262
CNY	Chinese rimimbi	314
DEM	German mark	316
ESP	Spanish peseta	1,415
FIM	Finnish markka	370
FRF	French franc	624
GBP	British pound	460
IEP	Irish punt	359
ITL	Italian lira	2,852
JPY	Japanese yen	48
MYR	Malaysian ringgit	139
NLG	Dutch guilder	2,049
NOK	Norwegian krone	17
NZD	New Zealand dollar	46
USD	U.S. dollar	3,639

Table 3. Distribution of fixed and floating interest rates.

	Floating rate	Pension liability	Fixed rate
SEK m.	6,176	5,825	3,553
percent	40%	37%	24%

Since Ericsson is an international enterprise with operations in many countries, changes in exchange rates affect the Company's earnings in many ways. It is difficult to establish the effects of these changes with a high degree of precision. This is due to the large variations in flows of currency caused by the complex structure and nature of the Company's business.

The currency exposure may be described as three different types of risks:

Financial exposure is the risk arising from operations being localized in certain countries.

Transaction exposure is the risk that arises when transactions are made in a currency other than that of the home country.

Translation exposure, finally, is the risk that the capital in foreign subsidiaries will decline in value as a consequence of movements in foreign exchange rates.

With its customers, Ericsson is prepared to discuss business in all convertible currencies. Internally, the aim is to concentrate currency exposure to production companies, primarily those in Sweden. Flows of currencies are thereby concentrated to the Swedish operations. These flows comprise more than 30 currencies, with the emphasis on U.S. dollars, which account for about 40 percent of inflows and outflows (table one).

Subsidiaries outside Sweden are for accounting purposes divided into two groups. The first group consists of independent companies whose accounts are translated in accordance with the current method, where the translation effect is charged to equity. The other group includes small marketing companies, newly formed companies, companies in high-inflation countries, and companies engaged in financial operations. The accounts of these companies are translated in accordance with the temporal method whereby the translation effect is shown in the income statement. Currency risks that arise in temporal companies are, by definition, transaction risks.

Rules governing currency risks

The Company has rules and policies governing the handling of currency risks. These rules apply to all units within Ericsson. Briefly, the principles and risks for the various types of financial exposure are as follows:

Financial exposure consists of advantages or disadvantages, relative to competitors, to which Ericsson is exposed as a result of changes in exchange rates and other financial changes. With its widely distributed international operations, Ericsson has a certain flexibility in moving operations from one country or region to another. With about 10 percent of sales and 65 percent of production in Sweden, Ericsson is relatively strongly exposed to exchange rate-variations for the Swedish krona.

In accordance with the Company's instructions, in order to limit *transaction exposure* as much as possible, purchases and sales in foreign currencies should be hedged in cases where binding contracts have been made with a customer or supplier. In addition, budgeted sales are hedged for periods of up to 12 months based on estimates made in each business area. Because these estimates depend on the assurance of volume, pricing and other factors, the hedging period varies from one product area to another. Comparable hedging based on the anticipated results of negotiations occurs in the case of framework agreements and bids outstanding. Before a firm order is received, this hedging is generally in the form of currency options.

Transaction exposure arising through borrowing is limited by the fact that the subsidiaries borrow only in local currency. Borrowing in foreign currencies by the Parent Companies is also hedged. Ericsson Treasury Services AB, the Company's internal bank, also borrows and invests in foreign currencies for the purpose of reducing currency exposure.

The monetary-net in subsidiaries that are translated in accordance with the temporal method is hedged 100 percent against currency risks.

The Company's *translation exposure* in companies translated in accordance with the current method is hedged only to a minor degree, and within a by management established framework. During 1995 this framework amounted to about 20 percent of equity shown in table two.

The Company's *interest-rate risks* are managed centrally. This is because of Ericsson's external borrowing and investment of surplus liquidity, as well as the financing for customers in connection with projects. The Company's pension fund, which in accordance with the special Swedish system may be used as working capital, is a substantial source of financing. This takes the

form of long-term borrowing with an option to repay loans at any time. The interest rate, which is fixed annually, was 6.2 percent in 1995.

Table three, adjusted to reflect interest-rate swaps, shows the distribution of floating and fixed interest rates. Liquidity is managed principally by Ericsson Treasury Services AB within set limits for risks.

Risk limits for the Company's financial operations through Ericsson Treasury Services AB have been fixed at SEK 100 m. for interest-rate and currency risks. These risks have been defined as a change of 1 percent in the level of interest-rate risks, and 5 percent in the case of currency risks. Limits have also been fixed for credit risks in transactions with counterparties.

Payment readiness and borrowing capacity

Payment readiness is maintained through net liquidity and lines of credit. As a guide, these should in total 10 percent of sales. Committed long term lines of credit amount to USD 200 m.

Ericsson's liquidity and *borrowing capacity* were strengthened significantly through the issue of new shares in 1995. The credit ratings awarded by the Moody's and Standard & Poor's agencies were: P1/A1 for short-term borrowing and A1/A+ for long-term. With present capital structure and valuation, Ericsson has substantial borrowing capacity for foreseeable needs.

Risks in connection with customer financing

Credit risks arise primarily in connection with credits arranged for customers. The increasingly common "pure" project risks are the most difficult to evaluate. They have emerged as a result of the auctioning off – or granting for specific periods – of licenses to operate networks. Project risks of this type occur mainly in the mobile telephone operations but also in other areas.

Ericsson's aim is to sell off as much of these risks as may be appropriate, taking into account the terms offered. The largest potential buyers of such credits are banks and credit institutions like the Export Credits Guarantee Board in Sweden, which issues long-term credit guarantees. Credits are of great importance in connection with an entry into a new market or the establishment of relations with a new customer. The losses on such credits that have occurred to date have been relatively small and have been due primarily to political factors. The volume of total risk has gradually increased, but at a slower rate than Ericsson's sales.

Ericsson has its own finance operations whose task is to protect the Company from currency movement and interest risks. It is also an important asset in assisting customers with obtaining financing, for example, of a new mobile telephone network.

TOTAL APPROACH TO ENVIRONMENTAL IMPACT

Ericsson's active involvement in environmental issues began in earnest in 1990, when the Company's first environmental policy was adopted. Since then, this policy has been revised, in part to reflect the increased responsibility that Ericsson, as a producer, feels for its products. One aspect of this responsibility is the use of life-cycle analyses to determine how the Company's products affect the environment. Despite the fact that this is a relatively new "science," the Company is well in the forefront in this type of work.

The concept underlying a life-cycle analysis is to determine the degree to which a given product affects the environment over the entire life of the product. The analysis covers all stages, from recovery of the raw materials used in a product to the final scrapping. With the aid of a Swedish evaluation system developed jointly by Chalmers Technical Institute and the Institute for Air and Water Pollution Research, the resources affected in production and in emissions during the life cycle, as well as the consumption of energy, are calculated as precisely as possible.

Leader in the field

Swedish industry has developed the technique of life-cycle analysis over a period of many years. As a result, the country has been designated by the International Standardization Organization (ISO) to guide the standardization of such analyses with respect to the difficult task of linking cause and effect in the environmental area. Ericsson has used expert systems that have been developed in this program to compare various products from a life-cycle perspective.

To date, life cycle analyses have been made of printed circuits, radio base stations, data modems and various types of microcircuits. As regards microcircuits, which are used in nearly all of the Company's products, Ericsson was among the first in the world to measure environmental impact by means of the new technique. In outline, the analysis involves the following operations:

1. Production of silicon chips. The consumption of materials and energy is studied. High demands for purity and quality in this operation means that energy consumption is high. But high quality in this stage has a decisive and positive effect on environmental impact in later stages of the life cycle.

2. Analysis of environmental impact resulting from the many different photochemical and other processes to which a silicon chip is subjected when microcircuits are etched on it. The energy consumption at this stage is extremely high. The percentage of fault-free chips resulting from the process is therefore of decisive importance with respect to the environmental impact of a given microcircuit.

3. The encapsulation of the circuits that go on to another stage of production is studied. Consumption of material is analyzed. Because gold is used to a large extent, this operation is of major importance, Gold is a metal with a high environmental index. Mining and production, in other words, require substantial resources.

4. Use of the finished circuit. As in the case of all electronic components, the consumption of energy during the life of the product is the largest single factor in the environmental impact of a microcircuit. Technology to reduce energy consumption thus has a substantial effect on the end result.

5. Scrapping of the circuit. To what degree are components recovered? Gold, silver and copper are metals that now being recovered from electronic scrap. It is therefore up to Ericsson and other producers to ensure that they are actually being recovered from used electronic products.

Guidelines

Based on the experience gained in life-cycle analyses made in the Radio Communications Business Area, guidelines have been developed for the unit's designers. As a consequence, the designers have additional reasons to reduce the number of components in products, for example, to select solutions involving lower consumption of energy, to demand circuits that are smaller and have denser patterns.

Based on a lifecycle analysis, an older analog transceiver in a radio base station results in an adverse environmental impact that is four time greater than for a modern, digital radio base station in mini-format. In addition, the modern station has triple the capacity of its analog predecessor, which means that the enviromental load per voice channel falls to one twelfth. It may be said that, on average, today's generation of electronic products have an environmental impact only one third as great as yesterday's.

In order to meet internal and external environmental demands on its industrial operations, Ericsson has made extensive progress in the handling and recycling of waste products.

Cleaner plants

While life-cycle analyses indicate that energy consumption during usage constitutes the greatest impact on the environment caused by Ericsson's products, emissions and energy consumed in production still play a major role. Ericsson has therefore long been concerned about the manner in which its plants affect the environment. The basic principle set forth in the Company's environmental policy is that Swedish environmental regulations should also be applied in countries whose legislation in this area is not as strict as Sweden's.

To measure how effectively its environmental policy is being followed, the Company conducts internal environmental audits and collects measurement data on a continuing basis. The result of these measures is that the Ericsson plants are becoming increasingly "cleaner." Pending the development of better substances that can be employed, advanced biological purification plants are now being built in Company plants to handle the solvents used in production processes. In 1995 Ericsson received an environmental award from British Telecom for the so-called "worm filters" installed for this purpose in the Norrköping plant.

During 1995 Ericsson's plant in Söderhamn invested in a new technology that makes it possible to completely "screen off" the plant's waste water from the outside environment. All of the waste water is now being cleaned so that it can be recirculated in production.

The sorting of various residual products "at the source" is a common practice. In the Company's plant in Pagani, Italy, this operation has developed to the point where all packaging – cartons, plastic drums and wooden packaging – can be utilized. The wooden packaging is collected in a store room area where local carpenters can obtain wood and lumber for use in their businesses. The Pagani plant is also self-sufficient when it comes to water supply. An eight-stage purification process handles the process water from circuit board production, as well as the regular waste water from employees' lavatories.

ISO 14000

Ericsson is one of the companies that has focused most intensively on quality assurance in accordance with the ISO 9000 standard. All major Ericsson companies and operations are now certified as meeting this quality standard. A new ISO standard – the ISO 14000, which requires that companies have an environmental management system – is now being introduced. The Company has started pilot projects to evaluate this standard and the degree to which it can be helpful to Ericsson in its continuing efforts to improve performance in the environmental area.

FLEXIBILITY PROVIDES STRENGTH

In recent yearsEricsson has been able to enjoy major successes in the fast-growing mobile telephone sector, but how will it manage to hold its position in the violent expansion that is taking place in the field? Are enough resources available to deal with a growth in business that is characterized by very large annual increases in orders?

The above questions are the focus of Ericsson's management's attention right now. Throughout its history the Company has demonstrated a well developed capacity for change in order to meet the market's demands, but 1995 was a year when the ability to change was really put to the test. It was year in which the restructuring of Ericsson's development and production resources was intensified.

New jobs for all

Ericsson today has 85,000 employees in more than 100 countries. During each of the next few years approximately 10,000 of them will have to change over to new work assignments as part of the Company's program of continuously adapting to new market conditions.

The 1990s have involved major organizational changes for all five business areas within Ericsson. The common denominator for all of them has been an increasingly stronger focus on core businesses and a more distinct market orientation. A number of companies and operations that have fallen outside the definition for the Company's core operations have been sold or liquidated. At the same time, new resources have been built up in areas where the need for investments was great – primarily in operations oriented toward the strongly expanding mobile telephone market.

Reorientation within Public Telecommunications

Public Telecommunications is the business area that has undergone the most basic change during the past year. Here, the demands for a much more efficient development and production organization are the driving forces. A completely new organization for the business area was announced in June. As a result, the number of business units within the area was reduced from four to two.

All operations pertaining to AXE are being brought together in the business unit for narrowband systems. The business unit for broadband systems is responsible for the broadband and transport-network products fields.

One consequence of this concentration of operations is that the Business Area is initially reducing the number of its employees by 6,000. The number will be reduced by several additional thousand in the future. The Business Area's goal is to become a world-leading supplier of telephone exchanges for narrowband services and in exchange technology for broadband as well.

Welcome addition

The success of the Radio Communications Business Area in recent years is the primary reason why Ericsson does not have to lose expert personnel now that Public Telecommunications is being reorganized. There is a great need in the radio sector for additional personnel that will enable it to take advantage of opportunities for further expansion. As a result, a substantial transfer of resources between the two business areas is now under way. It is a transfer that represents a welcome addition of resources involving all categories of employees.

During 1995, production capacity in a number of plants in Sweden and other countries was transferred to the Radio Communications Business Area. The major changes in production that this involved were carried out successfully. It was accomplished without serious interruptions of production during a year when the volume of manufacturing increased substantially.

Training programs

The plant in Visby offers a good example of the manner in which Ericsson is handling massive changeovers in production. The plant was transferred to its new business area on January 1, 1995. The plant had handled a certain amount of contract production of transceivers for radio base stations, and other products, for several years – but now its entire operations were changed over for production of radio products.

A comprehensive retraining program was initiated in 1994 in cooperation with AMU, the labor market training unit in Visby. AMU set up courses in radio technology that were custom-tailored to Ericsson's requirements. As a result of

Ericsson is undergoing a period of major operational changes. Many employees are expected to be assigned new duties within the Company in the coming years. The skills development this entails for the individual contributes greatly to Ericsson's competitiveness.

the Company's efforts to raise the level of knowledge in the local workforce, the college on the island of Gotland also prepared a course package dealing with radio training.

In this way, the expertise of the Visby plant is being built up rapidly. Parallel with the start-up of new production lines, new administrative and other routines were introduced and broad training of all employees in Visby was also carried out in 1995. The objective is that all of the plant's 1,000 employees should know Ericsson as a whole, and their new business area in particular, much better than they did before.

Model plant

The start-up of new production has been implemented with the aid of Ericsson's "model plant" concept. In this concept, the plant that has the best operations in a given type of production is designated a "Master Plant" and its production methods are transferred to "clone" plants. In the case of the Visby plant, this approach has meant – among other things – that employees from Visby spent several months at the Master Plant in Gävle in the beginning of 1995 to learn the production methods used in making base stations based on the analog TACS standard. A special project was started to determine the best ways of transferring production technology and methods. This resulted in a process – Transfer Product Introduction (TPI) – that has now been standardized and well documented. The TPI process can be used when Visby or other units within Ericsson have to transfer production from one plant to another.

Since the Visby plant handled the changeover to new production very well, it now has the Master Plant function for radio base stations and radio interfaces in AXE systems, another of the plant's product areas. The plant has also been reinforced with its own staff of technicians. They are working in accordance with another standardized process, New Product Introduction (NPI). This process will ensure that newly developed products reach the market rapidly.

Following several years of intensive acclimatization, the Visby plant is now a major resource for the Radio Communications Business Area. The plant devoted 4.5 percent of the total work time to employee training in 1995. And it still doubled the volume of its production compared with the preceding year.

Ellemtel in new role

During the autumn of 1995 Ericsson assumed full ownership responsibility for Ellemtel, the development company that was operated in cooperation with Telia for many years. The company, which was renamed Ericsson Utvecklings AB, is located in Älvsjö in the southern part of Stockholm. Nine hundred engineers and a number of consultants in Älvsjö were engaged in basic technical development. To assist it, the company has also had a large number of development groups in other Ericsson companies throughout the world. As of March 1, 1996, Ericsson Utvecklings AB is a completely new company, with a new orientation for its development work and a completely new organization.

Ericsson Utvecklings AB will focus on basic technology for infrastructures in wired and mobile telecommunications networks. Its mission is to modernize and further enhance AXE10, which will continue to be the cornerstone in Ericsson's exchange systems well into the next century. This new assignment involves major personnel changes. The decision to set a new course was made in December 1995. This was followed by a rapid reorganzation which, among other effects, resulted in a welcome addition of resources with the expansive radio area. On March 1, the new organization had been fully implemented.

Expertise in development work

The changes in Ericsson Utvecklings AB were carried out in harmony with the change of course in Public Telecommunications. About 300 persons who worked on development of ATM/broadband are now continuing to work within the business area on strengthening the concentrated program in the field of small broadband exchanges. At the same time, the business area's core unit of 900 employees working on basic technology was transferred to the development company where they will be part of the development of AXE10.

Slightly more than another 300 persons were assigned new duties within Radio Communications. There, they are adding to the strength of development programs in such key areas as processor development, operating systems and sophisticated software through the expertise they acquired at Ellemtel.

The change in orientation also meant that consultants were dismissed and that relations with the internal suppliers, who had been involved primarily with the development of ATM technology, were released to other duties.

Well-orgnanized move

Moving 900 persons into the organization and 600 out of it within three months at the same time that the entire operation had changed direction was a real challenge for Ericsson Utvecklings AB. That this changeover was successful, without any appreciable loss of highly qualified employees, is good evidence of the sound methods used. As is the case with the change of production in the Visby plant, the changeover process in the development company strengthened Ericsson's ability to continue to adapt rapidly to changes in its business environment in the future.

