

ANNUAL REPORT
1996



FINANCIAL INFORMATION FROM ERICSSON

Interim report January–March	April 25, 1997
Interim report January–June	July 24, 1997
Interim report January–September	October 23, 1997
Results 1997	January 29, 1998
Annual report 1997	end March, 1998

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Fractals, which are shown in the 1996 Annual Report, are a graphical expression of mathematical formulas. Fractals are being used increasingly in various sciences to graphically describe parts of reality, such as movements and turbulence in physics or in growth models in biology. Fractals accompany the text in the 1996 Annual Report dealing with Ericsson strategy and entering into the 21st Century

**“It’s about communication between people...
...the rest is technology”**

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Ericsson is the world leading supplier of equipment for telecommunications systems and related terminals. It produces 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 130 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. More than 18,000 employees in 23 countries are active in Company research and development programs. In 1996 SEK 22 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 are cooperating in specific areas of technology.

At the beginning of 1997, 118 million AXE system lines were installed or on order in 117 countries.

At the beginning of 1997 Ericsson's mobile telephone systems were serving about 54 million subscribers. Ericsson, with close to 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 11 million lines have now been installed. 1.5 million lines of this equipment were ordered in 1996. As a result, Ericsson is maintaining its strong position in the market for systems serving more than 100 lines.

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.

ERICSSONS 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 systems

EriEye®

Airborne tracking radar

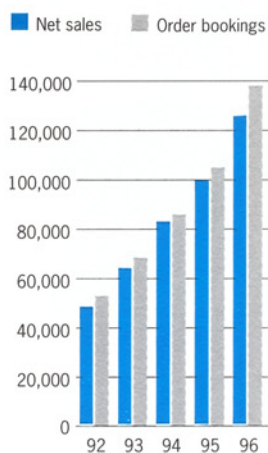
Arthur®

Artillery-location radar

	1996 SEK m.	1995 SEK m.	Percent change
Net sales	124,266	98,780	26
Order bookings	138,048	104,981	31
Order backlog at year-end	63,401	48,401	31
Income before taxes	10,152	7,615	33
Income per share after current and deferred taxes after full conversion, SEK	7.27	5.83	25
Dividend per share, SEK	2,50*	1,75	43

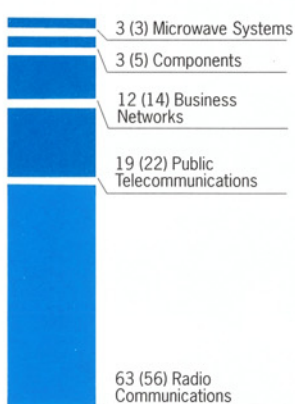
* For 1996 proposed by the Board of Directors

NET SALES/ORDER BOOKINGS, SEK m.



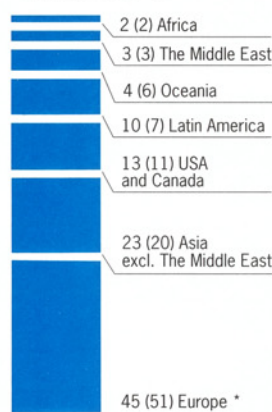
Net sales increased by 26 percent during the year and order bookings by 31 percent.

SALES TO EXTERNAL CUSTOMERS, BY BUSINESS AREA, %



Note: () indicates preceding year

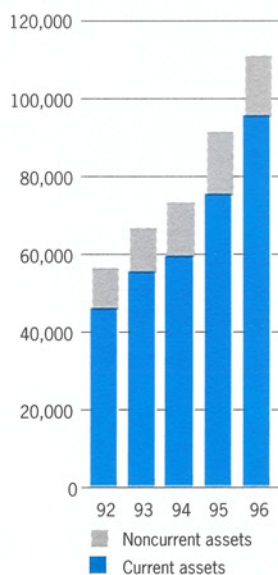
GEOGRAPHIC DISTRIBUTION OF SALES, %



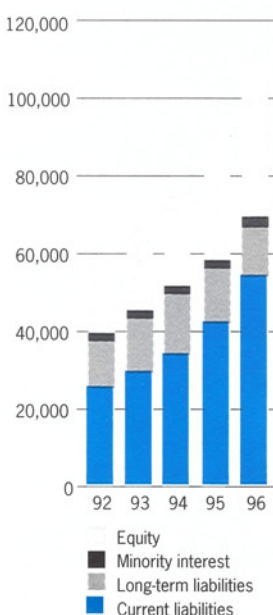
* of which Sweden 6 (9)

Note: () indicates preceding year

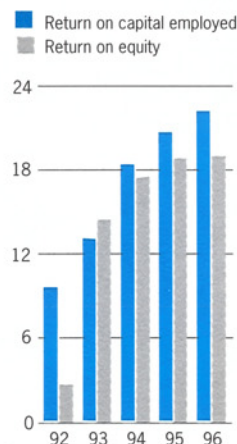
ASSETS, SEK m.



LIABILITIES AND EQUITY, SEK m.



RETURN ON CAPITAL EMPLOYED AND EQUITY, %



The return on capital employed increased to 22.4 percent in 1996 and the return on equity to 19.0 percent.



Once again, I have the pleasure of reporting to our shareholders on a fine year of operations for Ericsson. Nineteen ninety-six was a record year in terms of order bookings, sales and earnings.

As a result of the action programs and rationalization measures that we have implemented, Ericsson now shows a strong positive cash flow despite the sharp growth in operations.

The past five years have been a period of uninterrupted expansion for Ericsson. It is therefore with the greatest satisfaction that we can now identify the Company as the world leading supp-

plier of equipment for telecommunications systems and related terminals. As in earlier years, our operations in mobile telephony, in particular, continued to expand sharply. Sales of both systems and mobile telephones increased nearly 50 percent in 1996. This has strengthened Ericsson's position as a world leader in mobile telephony. Orders for AXE systems used in fixed networks rose 18 percent, which represents a major success, considering the heavy pressure on prices in this market.

The financial market has not been slow in evaluating our successes and the market value increased by 62-percent to SEK 202 billion in 1996.

SUCCESS FACTORS

As I see it, Ericsson's success can be attributed primarily to two factors.

First, we have a very strong marketing organization. As a result of our long presence in more than 130 countries, we have been able to develop good relationships in all parts of the world and have acquired knowledge that enables us to respond to and meet the differing needs of customers at the local level. Ericsson also has a reputation as a reliable corporate citizen in the countries in which it operates.

Second, we draw our strength from a concentrated focus on research and development. Our efforts in the area of technical development guarantee world-class quality and product appeal in terms of both price and performance. More than 18,000 employees in 23 countries are engaged in technical development programs.

We will naturally continue to build on these strengths in the future. Our employees are the ones who provide the foundation for these success factors. I am very proud of their contributions and wish to express great gratitude to all Ericsson employees for their performance in 1996.

NEW ORGANIZATION

Effective January 1, 1997, Ericsson has introduced a new organizational structure. You may ask: Why change a winning team? The answer is simple: Ericsson has to become even more profitable if it is to retain its leadership position in the years ahead. This will require continuing expansion and further strengthening of our market position. Ericsson is growing substantially every year — and this costs money. Larger volumes of business require more working capital, bigger investments

and, accordingly, higher earnings. We must increase our rate of capital turnover – by continuing our strategy of purchasing certain components and products from other companies, by forming partnerships or, in some cases, by divesting operations.

The rapid changes in markets and technologies make it necessary for us to become more efficient in all areas of our business: Research and development, design, production, marketing, sales, customer service and administration. As a result, our employees have become accustomed to a very rapid rate of change. New jobs are being created continuously; others are being discontinued.

Over the past two years, more than 1,000 new jobs have been created within Ericsson every month. This has occurred in part through external recruiting, in part through comprehensive internal realignment. Our employees have accepted the necessary change in a truly fine manner, while at the same time they all know that the rate of change will only increase in the future and that we will see more internal realignments than new hirings. We also know that radical improvements in the productivity of our manufacturing, distribution and administration processes will enable us to supply increased volumes with fewer employees. We must, very simply, become better at meeting the markets' and customers' needs rapidly, flexibly and competitively in all the areas where we are active as a supplier.

ENTERING THE 21ST CENTURY

The needs of our markets and customers will change continuously. At the same time, the competition in our industry is increasing. During the past year we have therefore carefully reviewed our business strategies with a view to making Ericsson even more competitive and still more profitable. Many of the Company's employees have participated in this process, which we have designated "2005 – Ericsson entering the 21st century." A detailed report on the process appears elsewhere in this Annual Report.

The strategy review has shown us how the "infocom" industry is becoming an increasingly important part of the market. This means that Ericsson, in addition to being a leader in mobile telephony, must also be a leading supplier in this new field, which comprises network systems and products used in multimedia communications.

Based on our strategy studies, we have also defined what Ericsson should look like in the year 2000 in terms of its business, employees and structure.

- Where our business is concerned, we will strengthen our position as the leading supplier and become our customers' first choice as a business partner. We will give our shareholders a "competitive" dividend on money invested.
- Thanks to their pro-active outlook, Ericsson employees will eagerly participate in a life-long learning process that assures the Company of access to expertise where and when it is needed. Ericsson places emphasis on leadership that naturally emanates from our shared values: professionalism, respect and perseverance.
- The objective in terms of our structure is to create a customer-focused organization, based on internal networks, which is sensitive to customers' needs and functions with world-class efficiency.

FACING THE FUTURE WITH GREATER STRENGTH

Ericsson's new organization and its three business areas – Mobile Telephones and Terminals, Mobile Systems and Infocom Systems – are also described in another section of the Annual Report. By reorganizing Ericsson has become a much stronger contender in the battle for customers in a rapidly changing market.

With the inauguration of new Infocom Systems Business Area we are for the first time creating and combining the resources we need to be a leading supplier in the information-and-data-communications field. The name "Infocom Systems" underscores our ambition to provide all the network solutions and products that may be required for multimedia communications. The telecommunications and data communications fields are moving increasingly closer to each other. The same is true of business networks and public telecommunications networks. Consequently, there is a strong demand for total solutions – including radio access systems – as well as for assistance in the construction of systems for fixed networks. The market has clearly signaled that it is time for Ericsson to establish a business area of this type.

In all three business areas, we will expand our operations as they relate to customer services and Internet Protocol (IP) access (Internet and intranet access).

STRONG MARKET POSITION

Ericsson's customers are located throughout the world. Our business is developing favorably in all markets, notably in Asia and North America. The United States was our largest single market in 1996, followed closely by China/Hongkong. The trend in Brazil is especially gratifying. Europe is still our largest regional market.

Ericsson now has the world's largest customer base. We have supplied systems serving close to 40 percent of the world's mobile telephone subscribers, and our AXE exchange – with systems installed in 117 countries – has been sold more widely throughout the world than any other system. Therefore, it is of manifest importance that we maintain and expand our customer base effectively in order to grow with the market and with our customers.