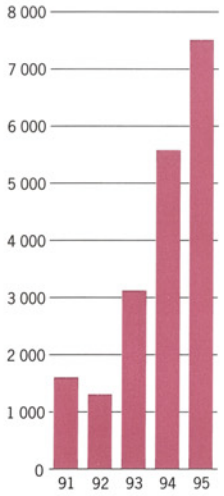
Two of the most important factors behind the changeover in the development company were the method of moving entire units without splitting them up and the very clear responsibility assigned to managers in the old organization. These managers became key persons in the successful transfer of their employees to new positions. It was established from the beginning that no manager could leave his former work until all of his department had been relocated. As a result of rapid and intensive work, it was possible to offer a new employment to 80 percent of the persons affected by the change.

A strong position

There is an important common denominator in the two examples of how Ericsson today can deal with major changes: An increasingly distinct Ericsson culture in which common values -- professionalism, respect and perseverance -- are shared by all employees, regardless of which business area or company they belong to.

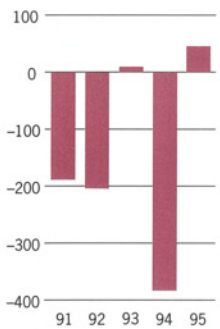
Achieving success in such a dynamic field as telecommunications is a matter of access to competent personnel and the manner in which they are organized. The major changes that occurred in 1995 demonstrate that Ericsson has the capacity for flexibility and change that is required to maintain its position as a leading international supplier of systems, services and products for telecommunications.

Income before taxes, SEK m.

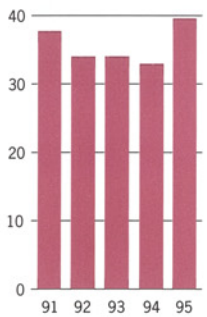


Income improved to SEK 7,615 m. in 1995, an increase of 36 percent compared with 1994.

Financial Net, SEK m.



Equity ratio, %



Ericsson equity ratio was 39.6 (34.4) percent.

Sales and order bookings

Ericsson's net sales in 1995 amounted to SEK 98,780 million, an increase of 20 percent compared with sales of SEK 82,554 in the preceding year. Markets outside Sweden accounted for 91 (90) percent of sales, and 44 percent, unchanged from 1994, were attributable to countries within the European Union (EU). The United States, with 11 percent of sales, is Ericsson's largest single market, followed by Sweden, China, England and Italy. Asia is the market area that showed the greatest growth in 1995.

Total exports from Sweden, including sales to foreign subsidiaries, amounted to SEK 55,998 m. (41,507) increased by 35 percent.

Order bookings rose 25 percent, to SEK 104,981 m. (84,140). The year-end order backlog was SEK 48,401 m. (45,671).

Income

Consolidated income before taxes increased by 36 percent, to 7,615 m. (5,610). The 1995 income included a net capital loss of SEK 70 m., after deduction of minority interests, compared with a capital gain of SEK 155 m. in 1994.

Net income per share after current and deferred taxes, stock issue and 4-for-1 split was 6.03 SEK (4.47) after full conversion.

Operating income was SEK 8,164 m. (6,553). Income increased in all business areas except Public Telecommunications. Business Area Radio Communications reported the largest increase in income.

The substantial investments in technical development and in plants and technical equipment continued during the year. The total costs of technical development programs declined slightly as a percentage of the considerably higher sales. An increasing and now dominant percentage of Ericsson's sales pertain to products that were not on the market a few years ago. Continuous consideration has been given in the accounts to offset the increased risks resulting from these rapid market, technology and organizational changes.

Other operating revenues and Ericsson's share in earnings of associated companies both declined, compared with last year primarily due to a net capital loss (change of SEK 225 m.). The results in associated companies includes Ericsson's share of a loss in Ericsson Raynet. The financial net improved to an income of SEK 58 m., compared with an expense of SEK 386 m. in 1994. Favorable financial management results and interest income on the proceeds of the stock issue contributed to this positive development. Proceeds from the fully subscribed issue of shares amounted to SEK 7,831 m. and were received at the end of October.

Minority interests in income before taxes to SEK 607 m. (557) includes minority interests in ventures in Japan, China and Italy and other countries.

Due to rising inventories and accounts receivable, cash flow before financial operations was a negative SEK 2,512 m. in 1995, compared with a positive cash flow of SEK 5,340 m. in 1994.

At the same time as the business volume increased, the turnover rate of capital employed rose from 2.02 times to 2.12 times.

Radio Communications' share of Ericsson's sales is now 56 percent as a result of major volume gains in the mobile telephony business. Business area net sales were 38 percent over the last year. Order bookings increased even more in 1995, with strong growth in all markets (most notably in the U.S., Japan and China). Especially sales of digital systems based on TDMA technology developed favorably. Operating income for Radio Communications rose sharply during the year and accounted for a significant portion of Ericsson's consolidated earnings.

Public Telecommunications posted a 5-percent increase in net sales while order bookings improved marginally. The AXE system passed a milestone during the year of 100 million lines installed or on order and showed good profitability despite, price pressure and the unfavorable development of the Mexican economy. However, due to continued investments in the area of broadband communications and costs of restructuring the development operations, including the related reduction in number of employees during 1995 by 2,700, the business area reported unsatisfactory results.

The Business Networks operations improved successively during the year. The new Consono product family was well received on the market and sales began to accelerate. The trend was particularly favorable for private systems for cordless telephony, an area in which Ericsson's leading position was further strengthened. Network operations developed favorably, especially the focus on turnkey projects for new operators. The business area's operating income improved during the year.

Components increased net sales by 22 percent and posted an even higher increase in order bookings. Substantial competence has been developed within microelectronics, a strategically important area. Rapid growth was achieved in the distribution of microelectronic components. The

largest volume increases were reported in the cable products and energy systems operations. Operating income continued to be satisfactory.

Microwave Systems reported increased sales and order bookings and is now world leading in digital radio links for mobile networks. The business area actively capitalizes on the technical and industrial synergies between its two main areas, defense electronics and microwave communications. Operating income was satisfactory and continued to develop favorably.

Financing

Ericsson's accounts receivable, calculated as a percentage of sales, increased during the year to 26 (25) percent. Inventories increased to 20 (16) percent of sales. Deliveries mainly to mobile telephony projects account for the major increase.

The equity ratio was 39.6 (34,4) percent.

After approval of a Special General Meeting of shareholders in September, all Ericsson shareholders were invited to subscribe for one new share, at a price of SEK 90, for each ten old shares held. The issue was fully subscribed and provided Ericsson with SEK 7,831 m. The number of Series A shares in the Company increased by 7,457,030 and Series B shares increased by 79,552,360. Earlier in the year, following the approval of the Annual General Meeting, a 4-for-1 stock split was effected. Liquid funds increased as a result of the issue of new shares.

The new shares were issued considering the dynamic changes in the telecommunications field, where Ericsson sees greater opportunities for expansion than before, primarily in mobile telephony. As a result of the addition to capital and a stronger balance sheet, Ericsson will have much better opportunities to take advantage of its technical and market position, as well as to better meet customers' needs and win new customers by being able to offer financing.

SEK 2,028 m. of the convertible debenture loan amounting to SEK 2,172 issued to Ericsson's shareholders in the summer of 1993 remain unconverted. The debentures are listed on the Stockholm Stock Exchange and are traded in the United States in the form of American Depositary Debentures (ADDs) via the NASDAQ- system. The debentures carry interest of 4.25 percent and, due to the stock issue and the 4-for-1 stock split, the conversion price has been adjusted to SEK 72.10. The shares may be converted up to and including May 31, 2000. During 1995, debentures corresponding to 1,650,367 Series B shares were converted. Upon full conversion of the debentures outstanding, the number of Ericsson's shares will increase by 28,121.471 Series B shares. The convertible debenture loan has been rated "A2" by Moody's Investors Service. The outstanding portion, CHF 0.2 m., of the 1987 convertible debenture loan in the amount of CHF 135 m. was redeemed during the year.

Debentures equivalent to 1,689,035 shares were converted during the year. After the end of the year, additional debentures equivalent to 2,662 shares, which carry rights to dividends in 1996, have been converted.

During the year, the Parent Company replaced a number of short-term credit commitments totaling USD 230 m. with a syndicated five-year credit commitment of USD 200 m.

Treasury Service's results from management of currencies and liquidity were good and had a positive impact on Ericsson's financial net. The risks are managed within a policy approved by the board.

The insurance operations were affected by several fires in 1995, which had a negative impact upon earnings in the Captive companies. Most of the losses were reinsured, however.

The ratio of project risks in export and project financing activities has increased, gradually raising the level of risk. No appreciable credit losses occurred. It is still difficult to initially refinance new projects.

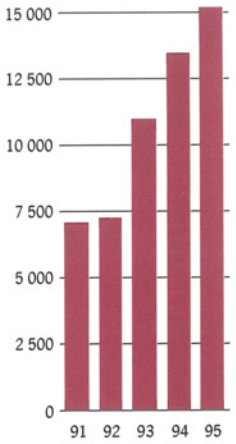
Research and development

During 1995, the substantial investments in technical development and in plants and technical equipment continued. Ericsson's total costs for research and development, including development costs related to customer orders, which are reported as part of the costs of sales of goods and services, amounted to SEK 15,093 m. (13,407), equal to 15 (16) percent of sales. Total technical costs, including costs of modifying systems and products for specific markets, amounted to SEK 19,171 m. (16,412), equal to 19 (20) percent of sales.

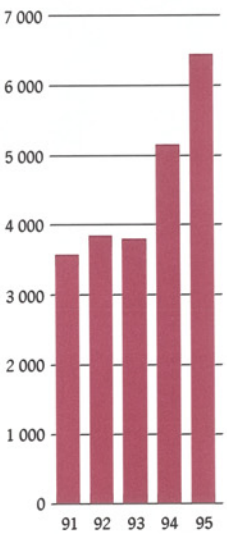
Capital expenditures

Investments in property, plant and equipment were SEK 6,457 m. (5,137). Capital expenditures in Sweden increased to SEK 3,656 m. (3,202). Of the total amount invested, SEK 1,019 m. (713) was attributable to other countries within the EU.

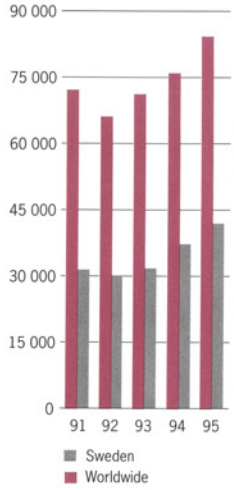
Research and development, SEK m.



Capital Expenditures, SEK m.



Number of employees



Personnel

Number of employees rose 8,369, to 84,513, during the year. The major part of the increase, 5,038, took place in Sweden, primarily in Business Area Radio Communications. In addition, about 5,000 persons changed jobs within Ericsson, mainly to positions within the expanding Radio Communications. Of the total number of employees, 62,507 – including 42,022 in Sweden – are in units within the EU.

Wages, salaries and other remuneration were SEK 20,436 m. (17,881). Net sales per employee increased to SEK 1,230,000 (1,114,000). Information on the average number of employees, and on wages, salaries and remuneration paid and benefits accruing to senior executives appears in Accounting Principles and Notes.

Parent Company

Parent Company net sales were SEK 16,940 m. (17,207). Parent Company net income after appropriations and taxes was SEK 1,741 m. (1,961). Earnings available for distribution at year-end amounted to SEK 6,654 m. (6,108).

Significant changes within Ericsson

In Spain, a new wholly owned company, Ericsson Mobile Systems S.A., was formed and additional shares were acquired in Industria Electronica de Comunicaciones S.A..

Wholly owned companies were established in Bulgaria and Romania.

In Croatia, Ericsson acquired 49 percent of the shares of Ericsson Nikola Tesla.

A majority ownership in Automatic System Manufacturing Ltd., was aquired in South Africa.

Within the framework of the joint venture with Telia, Ericsson acquired all the shares of Ellemtel AB (now Ericsson Utvecklings AB) and formed a new company, Ellemtel Utvecklings AB, owned equally by Ericsson and Telia

In China, a new joint venture company, Beijing Ericsson Mobile Communication Company Ltd., was formed, in which Ericsson has a 50-percent ownership.

In Germany, Ericsson Fuba Telecom GmbH was merged into Ericsson GmbH.

Ericsson acquired an additional 6 percent of the shares of the Mexican subsidiary, Teleindustria Ericsson S.A. increasing its holding to 99.9 percent.

The subsidiary Objectory Systems AB was sold and a small holding was acquired in Rational Software Company at the same time.

In January 1996, Ericsson and Ascom Tateco formed a joint-venture in which the partners are coordinating their On-Site-Paging activities. Ericsson holds a 30-percent ownership and Ascom Tateco 70 percent.

In February 1996, Ericsson acquired the balance of the shares of Ericsson Raynet.

Proposed disposition of earnings

The sum of SEK 6,654,017,305 is available for disposition by the shareholders at the Annual General Meeting. The Board of Directors and the President propose that these earnings be distributed as follows:

That	a dividend of SEK 1.75 per share be paid to stockholders duly registered on the record date	SEK 1,675,830,728
That	the remainder be retained in the business	SEK 4,978,186,577
		SEK 6,654,017,305

Stockholm, March 1996
Telefonaktiebolaget LM Ericsson (publ)

Björn Svedberg *Chairman*	Peter Wallenberg *Vice Chairman*	Tom Hedelius *Vice Chairman*
Bo Berggren	Claes Dahlbäck	Göran Engström
Jan Hedlund	Per Lindh	Sverker Martin-Löf
Sven Olving	Clas Reuterskiöld	Sven Ågrup
	Lars Ramqvist *President*	

CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK m.		1995	1994	1993
Operating revenues				
Net sales		**98,780**	82,554	62,954
Other operating revenues	NOTE 1	**487**	879	485
Share in earnings of associated companies		**414**	893	79
		99,681	84,326	63,518
Operating expenses				
Cost of sales		**54,323**	46,556	34,825
Selling, research and development, general and administrative expenses		**33,580**	28,213	22,512
Depreciation	NOTE 2	**3,614**	3,004	2,651
		91,517	77,773	59,988
Operating income after depreciation		**8,164**	6,553	3,530
Financial income	NOTE 3	**1,497**	908	1,390
Financial expenses	NOTE 3	**1,439**	1,294	1,382
Income after financial income and expenses		**8,222**	6,167	3,538
Minority interest in income before taxes		**–607**	–557	–430
Income before taxes		**7,615**	5,610	3,108
Taxes				
Current taxes	NOTE 4	**–3,017**	–2,345	–975
Deferred taxes	NOTE 4	**676**	522	640
Minority interest in taxes		**165**	162	62
Net income		**5,439**	3,949	2,835
Net income per share, SEK				
– after current and deferred taxes, stock issue and 4-for-1 stock split and after full conversion	NOTE 6	**6.03**	4.47	3.20

Net sales:
SEK 98,780 m.

Income before taxes:
SEK 7,615 m.

Net income per share:
SEK 6.03

CONSOLIDATED BALANCE SHEET

December 31, SEK m.		1995	1994
Assets			
Current Assets			
Cash, bank deposits and short-term cash investments	NOTE 7	**15,385**	11,892
Notes and accounts receivable – trade	NOTE 8	**25,379**	20,666
Inventories (less advance and progress payments, 3,328 in 1995 and 4,843 in 1994)		**19,351**	12,805
Other current assets	NOTE 9	**7,719**	5,851
		67,834	51,214
Investments and other noncurrent assets			
Notes and accounts receivable – trade	NOTE 8	**334**	320
Investments in associated companies, at equity	NOTE 22	**2,953**	2,299
Other investments		**611**	720
Other noncurrent assets	NOTE 12	**3,579**	4,768
		7,477	8,107
Property, plant and equipment	NOTE 13		
Cost		**31,066**	28,011
Accumulated depreciation		**15,980**	14,821
		15,086	13,190
Revaluation adjustments, net of accumulated depreciation		**435**	488
		15,521	13,678
	1995 1994		
Assets pledged as collateral	**1,204** 1,465	NOTE 20	
Total assets		**90,832**	72,999

December 31, SEK m.				1995	1994
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable – trade				**10,018**	7,870
Advances from customers				**3,950**	3,678
Accrued taxes				**2,564**	1,943
Short-term borrowings			NOTE 14	**2,198**	2,598
Current maturities of long-term debt				**1,715**	271
Other current liabilities			NOTE 15	**21,908**	16,824
				42,353	33,184
Long-term liabilities					
Bond loans			NOTE 16	**1,495**	2,740
Convertible debentures			NOTE 16	**2,028**	2,151
Pension liabilities			NOTE 17	**5,825**	5,516
Deferred tax liabilities				**826**	1,073
Other long-term liabilities			NOTE 16	**2,293**	3,246
				12,467	14,726
Minority interest in equity of consolidated subsidiaries				**1,749**	1,787
Stockholders' equity			NOTE 19		
Capital stock				**2,394**	2,172
Reserves not available for distribution				**22,061**	13,660
				24,455	15,832
Retained earnings				**4,369**	3,521
Net income				**5,439**	3,949
				34,263	23,302
	1995	1994			
Contingent liabilities	**4,103**	3,094	NOTE 21		
Total liabilities and stockholders' equity				**90,832**	72,999

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK m.	1995	1994	1993
Operations			
Net income	**5,439**	3,949	2,835
Minority interest in net income	**442**	395	368
Adjustments to reconcile net income to cash			
Depreciation & amortization	**3,816**	3,209	2,824
Capital gains (–)/losses on sale of property, plant, equipment and shares	**68**	–99	2
Changes in:			
Inventories	**–7,237**	956	–2,909
Accounts receivable & other operating assets	**–8,402**	–1,690	–3,807
Accounts payable & other operating liabilities	**8,695**	2,731	6,004
Cash flow from operating activities	**2,821**	9,451	5,317
Investing activities			
Investments in land, buildings, machinery and equipment	**–6,423**	–4,907	–3,805
Sales of property, plant and equipment	**397**	338	420
Acquisitions of shares and participations, net	**–466**	272	–266
Net change in capital contributed by minority	**–33**	122	–88
Other	**1,192**	64	–1,477
Cash flow from investing activities	**–5,333**	–4,111	–5,216
Cash flow before financing activities	**–2,512**	5,340	101
Financing activities			
Changes in short-term loans, net	**–217**	–741	–1,091
Proceeds from issuance of long-term debt	**247**	745	2,645
Stock issue	**7,831**	–	–
Repayments of long-term debt	**–615**	–654	–1,357
Dividends paid	**–1,510**	–1,188	–940
Cash flow from financing activities	**5,736**	–1,838	–743
Effect of exchange rate changes on cash	**269**	–410	215
Net change in cash	**3,493**	3,092	–427
Cash, beginning of period	**11,892**	8,800	9,227
Cash, end of period	**15,385**	11,892	8,800

1993 adjusted for change in accounting principles. See Accounting Principles and Notes.