STRONG GROWTH FOR MOBILE TELEPHONY

At year's-end 1996, based on preliminary figures that are now available, there were around 137 million mobile telephone subscribers world-wide, an increase of more than 55 percent in one year. The Asian-Pacific region showed the strongest increase, nearly 90 percent, followed by Latin America with almost 65 percent, Europe 55 percent and North America, more than 30 percent. Ericsson estimates the number of subscribers for mobile telephony will amount to around 590 million in five years.

We can also note that digital systems account for the strongest growth, 180 percent. The GSM, PDC and D-AMPS networks now have a combined total of more than 50 million subscribers. The GSM system has become the de facto world standard. The growth in number of subscribers to digital systems has amounted to approximately 3.5 million new connections per month during the last months of 1996. By far the greatest growth has occurred in systems based on TDMA technology, of which Ericsson is the leading supplier.

INVESTMENT IN THE FUTURE

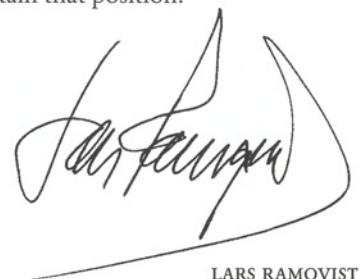
Our present and prospective customers know that Ericsson will continue to invest heavily and purposefully in research and development. While development costs, calculated as a percentage of sales, will decrease, the company's investments in development work will increase in absolute figures. We know from experience that our portfolio of marketable products changes within the course of two or three years. We therefore measure our progress in technical development by the volume of order bookings. This is the most important measurement of our competitive strength and our ability to develop new products and new functions in time.

Another important measurement is how well we succeed in protecting our inventions through patents. It is therefore gratifying to be able to report that Ericsson submitted nearly 900 applications for patents in 1996.

Ericsson has always placed substantial emphasis in the environmental field. In England the Company was one of the first to receive an environmental certificate based on the ISO14000 standard. As a number of other Ericsson companies are in line to be certified, our environmental programs will be intensified.

Our Total Quality Management program also continues to be implemented at an undiminished pace. During 1996 Ericsson won national quality prizes in Finland and Australia. The company also received a number of fine quality awards from major customers. These awards confirm that Ericsson's quality is of the highest international class. Nearly all Ericsson companies have received ISO 9001 certification.

In conclusion, let me thank our shareholders for their support of Ericsson. It was your help – and I am thinking, in particular, of the new issue of shares amounting to nearly SEK 8 billion in 1995 – that enabled Ericsson to become the world's leading telecommunications supplier in 1996. We intend to maintain that position.



LARS RAMQVIST

For Ericsson's Corporate Executive Committee, 1996 was a memorable year. It has been a great source of pleasure to us to report that the income our operations generated was higher than ever before in company history. Furthermore, 1996 was a year in which we saw Ericsson pass an important milestone.

The milestone was the completion of the largest planning study ever undertaken by our company, "2005 – Ericsson entering the 21st Century". This extensive work, which was presented and discussed during the final months of the year, constitutes the basis for Ericsson's future strategy. It serves as a blueprint, defining how Ericsson is to become an even more efficient and more profitable enterprise. It also contains, clearly defined, the target position we have staked out for ourselves ten years from now:

Ericsson will be the leading global supplier in the world of telecommunications.

In a market that is always characterized by razor-sharp competition, and that currently faces the prospect of radical change, nothing can be taken for granted. That is why the "2005" study is so important to Ericsson. It enables us to be better prepared for the major changes in the industry that we can foresee. At the same time, it will guide us in our unflinching efforts to improve our organization and our working methods, a task for which we, the Executive Managers of Ericsson, are ultimately responsible.

Thus, we would like to give an introduction to "2005 – Ericsson entering the 21st Century", and to examine the conclusions and consequences to which the project has led thus far. This is how it began:

TAKING A MID-DECADE INITIATIVE

Ericsson's present organization and strategy are based to a great degree on a study – "Ericsson in the '90s" – that Ericsson's CEO, Lars Ramqvist, presented in September 1990 at a meeting of managers in Sonthofen. Beginning 1995, Mr. Ramqvist commissioned a follow-up to this program with a view to identifying profitable long-term commercial opportunities for Ericsson. As it went on, the project developed and expanded to become the most comprehensive project of its type in the history of the company. More than 500 of Ericsson's experts and managers have been involved in the activities surrounding "2005," which became



the working name of the study. We also had the help of experts at leading universities, independent research organizations and consultancies. Following two years of intensive work, "2005" has evolved into something more than merely a blueprint for the future. As the most extensive analysis of the telecommunications industry that we know of, "2005" has started a process that is one of the most revolutionary in all of Ericsson's 120-year history.

THREE INDUSTRIES CONVERGE ON ONE ANOTHER

The first step in this process was to analyze the present situation. We reviewed the telecommunications industry in its entirety, as well as the business environment in which it operates. We soon identified a dominant trend: the convergence of three industries – telecommunications, data and media – that is taking place today.

Traditional telecommunications networks are built to handle voice communication. This is the area in which Ericsson has its base. Early on, we saw the potential in mobile telephony, and responded by making telephones mobile. Thus, we have achieved the expansion of our company that boosted the value of Ericsson stock from SEK 8 billion in 1985 to SEK 202 billion by the end of 1996.

ERICSSON'S CORPORATE
EXECUTIVE COMMITTEE
(LEFT TO RIGHT): ANDERS
IGEL, CARL WILHELM
ROS, LARS RAMQVIST
AND KURT HELLSTRÖM.

The computer industry has also developed at lightning-like speed. The personal computer, first as stand alone and later networked, revolutionized our lives, both at work and at leisure. Then the Internet took off, and today, all the world's computers want to "talk" with each other. Communication over the Internet is growing faster than anything we have seen in the communications industry to date.

The media industry is also changing very rapidly. It is now increasingly focusing on electronic distribution as an alternative to the printed word and other traditional media.

ADDRESSING A COMMON NEED

We are now seeing the markets for telecommunications and data communications merging. In the awakening infocom industry, a variety of technologies has emerged to address one and the same need: the need for multimedia communications. Mobile or fixed telecommunications, IP (Internet Protocol) communications or other forms of data communication, cable-TV or satellite-based radio/TV – all of these solutions will eventually be inter-working with each other.

In our increasingly complicated world, the future has become even more difficult to forecast, not least because so many new players are entering the arena.

Who will be the winner in ten years? As we have already mentioned, our goal is to establish Ericsson as a winner among companies that supply the new infocom industry with systems, products and services.

A VALUE CHAIN IN TRANSITION...

In order to more readily understand how the industry is changing and how new players are entering the field, we studied – in the course of our work on "2005" – the so-called "value chain" for telecommunications (Figure 1.), which has traditionally been divided into three clearly defined segments. In these segments, three categories of companies have been active: suppliers of components, suppliers of telecommunications equipment and systems and, finally, telecom operators. Ericsson and its competitors have operated in the middle segment, while telecom operators have borne responsibility for what is by far the largest part, the part closest to the end users.

Deregulation of the telecommunications market is forcing operators to focus even more sharply on competitive end user services. At the same time, the market will grow approximately 30–40 percent when liberalized, due to the dynamic forces which are released.

As operators move forwards in the value chain, they transfer parts of their traditional activities to other players. For Ericsson, this means new business opportunities in such areas as network design and the operation of telecommunications networks and administrative support systems.

At the same time, the components industry is also moving up in the value chain. As more and more intelligence and "functionality" is being built into silicon chips, the companies that produce them will be able to offer more or less complete products. It will be possible, for example, to build a mobile telephone consisting of only one, or very few, microchips. Thus, there is a risk of losing business – slice by slice – in the lower level of the telecom suppliers segment.

...AS WELL AS IN EXPANSION

The next step in our analysis was to combine – with an eye to the infocom industry of the future – the traditional value chain for telecommunications with the expanded value chain that is applicable to content: information, entertainment and the like. (Figure 2.) This value chain contains five distinct areas: content, the packaging of content and services, the distribution of these packages, services for gaining access to and software for the presentation of content, and, finally, equipment for end users. It is easier to understand this value

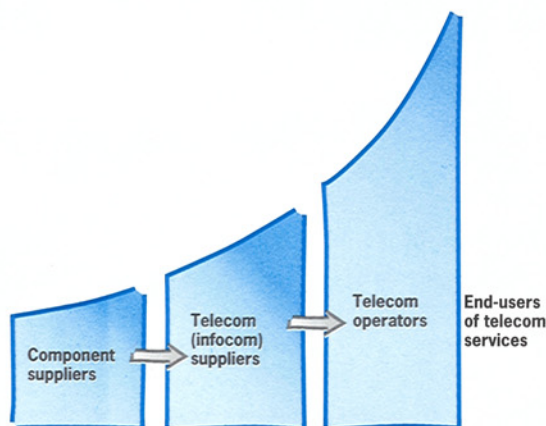


FIGURE 1. THE TRADITIONAL VALUE CHAIN FOR TELECOMMUNICATIONS

chain if we examine the types of companies that are active in the different areas.

At the beginning of the chain, *content* is created by such innovative companies as Walt Disney Studios, Time Warner, Newscorp and Matra-Hachette.

Content is *packaged* by film studios like MGM and Universal Pictures, by journalists, television companies, news agencies, producers of interactive computer programs, etc.

Distribution will be handled by new or established telecommunications operators, by satellite companies like Inmarsat, and by similar companies.

In the *presentation and gateway* area you would find companies like America OnLine, CompuServe, Microsoft and Netscape, but also the telecommunications operators in their customer handling role.

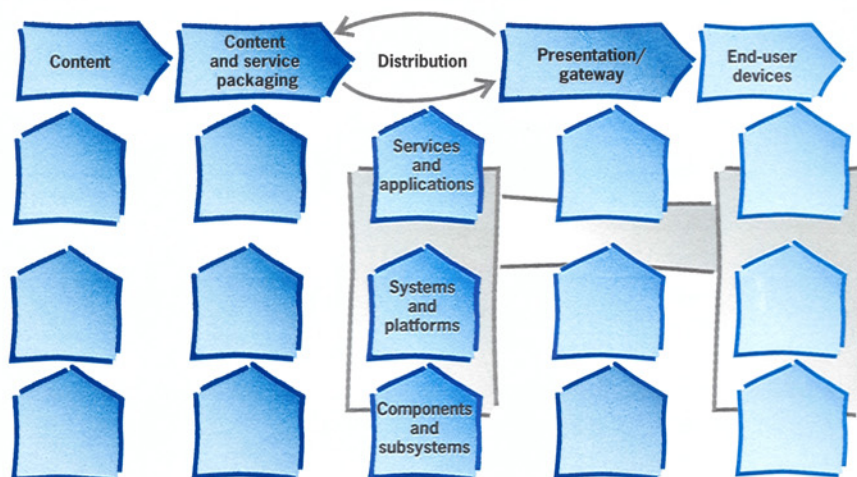
End-user devices – various types of stationary or mobile terminals – are being provided by companies like Ericsson, Nokia, Compaq, Sony and Hewlett-Packard.