PARENT COMPANY INCOME STATEMENT

Years ended December 31, SEK m.		1995	1994	1993
Operating revenues				
Net sales		**16,940**	17,207	12,609
Other operating revenues	NOTE 1	**1,610**	1,720	1,754
		18,550	18,927	14,363
Operating expenses				
Cost of sales		**12,728**	11,316	8,482
Selling, research and development, general and administrative expenses		**6,909**	7,011	5,232
Depreciation	NOTE 2	**557**	490	441
		20,194	18,817	14,155
Operating income after depreciation		**–1,644**	110	208
Financial income	NOTE 3	**2,826**	2,461	2,495
Financial expenses	NOTE 3	**1,213**	1,062	1,493
Income after financial income and expenses		**–31**	1,509	1,210
Appropriations to (–)/transfers from untaxed reserves				
Changes in depreciation in excess of plan	NOTE 2	**–14**	–74	–75
Changes in other untaxed reserves	NOTE 18	**–170**	1,186	–1,424
		–184	1,112	–1,499
Contributions from/to (–) subsidiaries		**2,116**	–518	2,943
Income before taxes		**1,901**	2,103	2,654
Income taxes	NOTE 4	**–160**	–142	–113
Reported net income		**1,741**	1,961	2,541

Net sales:
SEK 16,940 m.

Income before taxes:
SEK 1,901 m.

PARENT COMPANY BALANCE SHEET

December 31, SEK m.		1995	1994
Assets			
Current assets			
Cash, bank deposits and short-term cash investments	NOTE 7	**9,125**	7,990
Notes and accounts receivable from subsidiaries	NOTE 10	**8,900**	5,064
Notes and accounts receivable – trade	NOTE 8	**2,230**	2,673
Inventories (less advance and progress payments, 62 in 1995 and 72 in 1994)		**1,779**	2,288
Other current assets	NOTE 9	**2,589**	1,533
		24,623	19,548
Investments and other noncurrent assets			
Notes and accounts receivable – trade	NOTE 8	**97**	155
Other accounts receivable from subsidiaries	NOTE 10	**2,330**	2,515
Investments	NOTE 11		
Subsidiaries		**11,258**	10,878
Associated companies		**804**	465
Other investments		**50**	25
Other noncurrent assets	NOTE 12	**749**	924
		15,288	14,962
Property, plant and equipment	NOTE 13		
Cost		**5,899**	5,964
Accumulated depreciation		**2,713**	2,729
		3,186	3,235
Revaluation adjustments, net of accumulated depreciation		**175**	184
		3,361	3,419

	1995	1994	
Assets pledged as collateral	**624**	745	NOTE 20

Total assets	**43,272**	37,929

December 31, SEK m.			1995	1994
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable – trade			**1,114**	1,418
Advances from customers			**115**	694
Accrued taxes			**142**	30
Short-term borrowings		NOTE 14	**49**	363
Current maturities of long-term debt			**1,600**	213
Accounts payable to subsidiaries		NOTE 10	**6,568**	8,035
Other current liabilities		NOTE 15	**2,250**	2,823
			11,838	13,576
Long-term liabilities				
Bond loans		NOTE 16	**1,495**	2,740
Convertible debentures		NOTE 16	**1,628**	1,649
Pension liabilities		NOTE 17	**2,434**	2,330
Payables to subsidiaries		NOTE 10	**1,011**	513
Other long-term liabilities		NOTE 16	**900**	1,815
			7,468	9,047
Untaxed reserves				
Accumulated depreciation in excess of plan		NOTE 13	**1,127**	1,113
Other untaxed reserves		NOTE 18	**1,802**	1,632
			2,929	2,745
Stockholders' equity		NOTE 19		
Capital stock			**2,394**	2,172
Reserves not available for distribution			**11,989**	4,281
			14,383	6,453
General reserve			**100**	100
Retained earnings			**4,813**	4,047
Reported net income			**1,741**	1,961
			21,037	12,561
	1995	1994		
Contingent liabilities	**6,759**	6,243	NOTE 21	
Total liabilities and stockholders' equity			**43,272**	37,929

PARENT COMPANY STATEMENT OF CASH FLOWS

Years ended December 31, SEK m.	**1995**	1994	1993
Operations			
Reported net income	**1,741**	1,961	2,541
Adjustments to reconcile net income to cash			
Depreciation & amortization	**659**	541	454
Capital gains (–)/losses on sale of property, plant, equipment and shares	**31**	–21	–29
Appropriations to/transfers from (–) untaxed reserves	**184**	–1,112	1,499
Unsettled part of contributions from (–)/to subsidiaries	**–2,114**	516	–3,120
Changes in:			
Inventories	**509**	–50	–589
Accounts receivable & other operating assets	**–783**	–447	–1,070
Accounts payable & other operating liabilities	**–1,365**	1,652	837
Cash flow from operating activities	**–1,138**	3,040	523
Investing activities			
Investments in land, buildings, machinery and equipment	**–931**	–1,009	–733
Sales of property, plant and equipment	**376**	35	110
Acquisitions of shares and participations, net	**–558**	1,614	–331
Lending, net	**–2,865**	2,226	–590
Other	**–**	–346	–
Cash flow from investing activities	**–3,978**	2,520	–1,544
Cash flow before financing activities	**–5,116**	5,560	–1,021
Financing activities			
Changes in short-term loans, net	**–424**	3,045	–558
Proceeds from issuance of long-term debt	**484**	1,228	2,548
Stock issue	**7,831**	–	–
Repayments of long-term debt	**–445**	–989	–292
Dividends paid	**–1,195**	–977	–722
Cash flow from financing activities	**6,251**	2,307	976
Net change in cash	**1,135**	7,867	–45
Cash, beginning of period	**7,990**	123	168
Cash, end of period	**9,125**	7,990	123

1993 adjusted for change in accounting principles. See Accounting Principles and Notes.

Accounting Principles

In millions of Swedish kronor (except per share amounts) at December 31, unless otherwise stated.

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, thereby applying the Swedish Financial Accounting Standards Council's Recommendations. These accounting principles differ in certain respects from accounting principles generally accepted in the United States. For a description of major differences and their approximate effect on consolidated income and stockholders' equity, see Note 23.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries. Intercompany transactions have been eliminated.

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

Material investments in associated companies in which the Company's voting stock interest is at least 20 percent but not more than 50 percent are accounted for according to the equity method (see Note 22). Investments in associated companies are shown at equity after adjustments for unrealized intercompany profits and unamortized goodwill (see (b) below). Minor investments in associated companies and all other investments are accounted for as Other investments, and carried at the lower of cost or fair market value.

(b) Goodwill

Goodwill (excess of cost over net assets at market value of acquired companies) and negative goodwill (excess of net assets at market value over cost of acquired companies) are amortized at a rate of 10 percent per year.

(c) Sales Recognition

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

In sales between consolidated companies, as a rule the same pricing is applied as in transactions with other customers, taking into account, however, that certain costs are eliminated in internal transactions between such companies.

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

The Company applies the Statement of Financial Accounting Standards No. 52 (SFAS 52) issued by the Financial Accounting Standards Board of the United States (FASB) for the translation to Swedish kronor of the financial statements of foreign subsidiaries and associated companies.

For most subsidiaries and associated companies, the currency in which those companies primarily generate and expend cash is their functional (business) currency, in accordance with SFAS 52. Their balance sheet items 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 reported directly against stockholders' equity. When a company accounted for in accordance with these principles is sold, the accumulated translation adjustments are included in the consolidated income. Companies whose accounts are translated in accordance with this method (current method) are designated independent companies.

Financial statements of subsidiaries and associated companies with finance activities, small sales companies or newly established companies, 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 translation of these subsidiaries and associated companies' financial statements are included in the consolidated income statement. Companies whose accounts are translated in accordance with this method (temporal method) are designated integrated companies.

The financial statements of subsidiaries and associated companies operating in countries with highly inflationary economies, and whose functional currency is considered to be the U.S. dollar or another currency, have been translated in two steps. In the first, translation is made to the functional currency. Gains and losses resulting from this translation are included in the consolidated income statement. In the second step, from the functional currency 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 reported directly against Stockholders' Equity.

Gains and losses on foreign exchange are divided into operational and financial. Net operational gains and losses on foreign exchange, mainly related to accounts receivable and payable, 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 in subsidiaries operating in countries with highly inflationary economies, and whose functional currency is considered to be other than the local currency, are included in financial income whereas gains and losses attributable to loans are included in financial expenses.

Financial gains and losses on foreign exchange in other companies are included net in financial expenses (see Note 3).

In the financial statements, receivables and liabilities in foreign currencies have been translated at year-end exchange rates.

Forward exchange contracts and investments not used to hedge the Company's positions have been valued at market.

e) Valuation of financial investments and interest derivatives

Financial investments held in Ericsson Treasury Service's trading portfolio for which there is a cash market, are valued at market. Other financial investments are valued at the lowest of acquisition costs plus accrued interest and market value.

Interest-related derivatives linked to specific investments or loans or which are applied to hedge interest positions, are valued in the same manner as the main instrument. Other derivatives are valued at market.

(f) Research and Development Costs

Research and development costs are expensed as incurred. Costs based on orders from customers are included in Cost of sales.

(g) Inventories

Inventories are valued at the lowest of cost or market on a first-in, first-out (FIFO) basis. Consideration has been given to risks of obsolensce. 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. This also applies to associated companies.

As a consequence of the high degree of integration among Ericsson's various products, Recommendation RR2 of the Swedish Financial Accounting Standards Council regarding information about the composition of inventories is not fulfilled.

(h) Deferred tax in untaxed reserves

The Company applies the basic principles in SFAS 109 issued by FASB. In brief, this means that the Company reports deferred taxes attributable to temporary differences between the book value of assets and liabilities and their tax value and, in some cases, deferred tax receivables attributable to unutilized loss carryforwards, if the likelihood that they will be used is deemed to be greater than 50 percent

Appropriations and Untaxed reserves are not reported in the consolidated financial statements. Such items in consolidated companies have been restated by applying the current tax rate applicable in each country. The deferred tax calculated in this connection has been shown in the consolidated income statement as Deferred taxes. The after tax-effect is stated in the income statement as part of net income for the year, and in the balance sheet as restricted stockholders' equity. The accumulated deferred tax liability is adjusted each year by applying the current tax rate in each country and is stated in the consolidated balance sheet as Deferred tax. An adjustment of deferred tax liability attributable to changes in tax rates is shown in the consolidated income statement as a part of the deferred tax expense for the period. Furthermore, tax expense for the period is adjusted for taxes attributable to hedging of net investments in foreign subsidiaries.

(i) Leases

Property leases are normally expensed over the term of the lease.

SFAS 13 is applied in accounting for certain contracts in the consolidated accounts. Accordingly, certain leasing contracts are capitalized and reported as an acquisition of an asset and as Other short-term liability and Other long-term liability. See also Note 5, Leasing.

(j) Property, Plant and Equipment

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

(k) Depreciation

The annual depreciation is reported as plan depreciation, generally using the straight-line method, with estimated useful lives of, in general, 40 years on buildings, 25 years on telephone plants, 20 years on land improvements, 3 to 10 years on machinery and equipment, and up to 5 years on rental equipment, which is reported as an operating expense.

The Company normally claims the maximum depreciation deduction allowable for tax purposes.

The differences between depreciation deductions for tax purposes and plan depreciation, depreciation in excess of plan, are treated in the consolidated accounts in accordance with point (h) above. In the Parent Company, depreciation in excess of plan is reported as Appropriations.

During 1989, certain telephone exchange equipment was leased to customers, which is reported in the consolidated accounts in accordance with SFAS 13. The assets are included in Machinery and equipment in the Parent Company accounts. See also paragraph (i) Leases, above.

(l) Net Income per Share

Net income per share is based on the average number of common shares after full conversion of convertible debentures and stock issue. Adjustment has also been made for the 4-for-1 split in 1995.

The calculation of net income per share is based on income before taxes with deductions for current taxes and deferred taxes as reported, adjusted for minority interests.

For reference to net income per share in accordance with U.S. GAAP, see Note 23.

(m) Statement of Cash Flows

Effective January 1, 1994, and with adjustments of comparison years, the Group and Parent Company has in substance adopted Recommendation SFAS 95, "Statement of Cash Flows." The statement of cash

flows shows changes in cash position during the year subdivided on the basis of cash generated by operations, investing activities and finansing activities respectively. Foreign subsidiaries' transactions are translated at the average exchange rate during the period.

When subsidiaries are purchased and/or sold, the opening balance in the Consolidated Balance Sheet is adjusted to reflect only the purchase amount/selling price, net of cash acquired, as an investment activity to eliminate effects in cash flow from operations.

(n) Operations on commission basis reported in Parent Company accounts

At year-end 1993, LM Ericsson Södra Fastighetsförvaltning AB ceased to conduct operations on a commission basis for the Parent Company.

Effective January 1, 1994, Ericsson Treasury Services AB conducts its operations on a commission basis for the Parent Company which, effective the same date, took over all the company's assets and liabilities, with the exception of certain tax-related items. The incorporation of Ericsson Treasury Services' operations has mainly affected items included in net financial expenses in the Parent Company Income Statement and cash, bank deposits and short-term cash investments, as well as short-term transactions with other Ericsson companies included in the Parent Company Balance Sheet.

As previously, Ericsson Telecom AB operates on a commission basis for the Parent Company.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Other Operating Revenues

CONSOLIDATED	1995	1994	1993
Commissions, license fees and other operating revenues	**556**	724	530
Losses on sale of property, plant and equipment	**–53**	–49	–2
Gains/Losses (–) on sale of investments and operations	**–16**	204	–43
	487	879	485

PARENT COMPANY	1995	1994	1993
Commissions, license fees and other operating revenues	**1,641**	1,701	1,725
Gains/Losses (–) on sale of property, plant and equipment	**–58**	–22	3
Gains on sale of investments	**27**	41	26
	1,610	1,720	1,754

Note 2 Depreciation

CONSOLIDATED	1995	1994	1993
PLAN DEPRECIATION			
Land improvements	**9**	5	5
Buildings	**186**	159	141
Machinery and equipment	**3,397**	2,820	2,478
Revaluation adjustments	**22**	20	27
	3,614	3,004	2,651

PARENT COMPANY	1995	1994	1993
PLAN DEPRECIATION			
Land improvements	**5**	1	1
Buildings	**24**	24	23
Machinery and equipment	**519**	456	408
Revaluation adjustments	**9**	9	9
	557	490	441
Total depreciation	**571**	564	516
DEPRECIATION IN EXCESS OF PLAN			
Buildings, machinery and equipment	**–26**	–43	–75
Intangible assets	**12**	–31	–
	–14	–74	–75

Note 3 Financial Income and Expenses

CONSOLIDATED	1995	1994	1993
FINANCIAL INCOME			
Interest income	**1,493**	882	1,379
Dividends	**4**	26	11
Total financial income	**1,497**	908	1,390
FINANCIAL EXPENSES			
Interest expenses	**1,659**	1,459	1,417
Gains and losses on foreign exchange, net	**–282**	–199	–73
Other financial expenses	**62**	34	38
Total financial expenses	**1,439**	1,294	1,382
Financial net	**58**	–386	8

PARENT COMPANY	1995	1994	1993
FINANCIAL INCOME			
Interest income	**1,417**	992	471
Dividends from subsidiaries	**1,305**	1,301	1,896
Dividends from others	**104**	168	128
Total financial income	**2,826**	2,461	2,495
FINANCIAL EXPENSES			
Interest expenses	**1,613**	1,435	773
Gains and losses on foreign exchange, net*	**–464**	–382	699
Other financial expenses	**64**	9	21
Total financial expenses	**1,213**	1,062	1,493
Financial net	**1,613**	1,399	1,002

* Of the total amount, SEK –304 m. in 1995, SEK –233 m. in 1994 and SEK 689 m. in 1993 is attributable to hedge of net investments in foreign subsidiaries.

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

To achieve a relevant accounting of interest income and interest expenses for subsidiaries operating in countries with highly inflationary economies, interest income has been charged with foreign exchange adjustments attributable to financial assets, while financial expenses have been credited with foreign exchange adjustments attributable to financial liabilities.

Note 4 Tax Expenses

As explained under Accounting Principles and Notes (h), the Company reports deferred taxes attributable to untaxed reserves. The Company also reports deferred taxes attributable to temporary differences between the book values of assets and liabilities and their tax values. In addition, the Company reports deferred tax receivables attributable to unutilized loss carryforwards if the likelihood that they will be used is deemed to be greater than 50 percent.

At December 31, 1995, the Company had unutilized loss carryforwards totaling SEK 364 m. The final years in which these loss carryforwards can be utilized are shown in the table below. The Parent Company had no unutilized loss carryforwards.

Year of expiration	Amount
1996	44
1997	6
1998	38
1999	41
2000	31
2001 or later	204
	364

Note 5 Leasing

Leasing obligations

At December 31, 1995, future payment obligations for leases were distributed as follows:

	Leases
1996	1,093
1997	834
1998	689
1999	576
2000	512
2001 and later	1,462
	5,166

Expenses for the year for leasing of assets amounted to SEK 801 m. (SEK 850 m. in 1994 and SEK 1,035 m. in 1993).

Leasing income

Some consolidated companies lease equipment, mainly telephone exchanges, to customers. These leasing contracts vary in length from 1 to 14 years.

Net book value of assets leased to others under Operating leases, after accumulated depreciation, amounted to SEK 287 m. at December 31, 1995 (December 31, 1994: SEK 371 m.).

Net investment in Sales-type Leases and Financial Leases amounted to SEK 178 m. at December 31, 1995 (December 31, 1994: SEK 276 m.).

Anticipated future payments receivable for leased equipment are distributed as follows:

	Sales-type and Financial Leases	Operating Leases
1996	19	61
1997	22	57
1998	23	56
1999	23	58
2000	11	47
2001 and later	125	65
	223	344
Less: Interest	45	–
Net investment	178	–

Note 6 Net Income per Share

CONSOLIDATED	1995	1994	1993
Income before taxes	**7,615**	5,610	3,108
Current taxes	**–3,017**	–2,345	–975
Minority interest in current taxes	**96**	82	142
Deferred taxes	**676**	522	640
Minority interest in deferred taxes	**69**	80	–80
Interest expenses on convertible debentures net of income taxes	**62**	66	37
Net income (after current and deferred taxes) after full conversion	**5,501**	4,015	2,872
Per share	**6.03**	4.47	3.20
Average number of shares outstanding after full conversion and stock issue (millions)	**912.9**	897.6	897.6
Considering the stock dividend element of the stock issue in 1995 would increase average number of shares (millions)	**943.4**	934.5	934.5
Net income per share	**5.83**	4.30	3.07

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

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Cash and bank deposits	**6,808**	5,047	**1,935**	1,799
Short-term cash investments	**8,577**	6,845	**7,190**	6,191
	15,385	11,892	**9,125**	7,990

Note 8 Notes and Accounts Receivable – Trade

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
DUE WITHIN 12 MONTHS				
Accounts receivable	**25,290**	20,598	**2,227**	2,660
Notes receivable	**89**	68	**3**	13
	25,379	20,666	**2,230**	2,673
DUE AFTER 12 MONTHS				
Accounts receivable	**289**	297	**64**	155
Notes receivable	**45**	23	**33**	–
	334	320	**97**	155

The allowance for doubtful accounts amounting to SEK 1,182 m. (900) and SEK 335 m. (359) in the Parent Company 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 1995	1994	PARENT COMPANY 1995	1994
Prepaid expenses and accrued revenues	**1,837**	885	**804**	292
Advances to suppliers	**454**	398	**10**	–
Deferred tax assets	**873**	977	**–**	–
Other current assets	**4,555**	3,591	**1,775**	1,241
	7,719	5,851	**2,589**	1,533

Note 10 Receivables and Payables – Subsidiaries

PARENT COMPANY	1995	1994
CURRENT RECEIVABLES		
Commercial receivables	**1,601**	1,381
Financial receivables	**7,299**	3,683
	8,900	5,064
LONG-TERM RECEIVABLES*		
Financial receivables	**2,330**	2,515
CURRENT LIABILITIES		
Commercial liabilities	**679**	467
Financial liabilities	**5,889**	7,568
	6,568	8,035
LONG-TERM LIABILITIES *		
Financial liabilities	**1,011**	513

* Include noninterest-bearing receivables and liabilities, net, amounting to SEK 2,322 m. (2,671). Interest-free transactions involving current receivables and liabilities may also arise at times.

Note 11 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	Currency	Par value	Carrying value
Subsidiaries	III	Ericsson Utvecklings AB	Sweden	100	SEK	10	17
Sweden	III	Ellemtel Utvecklings AB	Sweden	50	SEK	1	1
	I	Ericsson Business Networks AB	Sweden	100	SEK	360	335
	I	Ericsson Cables AB	Sweden	100	SEK	140	144
	I	Ericsson Components AB	Sweden	100	SEK	58	60
	I	Ericsson Microwave Systems AB	Sweden	100	SEK	30	151
	I	Ericsson Radio Systems AB	Sweden	100	SEK	50	512
	I	Ericsson Telecom AB	Sweden	100	SEK	–	–
	I	Ericsson Hewlett-Packard Telecommunications AB	Sweden	60	SEK	97	108
	I	Ericsson Mobile Communications AB	Sweden	100	SEK	361	516
	I	Ericsson Radio Access AB	Sweden	100	SEK	20	41
	II	SRA Communication AB	Sweden	100	SEK	47	145
	IV	Ericsson Treasury Services AB	Sweden	100	SEK	–	2
		Other		–	SEK	–	891
Europe	I	Ericsson Schrack AG	Austria	80	ATS	48	529
(excluding	I	LM Ericsson A/S	Denmark	100	DKK	90	216
Sweden)	I	Oy LM Ericsson Ab	Finland	100	FIM	80	195
	II	Revex S.A.	France	100	FRF	75	128
	IV	Ericsson Treasury Ireland Ltd.	Ireland	100	USD	81	508
	II	LM Ericsson Holdings Ltd.	Ireland	100	IEP	2	14
	II	Ericsson S.p.A.	Italy	72	ITL	18,421	105
	II	Ericsson Holding International B.V.	The Netherlands	100	NLG	300	995
	I	Ericsson A/S	Norway	100	NOK	156	194
	II	Swedish Ericsson Company Ltd.	United Kingdom	100	GBP	74	757
	I	Ericsson GmbH	Germany	100	DEM	39	341
		Other		–	–	–	110
U.S.A.	II	Ericsson Holding II, Inc.	United States	75	USD	–	2,553
and	I	Ericsson Inc.	United States	20 *	USD	–	362
Latin America	I	Cía Ericsson S.A.C.I.	Argentina	100	ARA	5	10
	I	Ericsson de Colombia S.A.	Colombia	92 **	COP	221	27
	I	Teleindustria Ericsson S.A.	Mexico	100	MXN	n.p.v.	570
	I	Cía Anónima Ericsson	Venezuela	100	VEB	10	10
		Other		–	–	–	135
Other	II	Teleric Pty. Ltd.	Australia	100	AUD	20	99
Countries	I	Ericsson Telecommunications Sdn. Bhd.	Malaysia	70	MYR	2	4
	I	Ericsson Telecommunications Pte. Ltd.	Singapore	100	SGD	–	1
	I	Ericsson Taiwan Ltd.	Taiwan	80	TWD	80	19
	I	Ericsson Telekommunikasyon A.S.	Turkey	99	TRL	8,250	33
		Other		–	–	–	420
						Total	–	11,258
Associated	I	Ascom Ericsson Transmission Ltd.	Switzerland	40	CHF	4	278
Companies	I	Ericsson Telecomunicacoes S.A.	Brazil	50 ***	BRL	n.p.v.	82
	I	MET	France	20 *****	FRF	20	53
	I	Ericsson Nikola Tesla	Croatia	49	DEM	65	329
	I	Perwira Ericsson Sdn. Bhd.	Malaysia	40	MYR	2	5
	IV	AB LM Ericsson Finans	Sweden	90 ****	SEK	29	41
		Other			–	–	16
						Total	–	804
Other Companies		Other			–	–	50
						Total	–	50

Shares owned by subsidiaries				Percentage of ownership
Subsidiaries				
Sweden	I	Svenska Elgrossist AB, SELGA	Sweden	67
Europe	I	Ericsson NV/SA	Belgium	100
(excluding	I	LM Ericsson Ltd.	Ireland	100
Sweden)	I	Ericsson Telecomunicazioni S.p.A.	Italy	72
	I	Ericsson Telecommunicatie B.V.	The Netherlands	100
	I	Ericsson Radio Systems B.V.	The Netherlands	100
	I	Ericsson S.A.	Spain	100
	I	Ericsson Ltd.	United Kingdom	100
	III	Ericsson Eurolab Deutschland GmbH	Germany	100
U.S.A. and	I	Ericsson Communications Inc.	Canada	100
Canada	I	Ericsson Inc.	USA	80
	II	Ericsson Holding Inc.	USA	80
Other Countries	I	Ericsson Australia Pty. Ltd.	Australia	100

Key to functions of companies:
I Manufacturing and distributing companies
II Holding companies
III Development companies
IV Finance companies

* Through subsidiary holdings, total holdings amount to 80% of Ericsson Inc.
** Through subsidiary holdings, total holdings amount to 100% of Ericsson de Colombia S.A.
*** Through subsidiary holdings, total holdings amount to 51% of Ericsson Telecomunicacoes S.A. The total voting power 26%.
**** The voting power 40%.
***** Through subsidiary holdings, total holdings in MET amount to 50%.

Note 12 Other Noncurrent Assets

CONSOLIDATED	1995	1994
GOODWILL, INITIAL VALUE		
Balance, January 1	**1,612**	1,605
Acquisitions/divestments	**78**	7
Balance, December 31	**1,690**	1,612
ACCUMULATED AMORTIZATION		
Balance, January 1	**668**	498
Amortization	**202**	189
Divestments	**–3**	–19
Balance, December 31	**867**	668
GOODWILL, NET	**823**	944
Long-term deferred tax assets	**784**	624
Other noncurrent assets	**1,972**	3,200
Total other noncurrent assets	**3,579**	4,768

PARENT COMPANY	1995	1994
Other noncurrent assets	**519**	592
INTANGIBLE ASSETS		
Cost	**408**	408
Accumulated depreciation	**178**	76
Net carrying value*	**230**	332
Total other noncurrent assets	**749**	924

* For Accumulated depreciation in excess of plan, see Note 13.

Note 13 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.

	CONSOLIDATED		PARENT COMPANY	
	1995	1994	1995	1994
COST				
Land	**387**	318	**138**	138
Land improvements	**104**	104	**27**	27
Buildings	**4,470**	4,314	**1,010**	1,007
Machinery and equipment	**24,892**	22,341	**4,243**	4,497
Construction in progress	**1,213**	934	**481**	295
	31,066	28,011	**5,899**	5,964
ACCUMULATED PLAN DEPRECIATION				
Land improvements	**56**	48	**19**	14
Buildings	**1,380**	1,317	**366**	342
Machinery and equipment	**14,544**	13,456	**2,328**	2,373
	15,980	14,821	**2,713**	2,729
NET PLAN VALUE	**15,086**	13,190	**3,186**	3,235
ACCUMULATED TOTAL BOOK DEPRECIATION				
Land improvements	**–**	–	**21**	21
Buildings*	**–**	–	**477**	468
Machinery and equipment	**–**	–	**3,142**	3,313
Construction in progress	**–**	–	**180**	9
	–	–	**3,820**	3,811
ACCUMULATED DEPRECIATION IN EXCESS OF PLAN				
Buildings, machinery and equipment	**–**	–	**1,108**	1,082
Intangible assets, see Note 12	**–**	–	**19**	31
	–	–	**1,127**	1,113
* After transfer of accumulated depreciation in excess of plan to Revaluation reserve of	**–**	–	**303**	303

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
REVALUATION ADJUSTMENTS				
Land and land improvements	**187**	190	**147**	147
Buildings	**682**	728	**325**	325
Machinery and equipment	**38**	64	**–**	–
	907	982	**472**	472
ACCUMULATED DEPRECIATION				
Land improvements	**2**	2	**–**	–
Buildings	**432**	428	**297**	288
Machinery and equipment	**38**	64	**–**	–
	472	494	**297**	288
NET PLAN VALUE	**435**	488	**175**	184
TAX ASSESSMENT VALUES (Sweden)				
Land and land improvements	**393**	376	**233**	232
Buildings	**2,294**	2,255	**1,284**	1,272

Note 14 Short-Term Borrowings

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

Unused portion of lines of credit for the Company amounted to SEK 1,709 m. In addition, the Parent Company had unused long-term lines of credit amounting to SEK 1,327 m.

Note 15 Other Current Liabilities

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Accrued expenses and prepaid revenues	**13,511**	10,189	**1,770**	2,210
Deferred tax liabilities	**16**	5	**–**	–
Other	**8,381**	6,630	**480**	613
	21,908	16,824	**2,250**	2,823

Note 16 Bond Loans, Convertible Debentures and Other Long-Term Liabilities

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Bond loans (maturing from 1997–1999)	**1,495**	2,740	**1,495**	2,740
Convertible debentures (maturing 2000)	**2,028**	2,151	**1,628**	1,649
OTHER LONG-TERM LIABILITIES:				
Mortgage loans and other secured loans (maturing from 1997–2014)	**397**	669	**57**	107
Other long-term loans (maturing from 1997–2013)	**1,432**	2,203	**772**	1,707
Other long-term liabilities	**464**	374	**71**	1
	2,293	3,246	**900**	1,815

Maturities of the above consolidated long-term loans and liabilities (excluding Other long-term liabilities), were as follows:

1997	1,333
1998	277
1999	800
2000	2,192
2001	107
2002 and thereafter through 2014	643
	5,352

The Parent Company has one convertible debenture loan outstanding, which was issued 1993. The loan, offered with preferential rights for Ericsson shareholders, was in the amount of SEK 2,172 m. and carries interest of 4.25 percent. The debentures are convertible up to and including May 31, 2000 at a conversion price after stock split and adjustments for new stock issue, of SEK 72.10 per B share. During 1995 debentures in the amount of SEK 122.3 m. were converted to 1,650,367 B shares.

The number of shares increased by 1,689,035 as a result of conversions during 1995, of which 38,668 shares correspond to conversion of a convertible debenture loan, in the original amount of CHF 135 m., which was called for early redemption during 1995.

Upon conversion of all outstanding debentures, there would be a further increase of 28,121,471 in the number of shares.

During the period beginning January 1 through February 15, 1996 additional debentures were converted to 2,662 B shares; as a result the number of shares carrying rights to dividends as of the record date is 957,617,559.

In the 1993 consolidated accounts, the equity component SEK 654 m. – calculated as the difference between the convertible debenture interest rate, 4.25 percent, at expiration of the subscription period on July 1, 1993 and the Company's alternative interest rate, 10.55 percent – has been credited to the General reserve as addition to capital in the Parent Company only. The capital discount is charged to income during the maturity of the loan.

Note 17 Pension Liabilities

The pension liabilities, SEK 5,825 m. (5,516), include the Parent Company's and other Swedish companies' obligations in the amount of SEK 4,379 m. in 1995 and SEK 3,719 m. in 1994 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, SEK 2,434 m. (2,330), include an obligation in the amount of SEK 2,318 m. in 1995 and SEK 2,222 m. in 1994 in accordance with its agreement with PRI.

Note 18 Other Untaxed Reserves

	Jan.1	Allocations/ Withdrawals(-)	Dec. 31
PARENT COMPANY 1995			
Tax equalization reserve	763	–169	594
Reserve for doubtful receivables	731	173	904
Income deferral reserve	138	166	304
	1,632	170	1,802

Changes in other untaxed reserves in the Parent Company in 1994 consisted of the following: withdrawal of deferred amount for Inventory reserve, etc., SEK 0 m. (424); withdrawal of Tax equalization reserve, SEK 1,538 m. (–1,348); allocation to reserve for doubtful receivables, SEK 214 m. (500) and allocation to income deferral reserve SEK 138 m. (0).

Note 19 Stockholders' Equity

Capital Stock

Capital Stock at December 31, 1995 consisted of the following:

	Number of shares outstanding	Aggregate par value
A shares (par value SEK 2.50)	82,027,330	205
B shares (par value SEK 2.50)	875,587,567	2,189
	957,614,897	2,394

The capital stock of the Company is divided into two classes: Class A shares (par value SEK 2.50) and Class B shares (par value SEK 2.50). 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 1/1000 th 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, reserves not available for distribution are reported.

In general, 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 are 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 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 1995 include earnings in associated companies of SEK 769 m.

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

Changes in Stockholders' Equity

CONSOLIDATED	Capital stock	Reserves not available for distribution	Available retained earnings	Total
January 1, 1995	2,172	13,660	7,470	23,302
Stock issue	218	7,613		7,831
Conversion of debentures	4	119		123
Dividends			–1,195	–1,195
Transfer from available retained earnings		1,906	–1,906	
Changes in cumulative translation adjustments		–1,237		–1,237
Net income for 1995			5,439	5,439
December 31, 1995	2,394	22,061	9,808	34,263

Of retained earnings, SEK 24 m. will be appropriated to Reserves not available for distribution in accordance with the proposals of the respective companies' boards of directors. In evaluating the consolidated financial position, it should be noted that earnings in foreign companies may be subject to taxation when transferred to Sweden and that, in some instances, such transfers of earnings may be limited by currency restrictions.

Consolidated unrestricted retained earnings are translated at the year-end exchange rate. Cumulative translation adjustments have been distributed among unrestricted and restricted stockholders' equity.

PARENT COMPANY	Capital stock	Legal reserve	Other reserves not available for distribution	Available retained earnings	Total
January 1, 1995	2,172	4,206	75	6,108	12,561
Stock issue	218	7,613	–	–	7,831
Conversion of debentures	4	95	–	–	99
Dividends	–	–	–	–1,195	–1,195
Net income for 1994	–	–	–	1,741	1,741
December 31, 1995	2,394	11,914	75	6,654	21,037

Note 20 Assets Pledged as Collateral

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Real estate mortgages	**594**	723	**152**	152
Other mortgages	**297**	447	**160**	160
Bank deposits	**248**	197	**247**	–
Shares	**–**	98	**–**	–
Other	**65**	–	**65**	433
	1,204	1,465	**624**	745

At December 31, 1995, 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 21 Contingent Liabilities

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Bills discounted	**2**	2	**–**	–
Guarantees for customer project financing	**2,554**	1,623	**2,051**	1,623
Unrecorded pension commitments	**30**	36	**–**	–
Other	**1,517**	1,433	**4,708**	4,620
	4,103	3,094	**6,759**	6,243

Of the guarantees assumed by the Parent Company, SEK 3,990 m. in 1995 and SEK 3,975 m. in 1994 are related to subsidiaries.

Note 22 Investments in Associated Companies

The Company's major investments in associated companies are accounted for using the equity method. Goodwill, net, constitutes SEK 146 m. (160) of the investments. Details of such investments are given in Note 11.