We have used this value chain in our work with “2005” in order to better understand why companies in the infocom industry are now shaping up for the future by e.g. buying up companies or forming partnerships with each other.

ERICSSON’S ROLE

We got an even better overview of how the infocom industry works by combining the two value chains. (Figure 2.) Each section of the *value chain for content and services* can be divided into underlying sections that correspond to the telecommunications value chain – from components and subsystems via systems and platforms to services and applications. By constructing a model in which these different areas became visible, we were able to analyze the opportunities as well as the threats that the future may pose for Ericsson.

Our company is currently active in two different areas: first and foremost as a supplier to *distribution*, where we are active in all three underlying segments with components, printed circuits, AXE exchanges, mobile telephone systems, intelligent networks and the like. Ericsson is now firmly established as supplier of *end-user devices*, where we offer mobile telephones and data modems, among other products. At this point in our analytical work, we asked ourselves:



“Should Ericsson expand into new areas, or remain where we are today, or reduce our operations in some of these areas?”

At this stage we decided to work with scenarios. We needed something that would give us a clearer picture both of the infocom sector that would prove most profitable for us in the future, and of how our business opportunities would be affected, depending on the direction in which the industry develops.

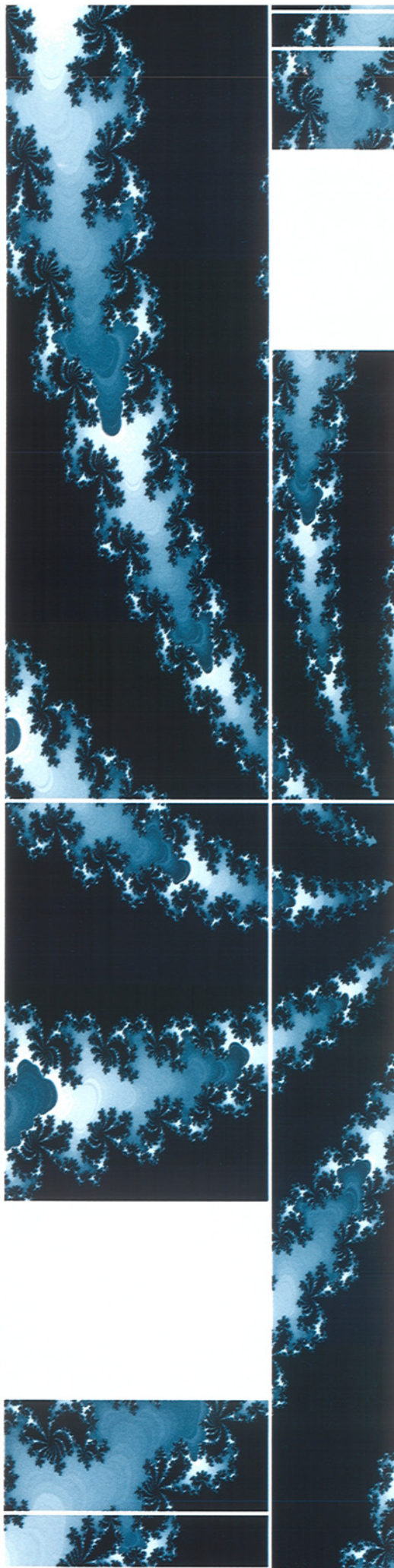
SCENARIOS BASED ON KNOWN TRENDS

It is important to keep in mind that a scenario is not a prediction of the future. It is, rather, a description of a possible future. A good scenario should be sketched in broad strokes, but should still be credible, reflecting an inner consistency and logic. It should also take into account such uncertain factors as “Who will win the battle for the consumer?” and “To what extent will telecommunications be deregulated?” Not to mention the highly pertinent question: “How successful can the Internet become?”

We determined that the scenarios we developed should be based on a number of clear trends in our industry. There are already several trends that we know will have a strong impact on future developments. We know, for example, that electronic equipment will continue to become cheaper and more capable than it is today, and that the Internet is one of the fastest-growing phenomena in human history. On-line information services have become a mass market, and – last but not

FIGURE 2. THE VALUE CHAIN FOR CONTENT AND SERVICES

The figure has been extended to show supporting value chains, including the traditional suppliers' chain. Gray areas indicate Ericsson's present position in the value chain.



least – the growing demand for mobile telephony is expected to continue.

By basing our scenarios on these known trends, we felt we could trust their credibility. The point of designing and analyzing scenarios is that by doing so, we increase our readiness to deal with major changes in the future.

THE DRIVING FORCES

In our work with scenarios, we identified eight strong driving forces, each of which will affect the possible development of the infocom industry to a high degree:

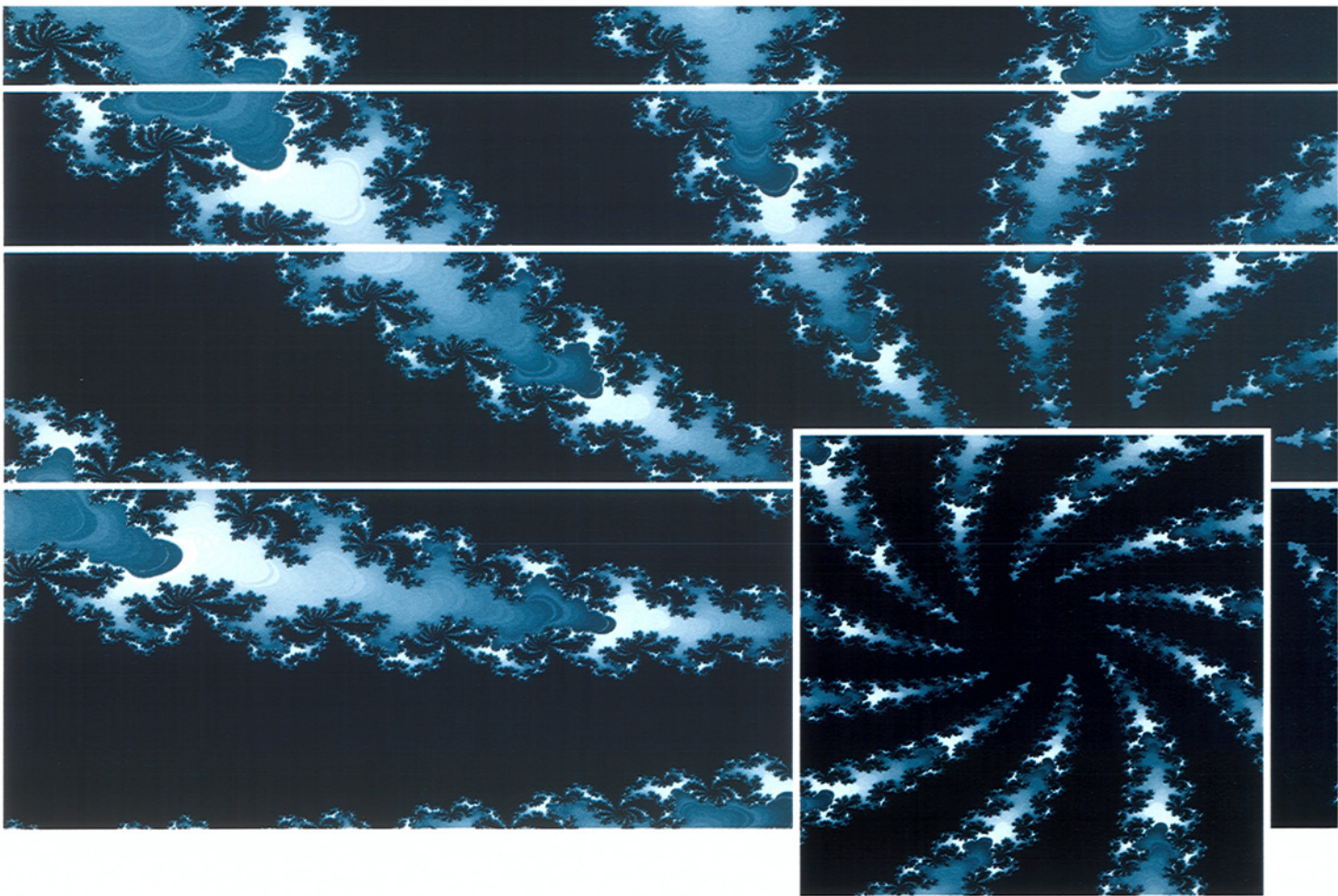
- Increasingly capable microelectronics
- Computer paradigm expansion
- The Internet
- Consumer orientation
- Globalization and internationalization
- Mobility
- Continuing deregulation of telecom
- Increasingly blurred boundaries between the fields of telecommunications, media and data.

By assigning greater or lesser importance to certain of the driving forces, and by analyzing the outcome of uncertainty factors in different areas – e.g. customer attitudes and values, network-structures, technologies and development of work-structure, we were able to draw up three essentially different scenarios that describe Ericsson's world in the year 2005.

SERVICE MANIA

In this scenario, end users – individuals as well as companies – will turn to a broker for help in gaining access to an appropriate package containing information and interactive services. Professional users will prefer to draw up contracts with specialized communications networks. The TV-channels with entertainment and information successfully defend their positions against the Internet.

In this world, the end user “belongs to” the broker, who in turn contracts content providers, communication service providers, etc. Perhaps the broker also supplies his customers with suitable terminal equipment. Customers will be offered different methods by which they can link up with the network, depending on the service package they have selected. The network operators in this instance function as suppliers to the broker.



The role of broker attracts, to a high degree, the traditional telecom and cable television operators, teaming up with content and service providers.

In this scenario, the content and service providers will be the financial winners. However, a large percentage of the revenues will also be transferred to the distribution segment, mostly as a result of the expected strong growth in mobile networks. End users are unaware of this, as they are paying for content and service rather than for bit transport.

GRAN TRADIZIONE

It has been said that mankind is basically conservative. If this trait is allowed to control developments, it is very likely that our present way of behaving in business and private life will persist. The end customer will rely on his or her traditional operator to provide the basic services he or she considers essential, and purchase the necessary terminal equipment. Underlying this behavior is a strong tendency on the part of people, notably in the Western world, to value family and the environment more highly than new technology.

In this scenario, the Internet has not by any means achieved the impact that many have predicted.

In this scenario, the price of communications services is expected to decline. However, this will be compensated by increased traffic and the continuing cost-rationalization measures taken by telecommunications operators. The result of this trend will be a sharp decline in the number of operators in the market; however, the surviving operators will be strong companies that offer both wireless and fixed communications services.

To satisfy their demand for electronic information services, end users will turn – to an increasing but still limited degree – directly to the content providers. In this scenario, what the end user will pay for primarily is communications: accordingly, it will be possible for operators to make heavy investments in traditional networks, particularly in developing countries where providing wireless access to networks has proved to be a cost-effective way of expanding them.

UP AND AWAY – FULL SPEED AHEAD

In this scenario, the end user will gain access to advanced communications systems virtually free of charge. As a rule, he or she will pay only for the terminal equipment. The manufacturers of the equipment will pay for the communications and for the end users' access to the communications network.

Advertising will cover the cost of the content as well as gateways. End users will have accepted, for example, the fact that advertising messages are displayed on their terminals whenever they either use them or log on to any of the information banks, entertainment services or similar facilities offered through the networks. End users with plenty of money will gladly pay extra to gain access to premium content and advanced gateways to “exclusive” parts of the Futurenet, the worldwide communications system that will have succeeded the Internet. The Futurenet – a broadband network – will handle everything: multimedia, video, television broadcasts, ordinary telephone calls, etc. A significant percentage of end users will prefer wireless access to the Futurenet, since this will not involve any limitation either of the services offered or of the system’s “functionality”.

Technical developments will have made communications simple and inexpensive. Many traditional operators will have disappeared from the market, leaving only a few regionally-based operators. With the new technology, large financial investments in networks will no longer be required. The manufacturers of terminals and other devices for end users will reap most of the profits in the industry.

BUSINESS OPPORTUNITIES DOCUMENTED

It took us slightly close to a year of work on “2005” to collect data, organize it, construct models for the value chains and create the three different scenarios. An enormous amount of work was involved, but it was instructive and stimulating, especially the discussions about the various scenarios. But we knew we had to move on. We did this by arranging several work-shops with participants from the entire company. The objective was to identify a number of business opportunities for Ericsson in each of the scenarios.

We evaluated Ericsson’s present expertise in various areas, and identified areas in which deficiencies in competence might prevent us from taking advantage of the opportunities that presented themselves. By comparing the attractiveness of the different opportunities, we were able to eliminate a number of them, and organize the remaining ones in six logical business segments. The basis of our evaluation took into account the basic competencies that are required for each opportunity. Next, we compared the selected business sectors with each of the three scenarios, asking ourselves, “Is any one of these scenarios to be preferred by Ericsson?”

Not surprisingly, we found that the ideal world varies considerably, depending on which business



sector one has in mind. In most cases, we concluded that a combination of developments in all three directions best supports any given business segment. This insight gave us strength, since an evolution along these lines seems most probable. However, because different parts of the world are likely to develop in different directions, Ericsson must be able to manage developments in the direction of all three scenarios. We are firmly convinced that Ericsson has a good position from which to proceed.

TEN CRITICAL ISSUES

Thus at this stage of our work, it was time to identify the issues to which we have to give special attention in order to equip us for the future – regardless of which scenario the future most closely resembles. As we continued to conduct discussions in large groups that included most of the company’s experts and senior managers, we were able to identify ten critical issues to be dealt with:

End user understanding. Since end users are the prize for which Ericsson’s customers are competing, the needs and wishes of these users – rather than technology – will drive future developments.

Customer-driven solutions. The systems and products Ericsson offers its customers must help these customers achieve their own business objectives.

Joint business development with partners. Ericsson should concentrate on developing systems exclusively in areas where “world class” can be achieved. We will develop the rest in win-win combinations with partners.

Regional diversity. Ericsson has to deploy resources and competence in closer proximity to its customers in all parts of the world.

Mass market logistics. Cost pressure, standard-

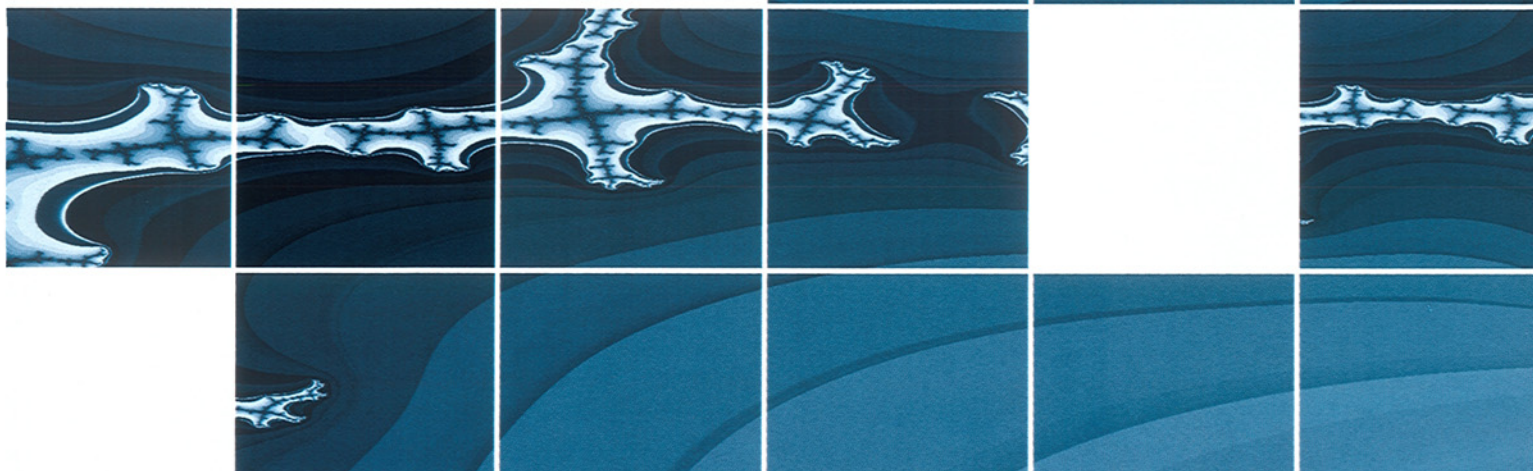
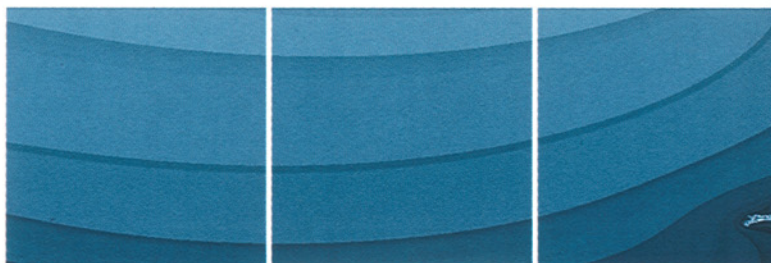
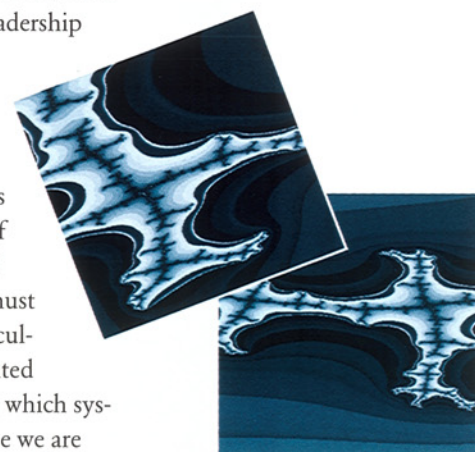
ized “volume” products and new customer segments are making it necessary for us to drastically rationalize our supply chain and improve our marketing skills.

The data paradigm. The data industry’s way of doing things is having an ever-increasing influence on the emerging infocom industry. Ericsson must understand, and adapt to, the manner in which data companies operate.

Low-cost operation. Ericsson must achieve cost leadership in all areas where value leadership cannot be achieved.

Open systems and software culture. Software accounts for an increasing percentage of the systems and products Ericsson offers its customers. In the past, the culture of hardware manufacturing dominated our company. Today, however, we must re-orient our thinking to generate a culture that is viable in a software-oriented business. It must also be a culture in which systems are much more open than those we are accustomed to in traditional telecommunications.

Microelectronics. Our products contain an increasing amount of standard components. Simultaneously, competitive advantage can be achieved by developing improved solutions on silicon for vital parts of our systems. We must





therefore review Ericsson's design and production of components carefully to determine which segments we should focus on.

Organizational development and corporate culture. Business orientation, the data paradigm and the rapid changes in markets – as well as globalization – make it essential that we be able to alter our organizational structure and our corporate culture quickly.

VISION AND STRATEGIES – 2005

After extensive deliberations during the spring and summer of 1996, Ericsson's corporate management took a decision on a long-term vision and strategies toward the year 2005. Some of the principal points are described below.

Ericsson believes in a world in which communication using speech, data, images and video (multimedia) will be available and affordable for most of the world's population. This will be made possible by many different types of networks and systems and by a variety of communication and service suppliers in an increasingly deregulated and competitive market. Wireless communication will to an increasing extent be viewed as a fully equivalent alternative to wireline connections. Ericsson views itself as one of the most important and progressive global players in making these form of mass communication possible. Ericsson will thus make a tangible positive contribution to economic, industrial and social

development in the world, an achievement in which we take pride.

Ericsson's vision for the year 2005 is to be the leading global supplier in this new world. We wish to be regarded as the best innovators and as entrepreneurs collaborating in global teams. Ericsson should be viewed as a model for global networked organizations.

In the changing and uncertain market that we anticipate, Ericsson will maintain its independence and freedom of action by offering a wide range of products and services for traditional telecommunications, as well as wireless and fixed infocom systems, in many different customer segments. Ericsson will refine its operations based on such traditional strengths as a worldwide local presence, world-class technical expertise and an extensive and geographically well dispersed base of sophisticated customers. Our marketing competence and the marketing organization will be strengthened and enhanced to increase customer focus and provide custom solutions and rapid delivery.

HALFTIME GOALS

"2005 – Ericsson entering the 21st century" has been presented and discussed within the company during the autumn and winter. Objectives included disseminating as much as possible of the knowledge gained from our work with the Strategy 2005 project and to provide a forum for suggestions from all levels of the organization. After

these wide-ranging discussions, we were able to define where we believe Ericsson should be in the year 2000. In order to define the position to which we aspire, we elected to view Ericsson from the three perspectives of business, employees and structure. Goals were established in each of these areas.