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

Dividends received from companies accounted for under the equity method were SEK 231 m. in 1995, SEK 264 m. in 1994 and SEK 170 m. in 1993.

Undistributed earnings of associated companies included in consolidated equity were SEK 1,983 m. in 1995 and SEK 871 m. in 1994.

Note 23 Accounting Principles Generally Accepted in the United States

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

(a) Revaluation of Assets

Certain property, plants and equipment have been revalued at amounts in excess of cost. Under certain conditions, this procedure is allowed according to Swedish accounting practice. Revaluation of assets in the primary financial statements is not permitted under U.S. GAAP why depreciation charges of such items are reversed to income.

(b) Capitalization of Software Development Costs

In accordance with Swedish accounting principles, software development costs are charged against income when incurred. Under U.S. GAAP, these costs are capitalized after the product involved has reached a certain degree of technical feasibility. Capitalization ceases and depreciation begins when the product becomes available to customers. The depreciation period for capitalized software is from three to five years. Capitalization amounting to SEK 3,879 m. (SEK 3,395 m. in 1994) has increased income and depreciation amounting to SEK 2,637 m. (SEK 2,391 m. in 1994) was charged against income for the period when calculating income in accordance with U.S. accounting principles. During the year, additional depreciation of SEK 470 m., related to broadband projects, was charged against income.

These principles are set forth in the SFAS No. 86 Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed.

The timing of charges for development costs was revised in 1993. The effect of this revision was credited to income in 1993 the amount of SEK 497 m.

(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 construction of property, plant and equipment. Such costs are to be capitalized in accordance with U.S. GAAP.

(d) Pensions

The Company participates in several pension plans which in principle cover all employees of its Swedish operations as well as certain employees in foreign subsidiaries. The Swedish plans are administered by an institution jointly established for Swedish industry (PRI) in which most companies in Sweden participate. The level of benefits and actuarial assumptions are established by this institution and, accordingly, the Company may not change these.

Effective 1989, the Company has adopted SFAS 87, Employers' Accounting for Pensions, when calculating income according to U.S. GAAP.

The effects for the Company of using this recommendation principally relate to the actuarial assumptions, and that the calculation of the obligation should reflect future compensation levels. The difference relative to pension liabilities booked at introduction in 1989 is distributed over the estimated remaining service period.

(e) Stock Issue Costs

The costs incurred by the Company relating to the stock issue in 1995 have been charged to income in accordance with accounting principles generally accepted in Sweden. In accordance with U.S. GAAP such costs are charged to stockholders' equity.

(f) Sale of Property

In 1987, Group Companies sold properties which were leased to other subsidiaries under contracts expiring in 1997.

Under U.S. GAAP, the gain on the sales during 1987 is considered a financing arrangement and the proceeds are therefore treated as a liability. 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.

During 1995, Ericsson waived its option to repurchase and canceled the rental contract on one of the properties. Consequently, the income portion of the sales proceeds was recognized in income for the period in accordance with U.S. GAAP.

(g) Tax on undisturbed earnings in associated companies
In accordance with Swedish accounting practice, no accrual is made for withholding taxes on undistributed profits of companies that are reported applying the equity accounting method. Under U.S. GAAP, the company holding shares should accrual for withholding taxes on dividends paid.

(h) Deferred Income Taxes
Deferred tax is calculated on all U.S. GAAP adjustments to income.

(i) 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 (see also Accounting Principles and Notes (b) and Note 12). In accordance with U.S. GAAP, negative goodwill should be applied as a reduction of noncurrent assets acquired and be amortized over the economic life of each asset.

(j) Changes in accounting principles for taxes and for pension expenses
In accordance with Swedish accounting practice, the effects of the changes in accounting principles below are reported directly against stockholders' equity. U.S. GAAP requires that that these types of changes are reported against income.

In years before 1993, the "deferred method" has been used in calculating deferred tax when determining income and equity in accordance with U.S. GAAP. Thus the liability is the sum of the various years' deferred taxes, calculated by applying the tax rate for each year.

Effective January 1, 1993, the calculation has been made in accordance with SFAS109 (liability method). Profit in accordance with U.S. GAAP for 1993 has been affected in the amount of SEK 1,681 m.

Effective January 1, 1993, the Company has adopted SFAS106, Accounting for Postretirement Benefits Other than Pensions. In applying SFAS106, the Company enters as a liability the obligations, mainly health care costs, that Ericsson companies have relative to employees following their retirement. The effect of this change in principles is that profit for 1993 in accordance with U.S. GAAP has been charged with SEK 202 m.

(k) Net Income per Share
Net income per share has been calculated on the average number of shares outstanding after split, stock issue, and after full conversion of outstanding convertible debentures, if these are considered to be Common Stock equivalents in accordance with U.S. GAAP (also see Note 6).

The application of U.S. GAAP as described above would have had the following approximate effects 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.

	1995	1994	1993
Net income as reported in the consolidated income statements	**5,439**	3,949	2,835
Items increasing reported income:			
Depreciation on revaluation adjustments including effect on sale	**23**	–	48
Capitalization of development expenses	**1,242**	1,004	1,076
Capitalization of interest expenses	**15**	16	11
Pensions	**182**	112	–20
Stock issue costs, net	**41**	–	–
Sale of premises	**135**	–	–
Business combination adjustments	**3**	–14	–13
	1,641	1,118	1,102
Items decreasing reported income:			
Income taxes on undistributed earnings of associated companies	**57**	–	–10
Deferred income taxes	**376**	190	515
	433	190	505
Net increase in net income	**1,208**	928	597
Approximate net income in accordance with US GAAP, before effect of change in accounting principles	**6,647**	4,877	3,432
Approximate net income per share in accordance with US GAAP, before effect of change in accounting principles	**7.11**	5.29	3.72
Accumulated effect of change in accounting principles on:			
– deferred taxes	**–**	–	1,681
– postretirement costs, net of taxes	**–**	–	–202
Approximate net income in accordance with US GAAP, after effect of change in accounting principles	**6,647**	4,877	4,911
Approximate net income per share in accordance with US GAAP, after effect of change in accounting principles	**7.11**	5.29	5.72
Approximate stockholders' equity in accordance with US GAAP	**37,878**	25,695	22,762

Supplementary Information Required under the Swedish Companies Act

Average Number of Employees and Remuneration in 1995

	Average number of employees Men	Women	Remuneration
CONSOLIDATED			
Sweden	26,792	11,032	9,465
Other countries	32,177	10,337	10,971
	58,969	21,369	20,436
PARENT COMPANY			
Sweden	8,452	4,070	4,105
Other countries	361	112	116
	8,813	4,182	4,221
Paid to Board of Directors, President and Corporate Executive Vice Presidents			16,4

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

The Parent Company has operational units with more than 20 employees in 12 Swedish municipalities and has operations in 21 countries. On a consolidated basis, there are 37 operational units in Sweden and operations in 57 countries, with more than 20 employees.

A detailed listing 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 list is available upon request to Telefonaktiebolaget LM Ericsson, Corporate Financial Control, S-126 25 Stockholm, Sweden.

Special Information Regarding the Parent Company
Sales of the Parent Company amounted to SEK 16,940 m. (SEK 17,207 m.), of which exports accounted for 67 (74) percent. Consolidated companies were customers for 57 (57) percent of the Parent Company's sales, while 51 (51) percent of the Company's total purchases of goods and services were from such companies.

Loans totaling SEK 1 m. have been made to a total of 70 employees for the purchase of shares in LM Ericsson's Share Saving Fund.

The Parent Company has guaranteed up to an amount of SEK 7 m. for loans obtained by employees for the purchase of housing and private vehicles.

Benefits Paid to Senior Executives

The Chairman of the Board of Directors received a fee of SEK 500,000 during the year. This fee was determined by the Board of Directors within the total amount of Board fees as per the decision by the General Meeting.

Members and deputy members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees. However, a fee of SEK 900 per meeting was paid to the employee representatives on the Board.

The salary and value of benefits paid to the company's president who also serves as chief executive officer amounted to SEK 7,403,004 during the year, of which SEK 6,715,504 was salary, company car benefit and other, and SEK 687,500 was the remainder of bonus earned for 1994.

The following rules regarding severance pay and pension are applied for persons who are members of the company's management, including the president.

Severance pay is not paid out if an employee resigns on own accord. The same applies if employment is terminated as a result of flagrant disregard of responsibilities. Notice given by the employee when such significant structural changes or other events occur which in a determining manner affect the content of work or the condition for respective positions is equated with notice of termination served by the company. If an employee is less than 50 years of age upon termination of employment, severance pay amounting to two years' salary is paid. If the employee is 50 years of age or older – depending on age – 40 to 60 percent of the salary at date of termination is paid annually to age 60. These payments are made currently during the requisite period and cease at age 60.

With regards to pension obligations, the benefits that are due under the so-called ITP plan apply, supplemented by the portion of salary and bonus exceeding ITP, from age 65. In addition, the employee has the right to leave with pension benefits at the earliest when the employee reaches 60 years of age, whereby the pension is based on the current salary at retirement and amounts to 40–70 percent of this salary. This pension is also paid if the right to severance pay exists at age 60. Supplemental pension insurance providing for higher survivor's benefits has been signed for the company's president and senior executive vice president.

Publications for Investors

Financial publications, including the annual report, interim reports and Form 20-F (filed with The Securities and Exchange Commission, U.S. not later than June 30 every year) may be obtained without charge upon request to:
Telefonaktiebolaget LM Ericsson
S-126 25 Stockholm, Sweden.

AUDIT REPORT

Telefonaktiebolaget LM Ericsson (publ)
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 1995 in accordance with generally accepted auditing standards.

The annual report and the consolidated financial statements present the financial position, the results of operations and cash flows 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 1995.

Stockholm, March 7, 1996

Carl-Eric Bohlin
Swedish Authorized Public Accountant
Price Waterhouse

Olof Herolf
Swedish Authorized Public Accountant
Price Waterhouse

Thomas Thiel
Swedish Authorized Public Accountant

TEN-YEAR SUMMARY

SEK m.	**1995**	1994	1993	1992	1991	1990	1989	1988	1987	1986
Results for Year										
Net sales	**98,780**	82,554	62,954	47,020	45,793	45,702	39,549	31,297	32,400	31,644
Operating income 4)	**8,164**	6,553	3,530	1,754	2,282	5,694	4,557	2,678	2,185	2,295
Financial net	**58**	–386	8	–204	–189	–163	–431	–553	–895	–1,180
Income before taxes 4)	**7,615**	5,610	3,108	1,241	1,595	4,855	3,715	1,840	1,108	911
Year-end Position										
Total assets 4)	**90,832**	72,999	67,490	56,637	50,080	47,167	40,856	34,625	33,282	34,232
Working capital	**29,394**	20,899	20,869	20,063	17,497	16,965	14,975	12,944	13,880	14,724
Property, plant and equipment, net	**15,521**	13,678	12,363	11,093	10,477	9,058	7,776	6,679	6,778	6,835
Long-term liabilities 1) 4)	**12,467**	14,726	14,529	12,796	11,211	8,795	9,008	9,945	10,864	11,163
Stockholders' equity 1) 2) 4)	**34,263**	23,302	21,305	17,720	17,050	16,753	13,996	10,909	9,897	9,694
– after full conversion 1) 2) 4)	**36,353**	25,519	23,512	18,349	17,690	17,398	14,721	12,450	11,512	9,695
Other Information										
Net income per share, SEK – after current and deferred taxes, and after full conversion 4) 6)	**6.03**	4.47	3.20	0.58	1.08	3.56	2.56	1.39	0.96	0.86
Net income per share in accordance with U.S. GAAP, SEK 3) 5) 6)	**7.11**	5.29	3.72	1.51	1.81	3.95	2.54	1.55	0.83	0.83
Adjusted stockholders' equity per share, SEK 1) 2) 3) 4) 6)	**40**	29	26	21	20	20	17	14	13	13
Cash dividends per share 3) 6)	**1.75** *	1.38	1.13	0.88	0.88	0.88	0.70	0.53	0.45	0.45
Shares outstanding – average (in thousands) 3) 6)	**884,692**	868,765	858,136	824,264	823,496	821,488	800,540	763,336	763,240	760,220
Additions to property, plant and equipment	**6,457**	5,137	3,805	3,847	3,583	3,448	2,672	1,739	1,592	1,643
Depreciation	**3,614**	3,004	2,651	2,193	1,863	1,572	1,294	971	1,213	1,133
Research and development – expenses	**15,093**	13,407	10,924	7,377	7,054	4,901	4,329	3,529	3,204	3,117
– as percent of net sales	**15.3**	16.2	17.4	15.7	15.4	10.7	10.9	11.3	9.9	9.9
Ratios										
Return on equity, percent 1) 4)	**18.9**	17.7	14.5	2.8	5.3	20.4	17.5	11.5	7.5	6.9
Return on capital employed, percent 1) 4)	**20.7**	18.2	12.9	9.6	12.0	25.9	23.7	16.0	13.1	13.1
Equity ratio, percent 1) 4)	**39.6**	34.4	34.5	34.5	38.1	39.3	37.8	33.9	32.0	30.5
Debt-equity ratio 1) 4)	**0.4**	0.7	0.7	0.8	0.7	0.5	0.6	0.8	1.0	1.1
Current ratio	**1.6**	1.5	1.6	1.6	1.7	1.7	1.8	1.9	2.0	1.9
Statistical data, year-end										
Backlog of orders	**48,401**	45,671	45,296	38,050	28,777	30,415	29,426	26,876	24,171	23,625
Number of employees										
– Worldwide	**84,513**	76,144	69,597	66,232	71,247	70,238	69,229	65,138	70,893	72,575
– Sweden	**42,022**	36,984	31,796	29,979	31,244	30,817	32,226	32,094	37,386	38,559

* For 1995, proposed by the Board of Directors

1) 1986–1989 adjusted for change in accounting principles

2) 1986, adjusted stockholders' equity as stated in prior annual reports

3) 1986–1989 adjusted for 5-for-1 stock split

4) 1991-1992 adjusted for change in accounting principles. See Accounting Principles and Notes

5) 1993, before change in accounting principles. See Note 23.

6) 1986-1994 adjusted for stock issue and 4-for-1 stock split.

Definitions of terms used above are given on page 43.

Ten-year Summary

Definitions of Terms Used on Page 42

Operating income
Operating income after depreciation.

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

Property, plant and equipment
Stated net of accumulated depreciation.

Adjusted net income per share
See (l) under Accounting Principles and Notes, and Note 6.

Current ratio
Current assets divided by current liabilities.

Adjusted stockholders' equity
Only for the year 1986. 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 net income (after current taxes paid and deferred taxes) expressed as a percentage of average adjusted stockholders' equity (based on the amounts at January 1 and December 31). 1988–1990 adjusted for increases resulting from a reduction in the tax rate on the equity portion of timing differences.

Return on capital employed
Defined as the total of operating income plus financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31). Capital employed is defined as total assets less current non interest-bearing debts and deferred taxes. For the year 1986, reduced by 50 percent on untaxed reserves.

Equity ratio
Defined as the total of stockholders' equity and minority interest in equity of consolidated subsidiaries, expressed as a percentage of total assets. In the year 1986, defined as total of stockholders' equity, 50 percent of untaxed reserves and minority interest in equity of consolidated subsidiaries, expressed as a percent of total assets.

Debt-equity ratio
Defined as full interest-bearing liabilities divided by the total of stockholders' equity and minority interest in equity of consolidated subsidiaries. In the year 1986, 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.

ERICSSON SHARE DATA

The share capital
The share capital of the Parent Company, Telefonaktiebolaget LM Ericsson, amounted at December 31, 1995, to SEK 2,394,037,243, represented by 957,614,897 shares, each with a par value of SEK 2.50. Of the total number of shares outstanding, 82,027,330 were A shares, each carrying one vote, and 875,587,567 B shares, carrying one thousandth of a vote.

During 1993 a subordinated convertible debenture loan was issued with a par value of SEK 2,171,719,760 and with a term of seven years. Ericsson's shareholders had preferential right to subscribe for the convertibles. During 1995 debentures have been converted into 1,650,367 B shares. At the end of the year 1995 debentures had been converted to a total of 1,939,947 B shares. Should all remaining debentures be converted, the number of B shares would increase further with 28,121,471. All shares may be owned by foreign citizens.

During 1995 the number of shares increased by 1,689,035 through conversion of debentures. During the period between January 1 and February 15, 1996, additional debentures were converted to 2,662 B shares, increasing to 957,617,559 the total number of shares entitled to dividends as of the record date.

Employee ownership of Ericsson shares
Ericsson's General Savings Fund was started in 1984. The General Savings Fund, which has 1,500 participants, has invested in Ericsson shares. At year-end 1995, the holding in this fund amounted to 737,000 shares.

Stock exchange trading
Ericsson A and B shares are listed on the Stockholm Stock Exchange. The B shares are also listed on the exchanges in Basel, Düsseldorf, Frankfurt am Main, Geneva, Hamburg, London, Paris and Zurich and are traded in the U.S. in the form of ADRs (American Depositary Receipts) via the NASDAQ electronic quotation system.

Each ADR represents one B share. The most active trading occurs in New York, Stockholm and London.

At NASDAQ, ADDs (American Depositary Debentures) are also being traded.

Approximately 1.4 billion shares were traded during 1995. The turnover was distributed as follows (approximate percentages): 37 percent via NASDAQ, 32 percent on the Stockholm Stock Exchange, 30 percent on the London Stock Exchange and 1 percent on other exchanges.

Shareholders
Approximately 88 percent of Ericsson's shares are owned by Swedish and international institutional investors. At year-end 1995, about 51 percent of the shares were held by shareholders outside Sweden.