FROM A BUSINESS VIEWPOINT

1. *The business partner customers prefer.*
 - Our customers prefer us as a business partner and perceive us as their best choice in the markets or market segments in which we elect to operate.
2. *The number one supplier.*
 - Besides being the number one supplier, we are regarded as the industry leader: a prime innovator, setting new standards, introducing new systems, and procures strategic patents in fixed and mobile infocommunications.
 - We use the strength of our brand name and our corporate image to create competitive advantages in all markets.
 - We build partnerships in all the business segments in which such arrangements can strengthen and secure our competitiveness and leading position.
3. *Competitive return for shareholders.*
 - We offer our shareholders a competitive return on investments and generate a strong positive cash flow.

AS REGARDS OUR EMPLOYEES:

1. *Life-long learning for pro-active people.*
 - Our company offers an environment that encourages life-long learning on the part of our employees.
 - Our employees are pro-active and exercise their own initiative.
2. *Competence when and where it counts.*
 - We have access to the “right” competence at the right time and in the right quantity – in the right place and at the right cost.
 - We have employed and developed world-class innovators. We have also generated an environment that fosters creativity, thereby making the company attractive to new talents.
 - We recognize and support the entrepreneurial spirit in order to create an effective link between innovation and rapid commercialization.

3. *Leadership for empowerment, motivation, speed and flexibility.*
 - We develop and enhance leadership characteristics to improve speed, flexibility and business success.
 - Our leaders act in a manner that conforms with, and strengthens, Ericsson’s common values.
4. *Strong corporate culture and common values*
 - Our culture is based on common values: professionalism, respect and perseverance. It is a culture that encourages a flexible, business-oriented way of working in different markets, segments, product areas and new business.

WHERE OUR STRUCTURE IS

CONCERNED:

1. *A customer-focused and networked organization.*
 - We have developed an organization that is totally focused on “solutions and services for our customers.” Local staff within the organization work together in global networks to ensure that we deal with customers as one single company.
 - Our method of organization encourages open communication within the company and fosters the development of internal networks and group work.
2. *Geared for responsiveness and world-class execution.*
 - We continuously develop our organization and processes to achieve world class execution. We offer our customers the best solutions; our operations are the most cost-effective; our quality is world-class; and we have the capacity to change our course of operations quickly.
 - We use information technology, based on a common architecture, as a major enabler to achieve business excellence and we are recognized as a leading edge user of IT.
 - We have a management information system for steering, supported by multi-dimensional reporting which allows us to respond quickly to meet the needs of our customers.
 - We have a fast, reliable and state of the art financial reporting system.



WE HAVE ALREADY BEGUN THE JOURNEY

The work on "2005" has given all of us involved in it a keen sense that the implementation of many of the changes desired in our operations and our methods of working, are urgently needed. Accordingly, we in the Corporate Executive Committee have not rested on our laurels. We have, instead, quickly begun Ericsson's exciting journey towards the year 2005.

Right now, as this annual report is being released, the work on the 1997 edition of Ericsson's rolling strategic plan is being completed. This work, which of course is based to a large extent on the insights and objectives we have described here, is going forward in a company – Ericsson – that has assumed a completely new form. Since 1 January 1997, we have been operating as a new organization, with restructured business areas and a stronger emphasis on the marketing dimension of the organizational matrix that was introduced following the meeting at Sonthofen.

BETTER EQUIPPED FOR THE NEXT CENTURY

The changeover from telecommunications to infocommunications that we are now experiencing is the single phenomenon that has most strongly influenced the work with "2005." Thus, it should not be surprising that Ericsson's new organizational structure reflects, to a high degree, this merging of different industries. In our new Infocom Systems Business Area, which should be viewed as one of Ericsson's responses to this trend, we have accordingly combined our former Public Telecommunications and Business Networks business areas into a single unit. In this way, Ericsson is making a major investment in the new types of communications solutions by bringing together – in a common, effective organization – all of our operations involving fixed telecommunications and data communications, including the units that are focusing on the growing Internet/Intranet market. In addition, solutions for radio access to the fixed network have also been brought together within this Business Area.

Another lesson learned from "2005" is that the market for end-user equipment will increase in importance. It is against this background that our Radio Communications Business Area is now

being divided into two separate business areas, Mobile Systems and Mobile telephones and Terminals. Our systems and products for end users will be organized in the latter business area so that we can develop our expertise in a market that follow totally different playing rules – and a completely different commercial logic – compared with what Ericsson is used to in the traditional markets.

GOOD PROSPECTS

By describing "2005 – Ericsson entering the 21st Century" in this manner, we of Ericsson's Corporate Executive Committee have tried to share a small measure of the excitement that we, as participants in this project, experienced. Our lasting impression from this study of the future is that the path into the next century offers a great challenge to the company, and many factors indicate that ten years hence, as we glance backward, we will see that our objectives were achieved. Our strong position in the dynamic field of mobile telephony, our new organization with its sharp focus on mobility and infocommunications, our unique presence in more than 130 countries – all of these are assets that offer us a substantial advantage.

In the aftermath of the completion of "2005", activity at Ericsson is at a high pitch. Our will and our desire to tackle the questions the future poses are very great indeed. We know, too, that we are fortunate in having a staff who are also fully prepared to see to it that the necessary changes are implemented.

We thank you, our shareholders, and everyone else associated with Ericsson, for vigorously supporting – to date, and in the future – our efforts to maintain the position of leadership that Ericsson has won for itself in the industry.

*Lars Ramqvist, Carl Wilhelm Ros,
Kurt Hellström and Anders Igel*

**ERICSSON'S CORPORATE EXECUTIVE
COMMITTEE**

ORDERS BOOKED AND SALES

Ericsson's orders booked increased 31 percent to SEK 138,048 million (104,981). For comparable units orders booked increased 25 percent. The orders booked have, calculated over a twelve month revolving period, increased 21 quarters in a row. The year-end order backlog was SEK 63,401 m. (48,401).

For the Brazilian company Ericsson Telecomunicações S.A. (EDB), voting majority was achieved without changing Ericsson's shareholding (51 percent), whereby EDB is consolidated as a subsidiary as of January 1, 1996. As a consequence of the consolidation of EDB as a subsidiary, the orders booked for the year increased by SEK 7,800 m. or 7 percent. The consolidation has no effect on Ericsson's income before taxes or net income.

Ericsson's net sales amounted to SEK 124,266 m., an increase of 26 percent compared with last year (98,780). For comparable units net sales increased by 23 percent.

The consolidation of EDB means that net sales increased by SEK 3,400 m. or 3 percent. Markets outside Sweden accounted for 94 percent (91) of net sales, of which 39 percent (44) were markets within the European Union (EU). The United States is Ericsson's largest market with 12 percent of sales, followed by China/Hongkong, England, Sweden, Italy and Spain. Asia is the market area with the strongest growth.

Total exports from Sweden, including sales to foreign subsidiaries, amounted to SEK 73,000 m. (56,000), an increase by 30 percent.

INCOME

Consolidated income before taxes was SEK 10,152 m. (7,615), an increase of 33 percent compared with last year. The income included a net capital gain of SEK 341 m. (-70) after deduction of minority interest. The capital gain is mainly related to the sale of Ericsson's shareholding in SELGA, SEK 311 m., and the divestment of On-Site paging operations. Income per share, after current and deferred taxes and after full conversion, was SEK 7.27 (5.83). The tax rate in 1996 was 30 percent (28).

Other operating revenues increased due to capital gains but also due to an increase in license fees from Ericsson's licensees. Share in earnings of associated companies decreased compared with 1995, as a result of the Brazilian company EDB being reported as a subsidiary in 1996. Also Ericsson Raynet and the English company Orbitel, which in 1995 were reported as associated companies, in 1996 are reported as consolidated activities.

Ericsson's gross margin weakened due to increased competition, currency exchange effects and that continuous consideration has been given in the accounts for increased risks related to changes in technology and markets, and greater financial exposure. The total effect of these continuous provisions is reported as part of other current liabilities.

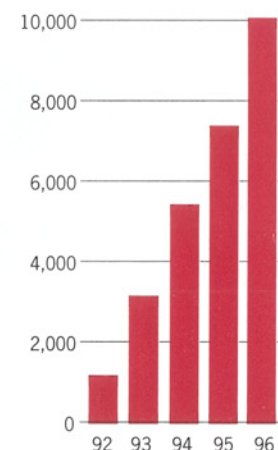
Total expenses for selling, research and development and administration were SEK 40,803 m. (33,580). As percentage of sales, total expenses were 33 percent, compared with 34 percent in 1995. Also during 1996, Ericsson continued the substantial investments in technical development and in plants and technical equipment. Ericsson's total costs for research and development (including such costs related to customer orders SEK 1,763 m. (1,571), reported as part of cost of sales) were SEK 17,467 m. (15,093), or 14 (15) percent of sales. The total technical costs, including cost of modifying systems and products for specific markets, amounted to SEK 21,947 m. (19,171), or 18 (19) percent of sales.

Operating income was SEK 10,758 m. (8,164), mainly attributable to business area Radio Communications. All business areas reported increased operating income compared with 1995. The stronger Swedish krona had a negative impact on income before tax of approximately SEK 900 m. compared with the previous year.

The operating margin improved from 8.3 percent to 8.7 percent.

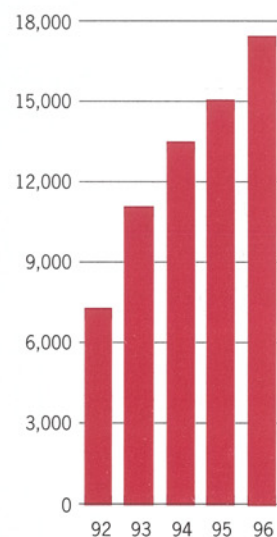
Ericsson's financial net was SEK 412 m. (58) (of which SEK 127 m. from the consolidation of EDB), due to a satisfactory result in the financial management and also due to interest income as a result of the stock issue in October 1995. As the rates of interest successively decreased during the

INCOME BEFORE TAXES, SEK m.

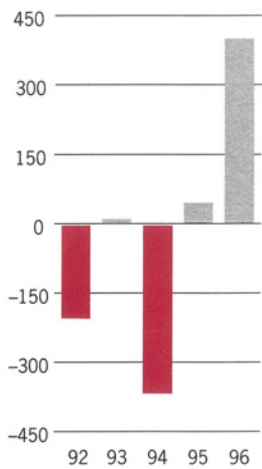


Income improved to SEK 10,152 m. in 1996, an increase of 33 percent compared with 1995.

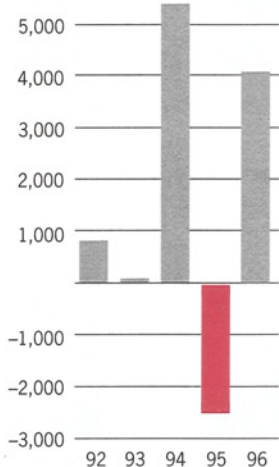
RESEARCH AND DEVELOPMENT, SEK m.



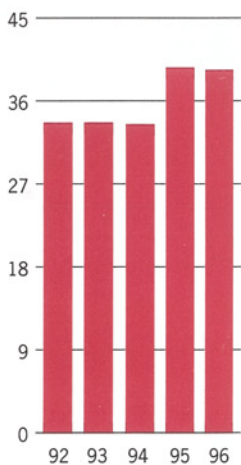
FINANCIAL NET, SEK m.



CASH FLOW BEFORE EXTERNAL FINANCING, SEK m.



EQUITY RATIO, %



Ericsson equity ratio was 39.1 (39.6) percent.

year, the financial net has gradually decreased in the second half of the year (excluding effects of the consolidation of EDB).

The minority interest in income before taxes was SEK 1,018 m. (607), which includes minority interests in companies in Brazil, Japan, China, Italy and other countries. The minority interest has been affected by the above mentioned changes in holdings in EDB and SELGA.

Cash flow before financing activities during 1996 was positive by SEK 4,044 m (-2,512), an improvement with SEK 6,556 m. Mainly the strong earning capacity, the faster inventory turnover and large customer payments at year end contributed to this cash flow. The turnover rate of capital employed rose from 2.1 times to 2.2 times as a consequence of the improved inventory turnover. The inventories were 16 percent (20) of sales.

The equity ratio was 39.1 percent (39.6).

Radio Communications shows in its dominant part, mobile telephony, continued strong growth. Orders booked increased by 31 percent and net sales by 40 percent. The business trend for mobile telecommunications systems has been very favourable as a result of strong growth in the number of subscribers, for digital systems in particular. The mobile telephone business is developing favourably, with strong demand for GSM products. Ericsson is strengthening its position as the leading supplier of digital mobile telephones. The operating income increased and accounted for a significant portion of Ericsson's consolidated operating income.

Orders booked for *Public Telecommunications* rose 56 percent and net sales rose 7 percent. For comparable units and excluding EDB as consolidated company, orders booked rose 26 percent and net sales were almost unchanged. The success of the AXE-system continues and profitability is good as a consequence of cost rationalisation, despite the fact that net sales were affected by continued price pressure. However, due to investments in the area of broadband communications and restructuring costs, the business area as a whole reported a weak but improved profitability.

For *Business Networks*, orders booked were unchanged and net sales increased by 13 percent. The market interest for the DECT based radio access solution is very strong. The business area had a weak profitability.

Components increased orders booked by 14 percent and net sales by 19 percent for comparable units after the divestment of SELGA. Product areas in which there is a strong demand include telecommunications cables, energy systems and microelectronics for mobile telecommunications systems. The operating income was very satisfactory.

Microwave Systems increased orders booked by as much as 47 percent and net sales by 18 percent. The success of the business area in the field of digital radiolinks is the main reason for the positive development. The market for defense electronics is still pending. The operating income was very satisfactory.

FINANCING

In October 1995, Ericsson made a stock issue, subscribed to the amount of SEK 7,831 m. The reason for the stock issue was the dynamic changes in the telecommunications field, requiring a stronger balance sheet, which among other things would temporarily enable Ericsson to a larger extent to offer short term project financing to existing and new customer groups. The total amount of Ericsson's accounts receivables, short term and long term, increased during 1996 by SEK 7,365 m. (excl EDB), of which SEK 1,540 m. are related to customer financing. The increase is financed through the proceeds from the stock issue and through own financing. The net of Ericsson's cash and temporary investments less interest bearing debt (incl. pension liabilities) was SEK 1,515 m. (-169). Ericsson's liquidity has improved during the fourth quarter and this development has been difficult to forecast due to the customers' own liquidity planning.

The need of export- and project financing continued to increase during the year, mainly for customers in the United States, Brazil, China and India. The level of risks has gradually increased and concurrently the provisions for covering these risks. No appreciable credit losses occurred. It is still difficult to initially refinance customer credits for completely new projects.

In the end of 1996, the parent company has

established a Euro Medium Term Note Programme (EMTN) in the amount of USD 800 m. in order to cover Ericsson's long term borrowing requirements and to obtain greater flexibility to choose currency and maturity when borrowing. In the beginning of 1997, USD 250 m. has been borrowed.

Ericsson Treasury Services AB, responsible for handling the majority of Ericsson's liquidity and currencies, acts as an internal bank and acts also on behalf of Ericsson in the currency and capital markets. The result of the handling of currency and liquidity was satisfactory and had a positive impact on Ericsson's financial net. The risks are managed within a policy approved by the board.

Ericsson's policy for hedging of flows in foreign currencies did not change during the year. Binding contracts with customers and suppliers are hedged. In addition, sales and purchases are hedged up to 12 months based on judgements of certainties in volumes, price development etc. made in each business area.

CAPITAL EXPENDITURES

Investments in property, plant and equipment were SEK 7,188 m. (6,457), an increase of 8 percent. Capital expenditures in Sweden decreased from SEK 3,656 m. to SEK 3,415 m. Of the total amount invested, SEK 1,483 m. (1,019) are attributable to other countries within the EU. Among Ericsson's largest investments were increased production capacity for mobile telephones and base stations in Kumla and Gävle respectively and new and modernized offices in the Stockholm area and Mölndal.

PERSONNEL

The number of employees rose by 9,436 to 93,949, of which the consolidation of EDB contributed 2,300. In Sweden, the net increase was 1,874, mainly within the expanding business area Radio Communications. Of the total number of employees, 65,575 – including 43,896 in Sweden – are in units within the EU.

Wages, salaries and other remunerations were SEK 23,612 m. (20,436). Information on the average number of employees, and on wages, salaries and remuneration paid as well as benefits to senior executives is specified in Accounting Principles and Notes.

SIGNIFICANT CHANGES

WITHIN ERICSSON

For the Brazilian company Ericsson Telecomunicacoes S.A. (EDB), voting majority was achieved in 1996 without changing Ericsson's shareholding (51 percent), whereby EDB is consolidated as a subsidiary as of January 1, 1996.

In January 1996, Ericsson and Ascom Tateco formed a joint venture to which Ericsson sold its On Site Paging activity. Ascom Tateco owns 70 percent and Ericsson 30 percent.

The shareholding in the electrical wholesaler SELGA was sold to the French Rexel group.

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

The remaining part of the English company Orbitel Ltd. has been acquired.

In 1996, the associated company Ericsson Project Finance AB was established.

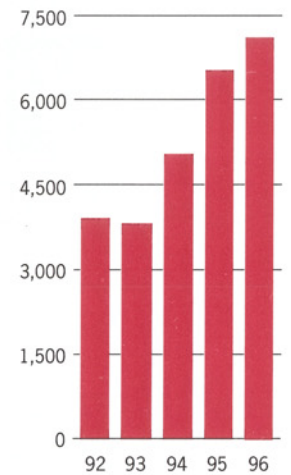
In December 1996, the remaining 50 percent shareholding in the French company Eritelcom has been acquired.

In Norway, the Hisøy factory was sold to Norsk Elektronik Produksjon AS in December 1996.

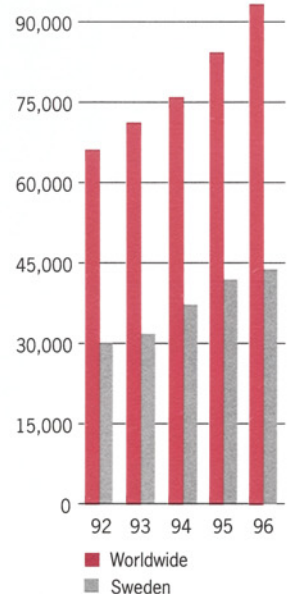
With the purpose of creating a united ownership structure within the cable operations, a holding company was established, Ericsson Cables Holding AB, under which Ericsson's cable companies have been organized.

New companies have been established in Indonesia, India, Estonia, Latvia, Ukraina, and Slovenia among other countries.

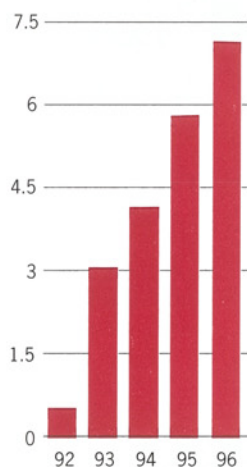
CAPITAL EXPENDITURES, SEK m.



NUMBER OF EMPLOYEES



**INCOME PER SHARE
AFTER CURRENT AND
DEFERRED TAXES
AND AFTER FULL
CONVERSION, SEK**



Ericsson's activities in Karlskrona have been sold to the American group Flextronic as of March 1997.

Nolato AB has as of February 1, 1997, acquired Ericsson's plastics factory in Kristianstad.

Saab and Ericsson have agreed to form a joint venture as of January 1997 in the field of military flight electronics – Ericsson Saab Avionics AB. At the same time, Saab Dynamics acquires the electroopto activity from Ericsson.

Effective January 1, 1997, Ericsson has a new organization. The purpose is to satisfy the demand the market has on a flexible and customer oriented organization. The new organization comprises three business areas;

- Mobile Systems, with responsibility for system solutions, products and services for licensed operators of public mobile networks.
- Infocom Systems, with responsibility for network solutions, products and services for licensed operators of public telecommunications networks, operators of dedicated networks, and operators and users of business networks.
- Mobile Phones & Terminals, with responsibility for consumer products.

PARENT COMPANY

The transfer of companies to Ericsson Cables Holding AB has in the parent company generated a capital gain of SEK 2,106 m., an amount which is eliminated in the consolidated accounts.

Since July 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. GE has notified Ericsson that it intends to exercise its contractual put option for the shares in the joint venture on April 1, 1998.

Parent Company net sales were SEK 15,404 m. (16,940). Parent Company reported net income after appropriations and taxes was SEK 4,931 m. (1,741). Earnings available for distribution at year-end amounted to SEK 9,909 m. (6,654).