Trading on the Stockholm Stock Exchange

Share data	1995 *	1994 *	1993 *	1992 *	1991 *
Export of shares from Sweden (SEK m)	**45,516**	24,656	21,352	4,245	2,310
Import of shares to Sweden (SEK m)	**37,973**	22,360	13,572	3,333	1,218
Net imports (–)/exports of shares to Sweden (SEK m)	**7,543**	2,296	7,780	912	1,092
P/E ratio, "B" shares [1]	**21.1**	22.6	25.8	79.7	25.1
Share prices, December 31, Stockholm Stock Exchange (SEK)					
"A"	**138**	105	102.5	48.8	36.3
"B"	**130**	102.5	85.3	46.3	27
"B" High for year	**178.4**	115.4	117.3	47.3	56.3
"B" Low for year	**95.6**	83.5	43	24.4	22.1

[1]) P/E ratio = Price per share at December 31, divided by profit per share after taxes
* After 4-for-1 stock split

Changes in capital stock		Number of shares	Capital stock
1982	January 1	21,788,498	1,089,424,900
	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
1989	Conversions	2,760,310	138,015,500
1990	Conversions	854,413	8,544,130
1990	5-for-1 stock split	163,899,736	–
1991	Conversions	257,372	2,573,720
1992	Conversions	203,024	2,030,240
1993	Conversions	10,973,331	109,733,310
1994	Conversions	66,308	663,080
1995	4-for-1 stock split	651,687,354	–
1995	New issue	87,009,390	217,523,475
1995	Conversions	1,689,035	4,222,588
1995	December 31	957,614,897	2,394,037,243

Distribution of shares, year-end 1995 Shareholders' holding	Number of shareholders	%	Number of shares	%	Number of shares per shareholder
1 – 500	81,248	62.05	14,669,448	1.53	181
501 – 5,000	44,428	33.93	69,920,853	7.30	1,574
5,001 – 20,000	4,012	3.06	36,252,775	3.79	9,036
20,001 –	1,259	0.96	836,771,821	87.38	664,632
	130,947	100.00	957,614,897	100.00	7,313

The largest shareholders, ranked by voting rights, were as follows at December 31, 1995	Number of shares	Voting rights percent
AB Industrivärden	21,930,000	26.5
Investor AB	26,537,500	22.2
Knut och Alice Wallenbergs stiftelse	11,666,512	14.1
Svenska Handelsbankens Pensionsstiftelse	5,324,000	5.6
Livförsäkrings AB Skandia	14,739,698	5.0
Pensionskassan SHB Försäkringsförening	3,960,000	4.8
EB-stiftelsen, S-E-Bankens Pensionsstiftelse	2,017,400	2.4
Wallanders och Hedelius' stiftelse	1,980,000	2.4
Wallenbergs stiftelse, Marianne och Marcus	1,980,000	2.4
Oktogonen, Stiftelsen	1,760,000	1.6
Svenska Handelsbankens personalstiftelse	1,232,000	1.5
Trygg-Hansa	18,196,000	1.3
Fjärde AP-Fonden	37,291,509	1.1
Svenska Handelsbankens aktiefonder	9,979,426	0.4

Active antennas for higher capacities and coverage in mobile telephone systems.

MOBILE TELEPHONE SYSTEMS

Mobile telephony is by far the most expansive area of telecommunications today. The number of subscribers in the world's mobile telephone systems rose 60 percent in 1995. The total at year-end was 85 million. The greater number, 67 million, were connected to the older analog networks, but the new digital mobile telephone networks are the ones that are expected to totally dominate the market in the future. The number of subscribers at the end of the century is projected to increase to 350 million, of whom 80 percent will be in digital networks.

A notable aspect of mobile telephony is that in many countries there are two or more competing operators. The competition between them is the true driving force promoting growth. The number of operators is increasing steadily. In the United States, for example, the PCS (Personal Communications Services), licenses are being granted for additional operators in each area. PCS is expected to stimulate growth in mobile telephony substantially. The U.S., with 33 million subscribers in mobile telecommunications systems, is already the largest market.

Fastest growth in Asia

While the growth in mobile telephony is substantial in the United States, it is even more rapid in other parts of the world. The projected 350 million subscribers at the end of the century are expected to be relatively evenly distributed among three large geographical regions – with more than 100 millions subscribers each in Asia, Europe and North America. The rate of growth is highest in Asia. In Japan in 1995, for example, the increase in the number of the new digital system subscribers amounted to 15 percent per month. For Ericsson, which has a strong presence in all of these areas, better balance among the large market regions represents a distinctly favorable trend.

A significant factor underlying the growth in mobile telephone systems is that it will also continue in countries where the number of phones per hundred inhabitants is already highest. Experience to date shows that mobile telephony is initially adopted in commerce and industry. This sector dominates until the density per hundred inhabitants reaches 5 - 10 percent. Above 10 percent, private subscribers represent an increasing percentage of the total. In a country like Sweden, where overall subscriber density was 25 percent at year-end, private customers accounted for more than 50 percent of the total.

Global leader

Ericsson has a well-established position as the global leader in mobile telephone systems. For many years, the company has had a global market share of more than 40 percent, as measured by the number of subscribers. In GSM systems, which to date is the largest digital system, Ericsson's market share is nearly 50 percent.

Retaining and increasing its market share in mobile telephone systems is one of Ericsson's most important strategic goals. Another is to be the best in the industry in terms of customer satisfaction. These are important prerequisites for staying ahead of the competition. Ericsson benefited from a technological advantage deriving from its early entry into mobile telephony, but there are many companies today that have invested heavily in this dynamic field.

In North and South America, AT&T, Motorola and Nortel are the largest competitors among system suppliers. In Europe, Siemens and Nokia are the principal competitors. In Asian markets, Motorola has a strong position as a supplier of radio base stations, while Nokia, Alcatel, AT&T and Nortel compete as suppliers of complete systems.

Calculated in terms of percentages of subscribers connected to all the mobile telephone systems in the world, AT&T, with 19 percent, and Motorola, with 18 percent, are the two largest competitors in the systems field. But Ericsson is larger than both of them together.

Focus on new services

The increase in percentage of private customers is imposing new demands on operators. If the increase is to continue, a system of differentiated tariffs will probably be needed. A diversified range of services, adapted for different segments of customers, is also needed.

These factors, in turn, impose demands on system suppliers. Accordingly, much of the development work that Ericsson is conducting on mobile telephone systems today involves making them even more intelligent. A large number of new services based on the Intelligent

Networks (IN) functionality of the AXE exchange are currently being developed. Among other projects, researchers are studying how to utilize the mobile telephone system's unique potential to adapt services to the subscriber's location. The system knows at all times which radio base station a call has been allocated to. It therefore can provide such services as ensuring that an emergency call is connected to the nearest rescue center.

Data services and message-handling are other functions that are now being introduced in mobile networks. Ericsson's MXE is a "message platform" that provides message services for public and private networks, as well as for mobile networks and personal paging systems. Voice-mail boxes, short text messages, fax service and personal paging are services offered by MXE.

Technical development

Technical development is focusing on more than new services. Another important challenge is to reduce the size of radio base stations. Because the increasingly higher subscriber density requires a greater number of such stations, there is a race among suppliers to be able to supply the smallest possible units. In the case of urban areas, in particular, the development work is being driven by the costs of placing base stations and the need to do the least possible damage to the environment with installations of this type. During 1995 Ericsson presented very compact models of radio base stations for so-called micro- and pico-cells. These small cells, which offer limited transmission range but high capacity, are being used increasingly in densely populated city centers.

Base stations for indoor use are a further refinement of pico-cell technology. Many of the cellular telephone calls being made today are already being generated indoors. As a result, operators are interested in expanding their systems in shopping centers and large office complexes, among other locations.

Improved speech coders designed to raise speech quality, as well as increased capacity in radio base stations are other important areas of development work right now.

TDMA has taken the lead

Since the U.S. is the largest single market today, much of the interest related to mobile systems in 1995 was focused on the expansion of PCS there. The battle between two technologies – TDMA and CDMA – attracted the primary attention. Ericsson is among the suppliers who advocate

After a slow start, development in the field of mobile data communications is accelerating. This is attributable mainly to the new possibilities for cordless data transmission which are now being offered in the digital mobile telephone networks.

Business Area Radio Communications in brief

SEK m. and percentage of Ericsson totals	1995		1994		1993	
Order bookings, external	**63,404**	**60%**	42,506	51%	27,023	40%
Net sales, external	**55,722**	**56%**	40,500	49%	25,700	41%
Net sales, internal	**636**	**–**	440	–	256	–
Number of employees	**30,841**	**36%**	20,938	27%	16,486	24%

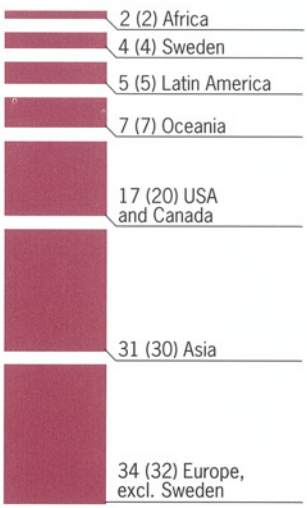
Radio Communications is Ericsson's fastest-growing business area and the largest by far in terms of sales. During 1995 external sales increased 38 percent, to SEK 55.7 billion. Order bookings rose even more, 49 percent, to SEK 63.4 billion.

More than 90 percent of the sales pertain to mobile telephony, which consists of two product areas: mobile telephone systems and mobile telephones. Systems accounted for 63 percent of sales in 1995, and telephones for 28 percent, Sales of mobile telephones, the fastest-growing area, more than doubled in 1995.

Ericsson has installed mobile telephone systems in 78 countries. Of the total of 85 million subscribers in the world's mobile networks in 1995, 34 million, or more than 40 percent, were connected to networks supplied by Ericsson, making the Company the world leader in the field.

The business area's other operating sectors include mobile data, nationwide personal paging systems and private radio systems.

As of December 1995, Radio Communications had 31,000 employees, including 15,000 in Sweden. The head office is in Kista, north of Stockholm. The business area has development centers in 14 countries and plants in 7.



TDMA for the types of systems that are now to be built up. All of the digital standards that were in commercial use in the beginning of 1996 are based on this technology.

Ericsson's objective is to also be the world leader where PCS systems are involved. The Company today can offer three different technologies for these systems that are refinements of the D-AMPS, GSM and DECT standards.

AT&T Wireless Services and South Western Bell, the large American companies, have chosen D-AMPS 1900 systems made by Ericsson. These operators are jointly constructing a network covering the U.S. The world's first commercial PCS network was placed in service in November in the Washington-Baltimore area. It is a (GSM-based) PCS1900 system that Ericsson delivered to the local operator, APC, Sprint Spectrum. The success achieved to date is strengthening Ericsson's determination to capture 30 percent or more of the American PCS market.

FIXED PUBLIC NETWORK SYSTEMS

Ericsson's AXE switch has been powerfully enhanced in recent years to facilitate introduction of new services in networks and to increase its reliability and performance. New technology and new functions continue to make AXE a highly competitive system. A powerful new processor and increased "functionality" for Intelligent Networks were introduced during the year, among other upgradings.

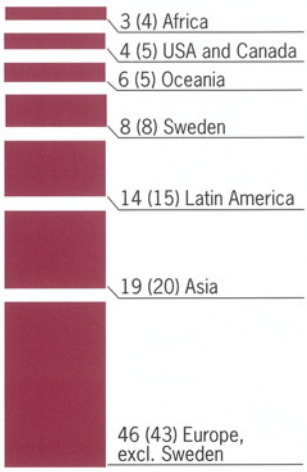
Sales of 14.5 million new lines of AXE equipment set another record in 1995. The installed based thereby increased to 104.8 million lines delivered to customers in 113 countries. This offers a very large potential for continuing sales of upgradings and supplementary functions.

China is largest market

China, with 9.8 million lines delivered, is the single largest market for AXE. The volume of business in China was, however, unchanged from the preceding year. The Chinese market today is characterized by severe price competition. Ericsson is now establishing production in China to strengthen the Company's position in the market.

Mexico, Venezuela and Italy were markets that developed unfavorably during the year. In all three cases economic trends slowed the growth in telecommunications.

It appears that success for AXE in Eastern Europe will still have to wait. Instead, Siemens of Germany has established a strong position in this market. In Hungary, however, Ericsson now has 45 percent of the market for digital exchanges and AXE has long been the largest digital telephone system in Russia. Nikola Tesla, the Croatian company, is largely responsible for the success of AXE in the Russian market. During the year



Business Area Public Telecommunications in brief

SEK m. and percentage of Ericsson totals	1995		1994		1993	
Order bookings, external	**18,676**	**18%**	20,823	25%	21,721	32%
Net sales, external	**21,691**	**22%**	22,678	28%	18,982	30%
Net sales, internal	**5,505**	**–**	3,253	–	2,824	–
Number of employees	**27,840**	**33%**	30,524	40%	28,069	40%

Public Telecommunications is responsible for Ericsson's products and systems used in wired public networks. The business area had sales of SEK 21.7 billion and order bookings of SEK 18.7 billion in 1995. The greater part of operations pertain to the AXE switching system which to date has been installed in 113 countries. AXE is thus the world's most successful digital telephone system. Other product areas include access equipment, transport network products, broadband switches and operating support systems.

A major restructuring and rationalization of the business area was begun in 1995. It involves a sharp focus on core operations as part of the strategy to strengthen Ericsson's position in a market that is increasingly characterized by hard competition and growing pressure on prices.

As of December 1995, Public Telecommunications had around 28,000 employees, of whom half were active outside Sweden. The head office is in Stockholm. The business area has research and development centers in 17 countries and plants in 21.

Ericsson's acquisition of 49 percent of the shares of this company was accompanied by a large framework agreement covering delivery of AXE to Croatia.

Accelerated investments

In the rest of Europe generally, 1995 was a good year for AXE. Established telecom operators are accelerating the modernization of telecommunications networks in countries that are facing deregulation in 1998 – as mandated by the European Union – and new operators are entering the market in countries where deregulation is already in effect.

This has meant larger-than-expected orders for Ericsson in such countries as Denmark, Norway and the Netherlands. The Company has also been able to maintain its strong positions in France, Spain and Great Britain.

Ericsson has had substantial success in sales to new operators in Europe. This applies both to operators who are "completely new" and to established operators who are engaged in ventures outside their domestic markets. Unisource, MFS Communications, TeleNordia and France Telecom were customers who purchased AXE equipment for international expansion projects during the year. Cable & Wireless, the global operator, designated Ericsson as a strategic supplier of equipment for both mobile and wired networks. In Germany, a large contract from Meganet, a new operator, represented an important breakthrough in that market.

Uncertain North American market

The market in the U.S. was characterized by great uncertainty in 1995. Ericsson's largest customer at the present time is MFS Communications, which continued to expand its network. The regional Bell companies reduced investments in their networks during the year. The telecommunications market in Mexico was severely affected by the so-called peso crisis.

In Latin America, sales were higher in Argentina, Brazil, Chile and Peru. Ericsson's Spanish company has established an important position as a supplier the Spanish operator, Telefónica, which is now focusing intensively on the Latin American market.

Vietnam and Turkey became two new markets for AXE in 1995. The orders from Vietnam are especially significant since this is a market in which strong growth is anticipated. The South African market is facing a major expansion. As a result, Ericsson was more active in the country during the year.

Strong competition

The market for narrowband exchanges amounted to USD 25 billion in 1995. Ericsson has a 12-percent share of this market today. The leading suppliers – all of which are larger than Ericsson – are Alcatel (23 percent), Siemens (16 percent) and AT&T (14 percent). Nortel has 11 percent of the market. Ericsson's ambition is to increase its market shares through continuing substantial investments in AXE and related core products and become the leading supplier of systems for public fixed-wire networks.

The restructuring of the Public Telecommunications Business Area that was begun in 1995 should be viewed in the light of the fact that its competitors also face the same need to adapt operations to a changed market. A number of them have announced very drastic restructuring programs. Alcatel and Siemens now also face another threat when their domestic markets – which account for a large percentage of their sales – are to be deregulated. This is not only resulting in the entry of new operators in these markets but

Modern computer tools are required to create new telecom services rapidly. SMAS (Service Management Application System) is one system from Ericsson in which services can be quickly developed with the help of pre-defined function modules.

in significantly reducing the earlier high margins on deliveries there. The full impact of this phenomenon began to be felt in Germany in 1995.

Reorientation of broadband program

The market for broadband networks is not expected to pick up steam before the end of the century. Ericsson therefore reoriented its development resources in 1995 to focus on areas where there is already an active market: small switches for data communications between companies, and cable television systems which later can be upgraded with interactive services. A strong program is under way to rapidly develop competitive Ericsson products for these applications.

MOBILE TELEPHONES

Ericsson has once again become an important manufacturer of telephones. Now, it's the small portable cellular instruments – pocket telephones – that have become one of the Company's major products. In 1995 its sales of pocket telephones increased sharply, compared with a year earlier. The increase was so great that mobile phones today are one of Ericsson's three largest product areas.

Ericsson's great success with mobile phones is attributable to the Company's leading position in the systems sector. Mobile telecommunications systems and mobile telephones are operations that support each other strongly. Ericsson's unique expertise in GSM system technology was the underlying factor that gave the company a flying start in the field of digital pocket phones.

System-supporting

The other side of the coin is that pocket telephones have provided strong support for the sale of mobile systems. This connection is notably apparent when new standards and technologies are introduced. Operators must be sure that they have something to place in the hands of prospective subscribers to their networks. Thus, it is highly important for Ericsson, in its battle for the American PCS market, to also be able to offer pocket phones for the technologies operators are offering customers.

A pocket phone for the PCS1900 standard was presented in 1995 and there will be one in 1996 for the second PCS technology, D-AMPS 1900, that Ericsson is offering in the U.S. A pocket phone for PCN, the European version of PCS, was launched in Europe in 1995.

Ericsson is also developing telephones that can be use in a number of frequency bands (dual-band) and for a number of different standards (dual-mode). With these instruments, the subscriber will not be limited to the network he or she is connected to at any given time.