PROPOSED DISPOSITION OF EARNINGS

The sum of SEK 9,909,056,921 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:

<i>that</i>	a dividend of SEK 2.50 per share be paid to shareholders duly registered on the record date	SEK 2,404,286,310
<i>and</i>		
<i>that</i>	the remainder be retained in the business	<u>SEK 7,504,770,611</u>
		SEK 9,909,056,921

Stockholm, February 1997

Telefonaktiebolaget L M Ericsson (publ)

Björn Svedberg <i>Chairman</i>	Tom Hedelius <i>Vice Chairman</i>	Bo Berggren
Göran Engström	Jan Hedlund	Per Lindh
Sverker Martin-Löf	Lars-Eric Petersson	Clas Reuterskiöld
Peter Sutherland	Marcus Wallenberg	Sven Ågrup

Lars Ramqvist
President

CONSOLIDATED INCOME STATEMENT

21

Years ended December 31, SEK m.	1996	1995	1994
OPERATING REVENUES			
Net sales	124,266	98,780	82,554
Other operating revenues	NOTE 1 1,193	487	879
Share in earnings of associated companies	424	414	893
	125,883	99,681	84,326
OPERATING EXPENSES			
Cost of sales	70,106	54,323	46,556
Selling, research and development, general and administrative expenses	40,803	33,580	28,213
Depreciation	NOTE 2 4,216	3,614	3,004
	115,125	91,517	77,773
OPERATING INCOME AFTER DEPRECIATION			
Financial income	NOTE 3 1,908	1,497	908
Financial expenses	NOTE 3 1,496	1,439	1,294
INCOME AFTER FINANCIAL INCOME AND EXPENSES			
Minority interest in income before taxes	-1,018	-607	-557
INCOME BEFORE TAXES			
TAXES			
Current taxes	NOTE 4 -4,671	-3,017	-2,345
Deferred taxes	NOTE 4 1,272	676	522
Minority interest in taxes	357	165	162
NET INCOME			
Income per share after current and deferred taxes and after full conversion, SEK	NOTE 6 7.27	5.83	4.30

NET SALES:
SEK 124,266 m.

INCOME BEFORE
TAXES: SEK 10,152 m.

INCOME PER
SHARE: SEK 7.27

CONSOLIDATED BALANCE SHEET

December 31, SEK m.		1996	1995
ASSETS			
CURRENT ASSETS			
Cash, bank deposits and short-term cash investments	NOTE 7	19,060	15,385
Notes and accounts receivable – trade	NOTE 8	35,384	25,379
Inventories	NOTE 9	19,619	19,351
Other current assets	NOTE 10	10,514	7,719
		84,577	67,834
INVESTMENTS AND OTHER NONCURRENT ASSETS			
Notes and accounts receivable – trade	NOTE 8	2,921	334
Equity in associated companies	NOTE 23	2,631	2,953
Other investments		1,142	611
Other noncurrent assets	NOTE 13	3,127	3,579
		9,821	7,477
PROPERTY, PLANT AND EQUIPMENT	NOTE 14	17,754	15,521
		1996	1995
ASSETS PLEDGED AS COLLATERAL		1,203	1,204
	NOTE 21		
		TOTAL ASSETS	112,152
			90,832
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable – trade		11,371	10,018
Advances from customers		4,932	3,950
Accrued taxes		2,813	2,564
Short-term borrowings	NOTE 15	4,340	2,198
Current maturities of long-term debt		2,185	1,715
Other current liabilities	NOTE 16	29,281	21,908
		54,922	42,353
LONG-TERM LIABILITIES			
Bond loans	NOTE 17	500	1,495
Convertible debentures	NOTE 17	1,772	2,028
Pension liabilities	NOTE 18	6,256	5,825
Deferred tax liabilities		800	826
Other long-term liabilities	NOTE 17	4,036	2,293
		13,364	12,467
MINORITY INTEREST IN EQUITY OF CONSOLIDATED SUBSIDIARIES		3,410	1,749
STOCKHOLDERS' EQUITY			
Capital stock	NOTE 20	2,403	2,394
Reserves not available for distribution		24,185	22,061
		26,588	24,455
Retained earnings		6,758	4,369
Net income		7,110	5,439
		40,456	34,263
		1996	1995
CONTINGENT LIABILITIES		6,440	4,103
	NOTE 22		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		112,152	90,832

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK m.	1996	1995	1994
OPERATIONS			
Net income	7,110	5,439	3,949
Minority interest in net income	661	442	395
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH			
Depreciation & amortization	4,659	4,156	3,500
Capital gains (-)/losses on sale of property, plant, equipment and shares	-345	68	-99
CHANGES IN			
Inventories	1,118	-7,237	956
Accounts receivable & other operating assets	-9,514	-8,417	-1,204
Accounts payable & other operating liabilities	5,609	8,695	2,731
CASH FLOW FROM OPERATING ACTIVITIES	9,298	3,146	10,228
INVESTING ACTIVITIES			
Investments in land, buildings, machinery and equipment	-6,290	-6,423	-4,907
Sales of property, plant and equipment	767	397	338
Acquisitions/sales of shares and participations, net	-540	-466	272
Net change in capital contributed by minority	1	-33	122
Other	808	867	-713
CASH FLOW FROM INVESTING ACTIVITIES	-5,254	-5,658	-4,888
CASH FLOW BEFORE FINANCING ACTIVITIES	4,044	-2,512	5,340
FINANCING ACTIVITIES			
Changes in short-term loans, net	1,453	-217	-741
Proceeds from issuance of long-term debt	682	247	745
Repayments of long-term debt	-2,029	-615	-654
Stock issue	-	7,831	-
Dividends paid	-1,917	-1,510	-1,188
CASH FLOW FROM FINANCING ACTIVITIES	-1,811	5,736	-1,838
Effect of exchange rate changes on cash	38	269	-410
Effect on cash of consolidation of previously associated entity	1,404	-	-
NET CHANGE IN CASH	3,675	3,493	3,092
CASH, BEGINNING OF PERIOD	15,385	11,892	8,800
CASH, END OF PERIOD	19,060	15,385	11,892

Comparative years adjusted for change in accounting principles.

PARENT COMPANY INCOME STATEMENT

NET SALES:
SEK 15,404 m.

INCOME BEFORE
TAXES:
SEK 5,170 m.

Years ended December 31, SEK m.		1996	1995	1994
OPERATING REVENUES				
Net sales		15,404	16,940	17,207
Other operating revenues	NOTE 1	4,409	1,610	1,720
		19,813	18,550	18,927
OPERATING EXPENSES				
Cost of sales		10,817	12,728	11,316
Selling, research and development, general and administrative expenses		7,054	6,909	7,011
Depreciation	NOTE 2	470	557	490
		18,341	20,194	18,817
OPERATING INCOME AFTER DEPRECIATION				
Financial income	NOTE 3	4,231	2,826	2,461
Financial expenses	NOTE 3	1,324	1,213	1,062
		4,379	-31	1,509
INCOME AFTER FINANCIAL INCOME AND EXPENSES				
Appropriations to (-)/transfers from untaxed reserves				
Changes in depreciation in excess of plan	NOTE 2	92	-14	-74
Changes in other untaxed reserves	NOTE 19	-112	-170	1,186
		-20	-184	1,112
Contributions from/to (-) subsidiaries		811	2,116	-518
INCOME BEFORE TAXES				
Income taxes	NOTE 4	-239	-160	-142
		4,931	1,741	1,961
REPORTED NET INCOME				

December 31, ^{SEK m.}		1996	1995
ASSETS			
CURRENT ASSETS			
Cash, bank deposits and short-term cash investments	NOTE 7	10,145	9,125
Notes and accounts receivable from subsidiaries	NOTE 11	9,740	8,900
Notes and accounts receivable – trade	NOTE 8	2,168	2,230
Inventories	NOTE 9	1,460	1,779
Other current assets	NOTE 10	3,316	2,589
		26,829	24,623
INVESTMENTS AND OTHER NONCURRENT ASSETS			
Notes and accounts receivable – trade	NOTE 8	58	97
Other accounts receivable from subsidiaries	NOTE 11	4,189	2,330
Investments	NOTE 12		
Subsidiaries		14,002	11,258
Associated companies		1,228	804
Other investments		39	50
Other noncurrent assets	NOTE 13	218	749
		19,734	15,288
PROPERTY, PLANT AND EQUIPMENT	NOTE 14	3,273	3,361
		1996	1995
ASSETS PLEDGED AS COLLATERAL		650	624
	NOTE 21		
	TOTAL ASSETS	49,836	43,272

PARENT COMPANY BALANCE SHEET

December 31, SEK m.	1996	1995
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable – trade	1,107	1,114
Advances from customers	149	115
Accrued taxes	208	142
Short-term borrowings	NOTE 15 153	49
Current maturities of long-term debt	1,222	1,600
Accounts payable to subsidiaries	NOTE 11 11,086	6,568
Other current liabilities	NOTE 16 1,530	2,250
	15,455	11,838
LONG-TERM LIABILITIES		
Bond loans	NOTE 17 500	1,495
Convertible debentures	NOTE 17 1,493	1,628
Pension liabilities	NOTE 18 2,533	2,434
Payables to subsidiaries	NOTE 11 1,707	1,011
Other long-term liabilities	NOTE 17 696	900
	6,929	7,468
UNTAXED RESERVES		
Accumulated depreciation in excess of plan	NOTE 19 1,035	1,127
Other untaxed reserves	1,914	1,802
	2,949	2,929
STOCKHOLDERS' EQUITY		
Capital stock	NOTE 20 2,403	2,394
Reserves not available for distribution	12,191	11,989
	14,594	14,383
General reserve	100	100
Retained earnings	4,878	4,813
Reported net income	4,931	1,741
	24,503	21,037
	1996	1995
CONTINGENT LIABILITIES	7,049	6,759
		NOTE 22
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	49,836	43,272

Years ended December 31, SEK m.	1996	1995	1994
OPERATIONS			
Reported net income	4,931	1,741	1,961
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH			
Depreciation & amortization	547	659	541
Capital gains (-)/losses on sale of property, plant, equipment and shares	-2,166	31	-21
Appropriations to/transfers from (-) untaxed reserves	20	184	-1,112
Unsettled part of contributions from (-)/to subsidiaries	-821	-2,114	516
Unsettled dividends	-1,137	-965	-888
CHANGES IN			
Inventories	319	509	-50
Accounts receivable & other operating assets	1,131	210	655
Accounts payable & other operating liabilities	-652	-1,480	1,468
CASH FLOW FROM OPERATING ACTIVITIES	2172	-1,225	3,070
INVESTING ACTIVITIES			
Investments in land, buildings, machinery and equipment	-799	-931	-1,009
Sales of property, plant and equipment	403	376	35
Acquisitions/sales of shares and participations, net	-1,052	-558	1,614
Lending, net	6,131	-2,600	2,894
Other	-	-	-346
CASH FLOW FROM INVESTING ACTIVITIES	4,683	-3,713	3,188
CASH FLOW BEFORE FINANCING ACTIVITIES	6,855	-4,938	6,258
FINANCING ACTIVITIES			
Changes in short-term loans, net	-2,669	-256	1,962
Proceeds from issuance of long-term debt	831	138	1,613
Repayments of long-term debt	-2,321	-445	-989
Stock issue	-	7,831	-
Dividends paid	-1,676	-1,195	-977
CASH FLOW FROM FINANCING ACTIVITIES	-5,835	6,073	1,609
NET CHANGE IN CASH	1,020	1,135	7,867
CASH, BEGINNING OF PERIOD	9,125	7,990	123
CASH, END OF PERIOD	10,145	9,125	7,990

Comparative years adjusted for non-cash changes in contributions and dividends

ACCOUNTING PRINCIPLES

In millions of Swedish kronor (except per share amounts) at December 31 each year, 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 25.