Flagship

The GH337 GSM telephone, the smallest in the market when it was introduced, has for a number of years been the flagship for a line of products that today comprises pocket phones for all digital standards except the Japanese. A model for the Japanese PDC standard is also scheduled to be introduced in 1997.

Early in the year the GH337 received the prestigious "Mobile Phone of the Year" award given by Cellnet, the British operator. The analog sister model, the EH337, had received the same award the year before. The successful 337 series constitutes the platform for the world's first combined GSM/DECT telephone, which was ordered by Telia during the year.

These telephones are being used in field tests in which subscribers can use the same instrument outside an office via the GSM network and in the local cordless business network based on the DECT standard.

The successor to the 337 series was presented at the CeBit Trade Fair in March 1996. The GH388, weighs 170 grams with lightweight battery.

One of the big three

In the segment in which the Company is now concentrating its efforts – digital telephones – it is one of the three large suppliers, with more than 20 percent of the market. Motorola and Nokia have market shares in the same range. It is believed that Motorola, which still dominates the field, lost market shares to Ericsson and Nokia during the year.

Ericsson today is selling mobile telephones in 60 countries throughout the world. About 15 of them – including Middle Eastern countries, India, Vietnam and several in Latin America – were new markets for the Company in 1995. Sales are supported by strong marketing. Large-scale television advertising campaigns, campaigns in

The GH388 is Ericsson's newest GSM telephone. Equipped with the lightweight battery, it weighs only 170 grams.

print media and other activities are effectively helping to make the Ericsson name known in different parts of the world. The mobile telephone is the individual product that is doing the most to establish the Ericsson brand name.

Up to now Ericsson's mobile telephones have been among the most expensive in the market. But demand for pocket phones has been so great that the Company has still been able to sell everything its factories could produce. Now that competition is stiffening, pressure on prices is also increasing. To cope with this trend, which is being reinforced by the growing percentage of private subscribers in mature markets, Ericsson developed new models during 1995. A series of simpler, lighter and less expensive pocket phones were introduced at the CeBit Trade Fair in Hannover in March 1996. Equipment for data communications via digital pocket phones incorporating higher transmission speeds than those of earlier Ericsson products was also introduced.

Increased resources

During 1995 Ericsson substantially increased its production resources in order to handle the large increase in volume. The plants in Kumla in Sweden and in Lynchburg, Virginia in the U.S. were renovated to expand capacity. A new production facility was started in Linköping, Sweden, and a joint venture company was formed in China to market and manufacture telephones. During the year it was decided to further expand the Kumla plant, which is now the largest production facility. As a result of these expansions, Ericsson can continue to handle strong growth in volume.

Resources for the development of pocket telephones were also increased. The Company's technical development work in this field is now being doubled. Completely new and larger premises were built for the development unit in Lund. A new unit was established in Nurenberg, Germany and a development department for the Japanese market in Tokyo. New facilities are now being constructed to expand the large development center in Raleigh, Virginia in the U.S.

BUSINESS NETWORKS

The market for business networks is facing major changes, in the Western world in particular. Changes in the society and in the labor market

Design is a particularly important competitive aid today. This applies as much to the packaging as the product. Good design is not just a matter of appearance; function, material selection and environmental aspects are also key elements.

The new systems telephones reflect the expanded functionality in Ericsson's Consono MD110 and BusinessPhone subscriber exchanges.

are affecting Ericsson's customers to a high degree. One clear trend today is that both large and small companies are facing increased demands to reduce the size of their organizations. There is shift to increasingly smaller-scale methods of working. Instead of having large merged units, more and more companies, aided by telecommunications technology, are focusing on building smaller units that are linked to each other. This trend is affecting the development of future business network systems by Ericsson and other suppliers.

The increased reliance on employees in remote locations is one example of new patterns that are also creating new opportunities for Ericsson. Equipment for Wide Area Networks (WAN), which link a company's operations in various geographical locations in a single network, represent another large future market.

Complete solutions

The blending of the technologies for telephony and data will initially take place in the office. There are already many applications and services in subscriber switches that are based on cooperation between these two areas. Ericsson's strategy in this sector is to develop its own advanced solutions for speech transmission and voice handling, the areas in which the Company can best use its expertise. After that, it will form join ventures with others whose expertise lies in the data area.

Ericsson has for many years had a number of joint ventures with leading data companies to develop new technologies and solutions in this field. Intel, Microsoft, Novell and IBM are among the companies with whom Ericsson is working.

9.6 million lines

Ericsson today has a strong position in the market for subscriber switches used in large and medium-size companies. The Consono MD110 system has been installed in more than 60 countries. Following deliveries of 1.2 million lines in 1995, the total installed base is more than 9.6 million lines. Excluding the U.S. market, where Ericsson's presence is not as large as in other parts of the world, the Consono MD110 is the global leader in its segment. Its market share in Europe is 20 percent.

All the well-known telecommunications suppliers are battling for the subscriber exchange market. Siemens, NEC, Nortel, AT&T and Alcatel are Ericsson's main competitors. The business

Business Area Business Networks in brief

SEK m. and percentage of Ericsson totals	1995		1994		1993	
Order bookings, external	**15,720**	**15%**	14,357	17%	11,717	17%
Net sales, external	**13,578**	**14%**	12,617	15%	12,521	20%
Net sales, internal	**516**	**–**	344	–	399	–
Number of employees	**14,143**	**17%**	15,060	20%	15,155	22%

Business Networks is a global supplier of complete, integrated information networks for voice, data and multimedia in wired and mobile applications. External sales in 1995 amounted to SEK 13.6 billion and order bookings totaled SEK 15.7 billion.

Operations comprise two main areas: business communications and network engineering and construction. The principal business communications product is the Consono MD110 subscriber exchange. With 9.6 million lines installed to date in more than 60 countries, it is one of the most widely sold large subscriber exchanges. Consono Eripax is a system for large data networks and BusinessPhone is a family of small telephone exchanges. Consono MD110 and BusinessPhone can both be expanded through the addition of the Business Area's Freeset cordless system for business communications.

Network engineering and construction operations are focused largely on the new telecom operators in the market.

As of December 1995, Business Networks had 14,000 employees, a majority of whom were located outside Sweden. The head office is in Nacka Strand, in the western part of Greater Stockholm. The business area has development centers in 8 countries and plant facilities in 7.

network market today is a mature one in which the rate of new installations is not particularly high. The large potential lies in the follow-on installations and upgradings. Ericsson's large installed base of Consono MD110 is naturally a substantial asset.

Sales increase

The market for business networks is not only mature, it is strongly cyclical. Following an upturn in the economies in Ericsson's most important markets in 1994 and 1995, the Company's sales of subscriber switches rose last year. This was true of both the Consono MD110 and the smaller BusinessPhone switch. Sales increased 26 percent during the year and order bookings were 34 percent larger. Despite signs of a slowdown in the economy in a number of countries, the order situation for 1996 still looks good.

One of the factors contributing to the success of the Consono MD110 during the past year was certainly the major campaign in connection with the introduction of the Consono name in the spring. Ericsson's Consono family of products includes, in addition to the MD110, the Eripax data switch and the Freeset cordless communications system.

Leader in cordless field

Freeset was the first cordless communications system based on the European DECT standard that was introduced in the market. This has given Ericsson a lead over competitors but meant that it was initially alone in trying to persuade the market with respect to the services offered by this type of communications system.

The introduction of Freeset on a large scale took place in 1994 but it was not until 1995 that sales really began to pick up. During the year such competitors as Siemens and Alcatel also introduced comparable systems. But Ericsson was totally dominant in sales during the year, capturing 50 percent of the European market for cordless business communications, for example.

A further development of DECT technology that can attract substantial market interest in the future involves combining DECT with GSM. In Sweden, Telia is currently conducting pilot tests using telephones developed by Ericsson. These dual-mode instruments work both in the DECT system in an office and out in the GSM network. Mobility in other areas than cordless telephones is a key element of Ericsson's efforts in the business network field. Consono Personal Mobility is a series of systems that includes – in addition to Freeset – Mobility Server and Teleworker. Mobility Server is a supplementary function in a subscriber switch that keeps track of the subscriber's location in the network and routes calls to the location via a personal telephone number. Teleworker is a communications package for people who work at home.

NETWORK ENGINEERING AND CONSTRUCTION

Ericsson today has broad knowledge in the field of technical engineering. It comprises all forms of voice, data and video communications. This knowledge is essential in order to be able to carry out turnkey network construction projects successfully – for both public network operators and large private telecommunications networks.

Network construction operations are growing rapidly, parallel with deregulation in the telecommunications market. More and more operators are demanding total solutions for networks. Network construction projects are defined as projects in which the supplier assumes full responsibility for the entire project, from design and specification all the way to placing the network in operation.

Ericsson's role in such projects is to design and plan the network, procure all materials – from its own organization or outside suppliers –and to then manage construction until the network has been completed.

Ericsson's strategy is to develop and market innovative solutions that meet operators' needs by making profitability calculations and participating in operational planning and business development, among other services.

New business opportunities

Deregulation of the telecommunications market has increased Ericsson's involvement in public network construction projects. New

EES (Engineering Support System) is a very powerful data-based planning tool for network construction. It was developed by Ericsson and is currently of great importance in the implementation of network engineering projects.

Sales of Freeset gained momentum during 1995. The Ericsson system for cordless business communications has captured more than half of the European market for such systems.

business opportunities have been created among the completely new telecom operators and the earlier operators who now need assistance in reacting quickly to pressure from the market and competitors. By purchasing a turnkey network solution, the operator can shift responsibility for getting the network into operation quickly to the supplier. The operator can then concentrate on its core business, marketing telecommunications services and running networks. This strategy is being used to a large extent by the new operators. There has not as yet been a comparable trend among traditional operators who have their own network construction resources.

There are exceptions, however. One is Telia (Sweden) which has increasingly received assistance from Ericsson's network construction division in constructing the Swedish telecommunications network.

Ericsson today is a prominent player in the market for network construction projects but competition in the field is extremely sharp. Nortel is the only large telecommunications supplier that is not concentrating intensively on this type of business. Ericsson's strength lies in its access to a comprehensive product portfolio and its good reputation for being able to carry out both small and large network projects. In addition, the Company has had long experience in working in all parts of the world.

Successful year

The Italian market, where Ericsson has substantial domestic resources in the network construction field, continued to be weak in 1995. Small volumes, a weak currency and a sharp decline in prices were all factors that contributed to the negative trend of local network construction operations. A large Italian contract for equipment for television and multimedia applications eased the situation somewhat, however.

1995 was, despite the Italian developments, a successful year for Ericsson's network construction operations. The company was awarded a large number of contracts in other parts of the world. Europe and Asia were the two most productive regions.

A contract signed in Germany with two new operators, RWE and Meganet, represented a breakthrough for AXE technology in public networks in that market. A so-called Virtual Private Network (VPN) was delivered to Unisource.

In the Philippines, Ericsson received two large network construction contracts with an aggregate value of slightly more than SEK 2.5 billion. In Indonesia, it was awarded a contract for a network in which radio technology will be used for the access portion. This was the first contract for the Company's DECT-based system for radio access. The contract also confirmed that radio access is now attracting much more interest on the part of telecom operators. The Company's network construction operations can offer customers the choice of a number of different Ericsson systems in this field.

MICROELECTRONICS

Microelectronics technology is playing an ever-greater role in products being manufactured for the telecommunications market. Many individ-

Business Area Components in brief

SEK m. and percentage of Ericsson totals	1995		1994		1993	
Order bookings, external	**4,924**	**5%**	4,126	5%	3,701	5%
Net sales, external	**4,771**	**5%**	4,073	5%	3,605	6%
Net sales, internal	**2,950**	**–**	2,244	–	1,994	–
Number of employees	**5,532**	**7%**	4,746	6%	5,436	8%

Components is Ericsson's center of expertise for sctivities in the critically important field of microelectronics. The business area's products and services also include energy systems, cable production and the distribution of electronic components.

External sales in 1995 amounted to SEK 4.8 billion and order bookings totaled SEK 4.9 billion.

As of December 1995, Components had 5,500 employees. The head office is in Kista, north of Stockholm, which is also the site of advanced facilities for the development and production of microcircuits. Components has production facilities in 8 countries and development centers in 4.

ual electronic components are now being replaced by faster and more energy-efficient integrated circuits. This increases the reliability of the product and more functions can be built into the same circuit at the same time that the size and cost are being reduced. As a result of the strong growth in the telecommunications and data industries, demand for electronics increased in 1995. There is great need for production capacity for microelectronics.

Access to advanced resources for the design of printed circuits is of great strategic importance to Ericsson. The Company has been working closely with Texas Instruments, one of the world's leading companies in the microelectronics field, for many years. One of the world's most modern plants, for production of printed circuits with line widths as narrow as 50 thousandths of a millimeter, was placed in operation in Kista in 1995. These resources enable the Company's designers to construct products and systems with the aid of state-of-the-art technology in microelectronics.

The first completely new printed circuit developed in the new plant was a circuit for a so-called group selector in the AXE system.

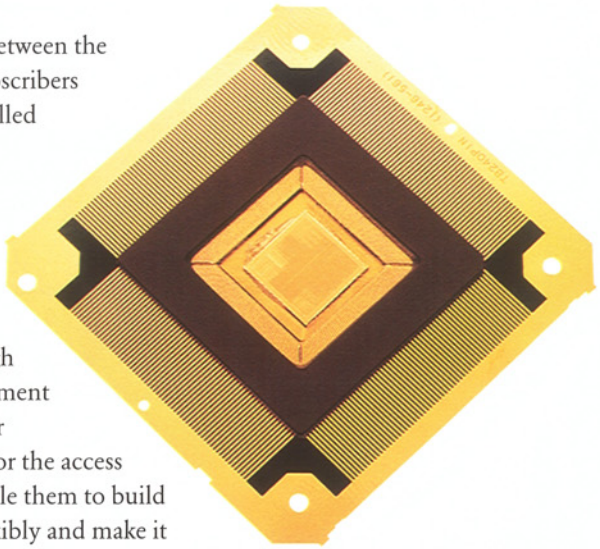
The greater part of the microcircuits that Ericsson produces are used in the Company's own products, but more than 30 percent of the sales are to external customers. Linear circuits for telephone switches are sold to a large number of external customers in the United States and the Far East.

During 1995 all of Ericsson's microelectronics operations were brought together in a single business unit. Resources for the development of proprietary products for use in fast-growing areas have thereby been concentrated. There is today a substantial demand within Ericsson for microelectronics products used in telephones and system components in mobile telephony.

COMPLETE PRODUCT PORTFOLIO

Ericsson's product portfolio is one of the most complete in the telecommunications industry. It comprises systems, services and products for all types of telecommunications networks. In addition to the large system areas discussed in more detail in other sections, Ericsson customers are offered the following:

Access products

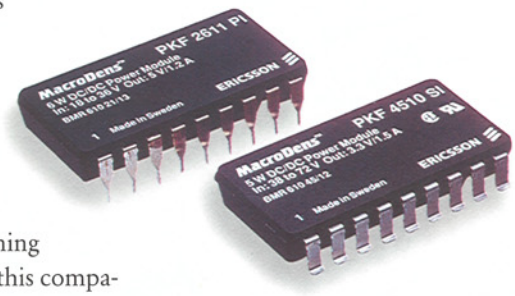


The communication between the local exchange and subscribers takes place in the so-called access network, which accounts for a substantial part of the investments in the local exchange network. Operators today are imposing high demands on the equipment that Ericsson and other suppliers are offering for the access network. It has to enable them to build up a network more flexibly and make it possible for them to offer new and profitable services.

Ericsson's answer to these demands is a program of access products designed to carry traffic from many different types of systems in the telecommunications network. The operator should be able to use his network not only for conventional telephony but for video, data and interactive services as well. The products Ericsson is offering can be connected to AXE systems and also to local switches supplied by other companies. The product portfolio includes systems and products based on both fixed-wire technology employing copper or fiber cables, or on radio technology.

Radio access is a field that will be increasingly important in the future. By using radio technology instead of traditional wiring, operators can expand or modernize an access network faster and at lower cost. Ericsson today can offer a number of different solutions in this area. RAS1000 is a system based on the analog NMT standard. It is being installed in Malaysia. Networks in that country are being built with radio access using D-AMPS technology provided by Ericsson. The DECT-based DRA 1900 is another version of radio access that was introduced in 1995.

MacroDens is a series of circuit board mountable power transformers used in energy systems and climate control plants for telephone exchanges.



During the year Ericsson recorded successes with access products made by Ericsson Raynet, an American company that became a wholly owned Ericsson subsidiary in the beginning of 1996. Among other products, this compa-

MiniLink is a world leader in microwave communications, for example, in mobile networks.

ny develops fiber optical access systems for video. Large orders for these systems were obtained in Italy and Brazil during the year. The Italian order, from Telecom Italy, comprised a fiber optical transport system that in its final phase will distribute cable television signals to 20 million homes.

Transport network products

An increasing amount of information is being transported in telecommunication networks. The extremely rapid growth of the Internet and World Wide Web in recent years would not have been possible without today's flexible and cost-effective transport networks. One fourth of all current investments in telecommunications equipment is used to expand transport networks. Increased requirements for flexibility, cost-effectiveness and bandwidth are the driving forces. The technology which, more than any other, is making possible the continuing growth of transport networks is Synchronous Digital Hierarchy (SDH).

During 1995 Ericsson made a strategic decision to limit its broad program to develop new SDH products. Instead, to be able to offer competitive alternatives to customers more rapidly, the Company formed a joint venture with one of the leading companies in the field, Marconi of Italy. The cooperation gives both companies a strong and complete product portfolio that can be marketed through Ericsson's worldwide sales organization.

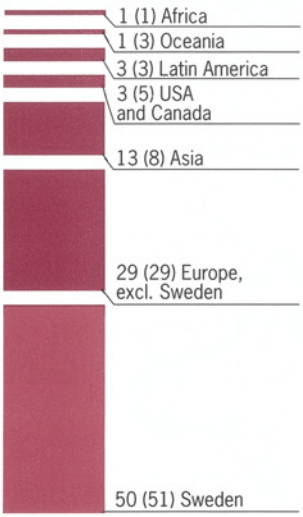
Avantel, a Mexican operator, signed a letter of intent with Ericsson during the year covering deliveries of the first phase of a number of turn-key urban networks using SDH technology.

Operations Support Systems

One natural consequence of the fact that telecommunications networks have to handle more and more information, and that the number of operators who run networks is increasing, is that networks are becoming more complex. Effective systems that control and monitor networks are therefore required. Tomorrow's more complex networks will often contain subsystems delivered by a number of different suppliers, but this should not be an obstacle for an effective operating support system.

Ericsson's system platform for monitoring, Telecommunications Management and Operations Support (TMOS), was developed to handle operators' future requirements. As of year-end 1995, TMOS, which was introduced in 1990, had been sold to operators in 40 countries.

TMOS contains applications for both wired and mobile networks. It can handle all parts of networks and all services from local, regional or national centers. This is why TMOS can be used in networks built with equipment from other suppliers, or in cooperation with other systems



Business Area Microwave Systems in brief

SEK m. and percentage of Ericsson totals	1995		1994		1993	
Order bookings, external	**1,998**	**2%**	2,122	2%	3,318	5%
Net sales, external	**2,760**	**3%**	2,441	3%	1,901	3%
Net sales, internal	**922**	**–**	479	–	418	–
Number of employees	**3,714**	**4%**	2,978	4%	2,728	4%

Microwave Systems is Ericsson's development center for microwave technology and high-speed electronics. The business area's expertise in these fields is employed in the development of advanced systems based on radar, radio and electrooptics technologies for military and civil applications. The technical and industrial synergies between the principal fields of defense electronics and microwave communication are both being utilized actively.

External sales in 1995 amounted to SEK 2.8 billion and order bookings totaled SEK 2.0 billion.

The Defense Electronics product area includes radar for air defense, electrooptics and electronic countermeasures. The Microwave Link product area focuses mainly on the civil market.

The Business Area is working with other Ericsson units on the development and production of systems for mobile telephony, including radio base stations and "active" antennas.

As of December 1995, Microwave Systems had 3,700 employees, the greater of whom are located in Mölndal, the site of the head office, Kista and Borås.

for business or operations support. The development of TMOS systems takes place in Ericsson Hewlett-Packard Telecommunications AB, which is owned jointly with Hewlett-Packard.

Ericsson Site-Master is an operations support system that is used to control the supply of power. The NM400, which is built up based on the same principles as TMOS, is a similar system for subscriber switches.

Energy systems

A safe, reliable supply of power is essential to be able to handle large amounts of information uninterruptedly via telecommunications networks. This applies to all types of networks – public, cellular or private. Ericsson develops and markets energy systems that meet these requirements. Its product range comprises power products and systems, climate systems and control and monitoring systems for power equipment.

The products are available in all sizes, from small 1-watt power converters mounted on silicon chips to power and climate systems for large switching installations. In 1995, the Ericsson Energy Master control and monitoring system was selected by Telia, among other customers, to monitor all power in its telecommunications network.

Ericsson's energy systems and products have now been installed in more than 90 countries. Local operations, including production, are conducted in nearly 20 countries. The greater part of the Company's energy systems are sold together with Ericsson's other telecommunications technology but an increasing percentage is also being sold to other suppliers. Alcatel, Siemens, NEC and Fujitsu are other telecommunications manufacturers who integrated Ericsson's energy systems in their deliveries in 1995. Computer manufacturers represent another important market.

The largest markets for energy systems during the year were the United States, Spain, China, Malaysia and Italy.

Defense Electronics

Ericsson's line of defense electronics includes ground-based, marine and airborne radar, counter measure systems, display systems, communications systems and electrooptics.

EriEye is an airborne surveillance system based on advanced radar technology. It combines high performance with an acquisition price that is significantly lower than earlier systems of this type.

Hard, a three-dimensional air defense radar system, broke into the international market in 1995 with an order from the German defense authorities. Arthur is a unique artillery location radar system that was developed in cooperation with the Norwegian defense authorities.

EriEye is an airborne surveillance system, based on advanced radar technology. It is one of the few systems of its type that combines high performance with low acquisition and maintenance costs.

For Sweden's new JAS 39 Gripen multirole aircraft, Ericsson is supplying radar, display systems and countermeasure equipment representing approximately 20 percent of the total cost of the entire JAS system.

Microwave Communications

Ericsson has a broad range of expertise in microwave technology, high-speed electronics and advanced signal processing.

A completely new generation of microwave links was presented during the year. The Company's largest commercial product in this field, the MiniLink microwave link, is today the world leader in its segment. Sales and production rose sharply during the year. As the result of investments in new production resources and the hiring of additional personnel, production doubled compared with the preceding year.

Telecom operators in 90 countries are using MiniLink as a cost-effective alternative to wired networks.

BOARD OF DIRECTORS, CORPORATE MANAGEMENT

BOARD OF DIRECTORS MEMBERS

Björn Svedberg (1)
(1937*)
Chairman. Honorary Doctor of Technology. President and CEO of Skandinaviska Enskilda Banken. Member of the Boards of ASEA, ABB, Volvo, STORA and ABA/SILA. Member since 1977.
Shares held: B 39,798.
Convertible debentures: 15,000.**

Peter Wallenberg (2)
(1926*)
Deputy Chairman. Honorary Doctor of Economics. First Vice Chairman of the Board of Skandinaviska Enskilda Banken. Chairman of the Boards of ASEA, Atlas Copco, Investor and Knut och Alice Wallenbergs Stiftelse. Co-Chairman of ABB Ltd. Honorary Chairman of STORA. Member since 1972.
Shares held: B 123,970.
Convertible debentures: 28,175.**

Tom Hedelius (3)
(1939*)
Deputy Chairman. Honorary Doctor of Economics. Chairman of the Boards of Handelsbanken and Bergman & Beving. Deputy Chairman of AGA and Industrivärden. Member of the Boards of Volvo, SCA and ABA/SILA. Member since 1991.
Shares held: B 8,000.
Convertible debentures: 2,000.**

Lars Ramqvist (4)
(1938*)
President and Chief Executive Officer. Doctor of Philosophy. Member of the Boards of Astra, SCA, Federation of Swedish Industries, Swedish Employers' Confederation and Association of Swedish Engineering Industries. Member since 1990.
Shares held: B 3,766.

Bo Berggren (5)
(1936*)
Honorary Doctor of Technology. Chairman of the Boards of STORA, Astra, ABA/SILA and SAS. Deputy Chairman of Investor and Federation of Swedish Industries. Member of the Boards of Skandinaviska Enskilda Banken and Danisco A/S. Member since 1994.
Shares held: B 700.

Claes Dahlbäck (6)
(1947*)
President and member of the Board of Investor. Chairman of Vin och Sprit. Deputy Chairman of ASEA. Member of the Boards of ABB, Astra, Electrolux, Incentive and STORA.
Member since 1993.
Shares held: B 4,000.

Göran Engström (7)
(1948*)
Employee representative.
Member since 1994.
Shares held: B 1,660.
Convertible debentures: 625.**

Jan Hedlund (8)
(1946*)
Employee representative.
Member since 1994.

Per Lindh (9)
(1957*)
Employee representative.
Member since 1994.

Sverker Martin-Löf (10)
(1943*)
President and CEO of SCA. Member of the Boards of AGA, Industrivärden, Federation of Swedish Industries and Swedish Employers' Confederation.
Member since 1991.

Sven Olving (11)
(1928*)
Doctor of Science. Professor of Chalmers University of Technology. Chairman of the Board of Chalmers Industriteknik. Member of the Boards of Electrolux, Celsius, Celsius Industrier, Bofors and Trelleborg.
Member since 1980.

Clas Reuterskiöld (12)
(1939*)
President and CEO of Industrivärden. Chairman of PLM. Member of the Boards of AGA, Handelsbanken and SCA.
Member since 1994.
Shares held: B 4,400.

Sven Ågrup (13)
(1930*)
Chairman of the Board of AGA. Member of the Boards of Handelsbanken, Sandvik and Tetra Laval.
Member since 1983.

BOARD OF DIRECTORS DEPUTY MEMBERS

Christer Binning (14)
(1946*)
Employee representative.
Member since 1994.
Convertible debentures: 75.**

Sven Eriksson (15)
(1932*)
Employee representative.
Member since 1995.
Shares held: A 176.

Carl Wilhelm Ros (16)
(1941*)
Senior Executive Vice President.
Member of the Boards of LKAB, Trygg-Hansa and NCC. Member since 1986.
Shares held: B 20,000.
Convertible debentures: 10,030.**

Christer Åkerlind (17)
(1950*)
Employee representative.
Member since 1994.
Shares held: B 44.

CORPORATE EXECUTIVES

Lars Ramqvist
President and Chief Executive Officer, Telefonaktiebolaget LM Ericsson.

Carl Wilhelm Ros
Senior Executive Vice President and Chief Financial Officer.

Kurt Hellström
Executive Vice President.

Anders Igel
Executive Vice President.

CORPORATE FUNCTIONS

Stephan Almqvist
Senior Vice President, Corporate Treasury.

Erling Blommé
Senior Vice President and General Counsel, Corporate Legal Affairs.

Bengt Forssberg
Senior Vice President, Corporate Markets.

Lennart Grabe
Senior Vice President, Corporate Business Development.

Håkan Jansson
Senior Vice President,
Corporate Technology.

Bo Landin
Senior Vice President.
Corporate Office, Asia Pacific.

Åke Pettersson
Senior Vice President,
Corporate Audit and Security.

Britt Reigo
Senior Vice President,
Corporate Human Resources and Organization.

Lars A Stålberg
Senior Vice President,
Corporate Relations.

Gerhard Weise
Senior Vice President,
Corporate Financial Control.

BUSINESS AREAS

Ragnar Bäck
Senior Vice President,
Business Networks. President,
Ericsson Business Networks AB.

Kurt Hellström
Executive Vice President, Radio Communications. President, Ericsson Radio Systems AB.

Anders Igel
Executive Vice President,
Public Telecommunications. President,
Ericsson Telecom AB.

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

Jan-Åke Kark
Senior Vice President,
Microwave Systems. President,
Ericsson Microwave Systems AB.

STATUTORY AUDITORS

Carl-Eric Bohlin
Authorized Public Accountant,
Price Waterhouse.

Olof Herolf
Authorized Public Accountant,
Price Waterhouse.

Thomas Thiel
Authorized Public Accountant.

DEPUTY AUDITORS

Lars Eklund
Authorized Public Accountant,
Price Waterhouse.

Bo Hjalmarsson
Authorized Public Accountant,
Price Waterhouse.

Stefan Holmström
Authorized Public Accountant.

* Year of birth.
** For conversion into one "B" share 7.21 convertible debentures are required.

ERICSSON WORLDWIDE

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

Algeria
Telefonaktiebolaget
LM Ericsson
Bureaux Techniques
d'Algérie
El Djazair
Bernard Deblais

SITEL – Société
Industrielle Algérienne de
Télécommunications
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M. Mami

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Buenos Aires
Eduardo Restuccia

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Broadmeadows
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Ericsson Data
Australia Pty. Ltd.
Melbourne
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Ericsson Defence
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Preston
John Scanlon

Nira Australia Pty. Ltd.
Sydney
Brian Fitzgerald

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Ericsson Austria AG
Vienna
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Communication Co. Ltd.
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Tomas Hillås

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J.K. Mosonik (Act.)

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Perwira Ericsson Sdn Bhd
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Kamaludin bin Abdul Kadir

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Madrid
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Anders Igel

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Stockholm
Kurt Hellström

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Networks AB
Stockholm
Ragnar Bäck

Ericsson Components AB
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Systems AB
Mölndal/Gothenburg
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ELLEMTEL Utvecklings AB
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Lund
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Technology AB
Karlskrona
Kennet Rådne

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Skellefteå
Yngve Hässler

Ericsson Cables AB
Hudiksvall
Janne Sjödén

Ericsson Emergency
Control Systems AB
Gothenburg
Lennart Nilsson

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Telecommunications AB
Stockholm
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Ericsson Infocom
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Communications AB
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Fastigheter AB
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Per Palmberg

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Elektriska AB
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Karl-Olov Melin

Scancables AB
Norrköping
Torbjörn Sundqvist

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SELGA
Stockholm
Göran Brodin

Zonex AB
Stockholm
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Brüttisellen/Zürich
Peter Kunz

Ericsson Ascom
Telecom AG
Bern
Rudolf Fischer

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Taipei
Bengt Bergvall

Thailand
Ericsson Communications
(Thailand) Ltd.
Bangkok
Rolf Granström

Ericsson Telephone
Corporation Far East AB
Bangkok
Rolf Granström

Ericsson Thai Networks
Company Ltd.
Bangkok
Rolf Granström

Tunisia
Telefonaktiebolaget
LM Ericsson
Bureaux Techniques de
Tunisie
Tunis
Wadih Skaf

Ericsson Tunisie S.A.
Tunis
Wadih Skaf

STITELE S.p.A
Tunis
Mohamed Hachicha

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Ericsson Telekomüni-
kasyon A.S.
Istanbul
Johan Bruce

Ericsson-Cukurova
Telekom A.S.
Ankara
Johan Bruce

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LM Ericsson
International AB
Representative Office
Kiev
Leif Edwall

United Arab Emirates
Telefonaktiebolaget
LM Ericsson
Technical Office UAE
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Bo Nilsson

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Ericsson Ltd.
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Sistemas Ericsson C.A.
Caracas
Alvaro Cifuentes

Vietnam
LM Ericsson
International AB
Representative Office
Hanoi
Per Karlberg

Zimbabwe
LM Ericsson
International AB
Representative Office
Harare
Olav Thorsen

GLOSSARY, TRADEMARKS

This glossary has been prepared to broaden the understanding of the terms used in this Annual Report. However, brief definitions of these terms cannot provide complete explanations.

ATM
Asynchronous Transfer Mode. A technology for broadband transmission – transmission of high-capacity telecommunications signals. In addition to high-capacity signal transmission, ATM also provides a considerable flexibility, for instance, through the individual subscriber being able to adapt the capacity of a switched connection to current requirements.

D-AMPS
Digital Advanced Mobile Phone System. American standard for digital mobile telephony which is used in North America and other countries, mainly in Southeast Asia.

DECT
Digital Enhanced Cordless Telecommunications. A common European standard for cordless personal telephony as stipulated by ETSI, a European standardization organization for telecommunications technology. Among other applications, DECT is the guideline for the development of systems for cordless business communications.

ERMES
European Radio Messaging System. European digital standard for nationwide personal paging systems. Such systems are being introduced in a number of European countries.

GSM
Global System for Mobile Telecommunications, originally developed as a pan-European standard for digital mobile telephony, but has now been implemented in many other parts of the world.

Microwave technology
The technology of generating, processing and transmitting signals by means of radio waves in the frequency range of 1,000 to 25,000 MHz. The technology is applied in radio and telecommunications via radio links and satellite systems.

Mobitex
A system for mobile data communication developed by Ericsson for a broad application area. Mobitex uses a technology that facilitates transmission of large amounts of data, in a short time, with high reliability. Public networks for Mobitex are being established in many locations worldwide.

NMT
Nordic Mobile Telephony. The general Nordic standard for analog mobile telephony as established by the telecommunications administrations in Sweden, Norway, Finland and Denmark in the early 80's. Systems adhering to this standard have been installed in a number of countries outside the Nordic region.

PCN
Personal Communications Network is a radiobased telecommunications network which enables the use of lightweight, inexpensive cordless telephones, so-called personal telephones.

PCS
Personal communications Services is an American term corresponding to PCN in Europe.

PDC
Personal Digital Cellular is the Japanese standard for digital mobile telephony. As yet, the standard is used solely in Japan, but may be spread to other countries.

SDH
Synchronous Digital Hierarchy is a European standard for digital signal transmission within telecommunications networks.

TMOS
Telecommunications Management and Operations Support. TMOS is a system and applications platform common to various network applications, computerized operation and monitoring of telecommunications networks.

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A number of trademarks are mentioned in this annual report. The following trademarks are owned by Ericsson
AXE®
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Mobitex™ is owned by Telia AB

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"Safe Harbor" Statement under the U.S. Private Securities Litigation Reform Act of 1995:

Some statements in 1995 Annual Report are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among the other factors that may affect actual results are product demand, the effect of economic conditions, exchange-rate and interest-rate movements, the impact of competitive products and pricing, product development, commercialization and technological difficulties, political risks in the countries in which the Company has operations or sales, supply constraints, and the results of customer financing efforts.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Victoria Hall, Stockholmsmässan, Stockholm, at 5 p.m. Wednesday, May 8, 1996.

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 April 26, 1996.

Shareholders, whose shares are registered in the name of an agent, must temporarily be entered in the share register not later than April 26, 1996, in order to participate in the Meeting.

In addition to the above-mentioned requirements, shareholders shall give notice of attendance to:
Telefonaktiebolaget LM Ericsson,
Corporate Legal Affairs,
S-126 25 Stockholm, Sweden,
tel nos: +46 8 719 3444 or +46 8 719 4498,
Fax no: +46 8 719 95 27 between 10 a.m. and 4 p.m. daily, not later than May 3, 1996 at 4 p.m.

Proxy

In order to attend and to vote as proxy on behalf of a shareholder at the Meeting, a power of attorney must be presented.

Dividend

The Board of Directors has proposed May 13, 1996 as the record date for payment of dividends. Provided this proposal is approved, the dividend is expected to be paid by Värdepapperscentralen VPC AB on May 21, 1996.

Change of addresses

Shareholders who have changed their names or mailing addresses should as soon as possible notify Värdepapperscentralen VPC AB, Box 7822, S-103 97 Stockholm, Sweden.

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Corporate Legal Affairs,
S-126 25 Stockholm, Sweden,
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Fax no: +46 8 719 95 27 between 10 a.m. and 4 p.m. daily, not later than May 3, 1996 at 4 p.m.

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