(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 23). In item "Share in earnings of associated companies" in the income statement, Ericsson's share of these companies' income before tax is reported. Taxes are included under item "Taxes". 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 FOREIGN CURRENCIES

The Company applies the Statement of Financial Accounting Standards No. 52 (FAS 52) for the translation to Swedish kronor of 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 FAS 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.

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.

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. Gains and losses attributable to financial assets 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 financial liabilities are included in financial expenses.

Net financial gains and losses on foreign exchange in other companies are included 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 position have been valued at market, whereas contracts and investments hedging certain positions have been valued in a manner reflecting the accounting for the hedged position.

To limit currency risks as much as possible in conjunction with its import and export activities, purchases and sales in foreign currencies should be hedged in all cases involving binding contracts with customers and suppliers. Currencies should be

hedged for the anticipated period of continued cash flows. In addition, budgeted sales and purchases are hedged for periods up to 12 months.

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 obsolescence. 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 FAS 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 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.

FAS 13 is applied in accounting for material 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. Depreciation 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 FAS 13. The assets are included in Machinery and equipment in the Parent Company accounts. See also paragraph (I) Leases, above.

(L) INCOME PER SHARE

Net income per share is based on the average number of common shares after full conversion of convertible debentures.

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 income per share in accordance with U.S. GAAP, see Note 25.

(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 FAS 95, "Statement of Cash Flows." The statement of cash flows shows changes in the cash position during the year subdivided on the basis of cash generated by operations, investing activities and financing activities respectively. Foreign subsidiaries' transactions are translated at the average exchange rate during the period.

When subsidiaries are purchased and/or sold, the net effect, net of cash acquired, is reported as an investment activity to eliminate effects in cash flow from operations.

**(N) OPERATIONS ON COMMISSION BASIS
REPORTED IN PARENT COMPANY ACCOUNTS**

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	1996	1995	1994
Commissions, license fees and other operating revenues	849	556	724
Net gains/losses (-) on sale of property, plant and equipment	-67	-53	-49
Net gains/losses (-) on sale of investments and operations	411	-16	204
	1,193	487	879
PARENT COMPANY	1996	1995	1994
Commissions, license fees and other operating revenues	2,243	1,641	1,701
Net gains/losses (-) on sale of property, plant and equipment	-14	-58	-22
Net gains/losses (-) on sale of investments and operations	2,180	27	41
	4,409	1,610	1,720

NOTE 2 DEPRECIATION

CONSOLIDATED	1996	1995	1994
PLAN DEPRECIATION			
Land improvements	4	9	5
Buildings	182	186	159
Machinery and equipment	4,017	3,397	2,820
Revaluation adjustments	13	22	20
	4,216	3,614	3,004
PARENT COMPANY	1996	1995	1994
PLAN DEPRECIATION			
Land improvements	1	5	1
Buildings	26	24	24
Machinery and equipment	439	519	456
Revaluation adjustments	4	9	9
	470	557	490
Total depreciation	378	571	564
DEPRECIATION IN EXCESS OF PLAN			
Buildings, machinery and equipment	88	-26	-43
Intangible assets	4	12	-31
	92	-14	-74

**NOTE 3 FINANCIAL INCOME
AND EXPENSES**

CONSOLIDATED	1996	1995	1994
FINANCIAL INCOME			
Interest income	1,791	1,493	882
Dividends	117	4	26
Total financial income	1,908	1,497	908
FINANCIAL EXPENSES			
Interest expenses	1,562	1,659	1,459
Net gains/losses (-) on foreign exchange	-107	-282	-199
Other financial expenses	41	62	34
Total financial expenses	1,496	1,439	1,294
FINANCIAL NET	412	58	-386
PARENT COMPANY	1996	1995	1994
FINANCIAL INCOME			
Interest income	1,790	1,417	992
Dividends from subsidiaries	2,322	1,305	1,301
Dividends from others	119	104	168
Total financial income	4,231	2,826	2,461
FINANCIAL EXPENSES			
Interest expenses	1,471	1,613	1,435
Net gains/losses (-) on foreign exchange*	-158	-464	-382
Other financial expenses	11	64	9
Total financial expenses	1,324	1,213	1,062
FINANCIAL NET	2,907	1,613	1,399

* Of the total amount, SEK -34 m. in 1996, SEK -304 m. in 1995, SEK -233 m. in 1994 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 TAXES

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, 1996, the Company had total unutilized loss carryforwards of SEK 342 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
1997	40
1998	7
1999	6
2000	2
2001	187
2002 or later	100
	342

NOTE 5 LEASING

LEASING OBLIGATIONS

At December 31, 1996, future payment obligations for leases were distributed as follows:

	Leases
1997	1,379
1998	1,105
1999	889
2000	887
2001	688
2002 and later	1,610
	6,558*

* Of which financial leases SEK 456 m. and operating leases SEK 6,102 m. Expenses for the year for leasing of assets amounted to SEK 1,385 m. (SEK 801 m. in 1995 and SEK 850 m. in 1994).

LEASING INCOME

Some consolidated companies lease equipment, mainly telephone exchanges, to customers. These leasing contracts vary in length from 1 to 10 years.

Net book value of assets leased to others under Operating leases, after accumulated depreciation, amounted to SEK 102 m. at December 31, 1996 (December 31, 1995: SEK 287 m.).

Net investment in Sales-type Leases and Financial Leases amounted to SEK 187 m. at December 31, 1996 (December 31, 1995: SEK 178 m.).

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

	Sales-type and Financial Leases	Operating Leases
1997	31	61
1998	30	45
1999	30	43
2000	17	36
2001	2	35
2002 and later	135	9
	245	229
Less: Interest	58	-
Net investment	187	-

NOTE 6 INCOME PER SHARE

CONSOLIDATED	1996	1995	1994
Income before taxes	10,152	7,615	5,610
Current taxes	-4,671	-3,017	-2,345
Minority interest in current taxes	356	96	82
Deferred taxes	1,272	676	522
Minority interest in deferred taxes	1	69	80
Interest expenses on convertible debentures net of income taxes	59	62	66
Net income (after current and deferred taxes) after full conversion	7,169	5,501	4,015
Average number of shares outstanding after full conversion and stock issue incl. the stock dividend element of the stock issue in 1995 (millions)	985.7	943.4	934.5
Income per share	7.27	5.83	4.30

From 1996, earnings per share is only reported including stock dividend effect of stock issue.

NOTE 7 CASH, BANK DEPOSITS AND SHORT-TERM CASH INVESTMENTS

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Cash and bank deposits	8,650	6,808	2,880	1,935
Short-term cash investments	10,410	8,577	7,265	7,190
	19,060	15,385	10,145	9,125

NOTE 8 NOTES AND ACCOUNTS RECEIVABLE - TRADE

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
DUE WITHIN 12 MONTHS				
Accounts receivable	34,622	25,290	2,166	2,227
Notes receivable	762	89	2	3
	35,384	25,379	2,168	2,230
DUE AFTER 12 MONTHS				
Customer financing	2,732	289	57	64
Notes receivable	189	45	1	33
	2,921	334	58	97

The allowance for doubtful accounts amounting to SEK 1,340 m. (1,182) and SEK 330 m. (335) 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 INVENTORY

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Inventory	23,026	22,679	1,513	1,841
Less advances from customers	3,407	3,328	53	62
Inventory net	19,619	19,351	1,460	1,779

NOTE 10 OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Prepaid expenses and accrued revenues	2,135	1,837	640	804
Advances to suppliers	455	454	2	10
Deferred tax assets	1,742	873	-	-
Other current assets	6,182	4,555	2,674	1,775
	10,514	7,719	3,316	2,589

NOTE 11 RECEIVABLES AND PAYABLES - SUBSIDIARIES

PARENT COMPANY	1996	1995
CURRENT RECEIVABLES		
Commercial receivables	1,695	1,601
Financial receivables	8,045	7,299
	9,740	8,900
LONG-TERM RECEIVABLES*		
Financial receivables	4,189	2,330
CURRENT LIABILITIES		
Commercial liabilities	635	679
Financial liabilities	10,451	5,889
	11,086	6,568
LONG-TERM LIABILITIES*		
Financial liabilities	1,707	1,011

* Include noninterest-bearing receivables and liabilities, net, amounting to SEK 4,462 m. (2,322). Interest-free transactions involving current receivables and liabilities may also arise at times.

NOTE 12 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							
Sweden	III Ericsson Utvecklings AB	Sweden	100	SEK	10	17	
	III Ellemtel Utvecklings AB	Sweden	50	SEK	1	1	
	I Ericsson Business Networks AB	Sweden	100	SEK	360	335	
	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	636	
	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	676	
	I Ericsson Radio Access AB	Sweden	100	SEK	20	41	
	II SRA Communication AB	Sweden	100	SEK	47	145	
	II Ericsson Cables Holding AB	Sweden	100	SEK	1,875	2,388	
	II LM Ericsson Holding AB	Sweden	100	SEK	105	1,122	
	IV Ericsson Treasury Services AB	Sweden	100	SEK	-	2	
	Other		-	SEK	-	767	
	Europe (excluding Sweden)	I Ericsson Austria AG	Austria	80	ATS	48	531
		I LM Ericsson A/S	Denmark	100	DKK	90	216
		I Oy LM Ericsson Ab	Finland	100	FIM	80	195
		II Ericsson France S.A.	France	100	FRF	105	132
		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	
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	
U.S.A. and Latin America	Other		-	-	-	111	
	II Ericsson Holding II, Inc.	United States	75	USD	-	2,655	
	I Ericsson Inc.	United States	20 *	USD	-	362	
	I Cia Ericsson S.A.C.I.	Argentina	100	ARS	5	10	
	I Ericsson de Colombia S.A.	Colombia	92 **	COP	221	27	
	I Teleindustria Ericsson S.A.	Mexico	100	MXN	n.p.v.	571	
	I Cia Anónima Ericsson	Venezuela	100	VEB	10	10	
	Other		-	-	-	135	
	II Teleric Pty. Ltd.	Australia	100	AUD	20	99	
	Other 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	
Other			-	-	-	556	
					Total	14,002	
Associated Companies							
Associated Companies	I Ascom Ericsson Transmission AG	Switzerland	40	CHF	4	278	
	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	
	IV Ericsson Project Finance AB	Sweden	91 ****	SEK	425	510	
Other		-	-	-	12		
					Total	1,228	
Other Companies							
Other Companies	Other		-	-	-	39	
					Total	39	

The book value of certain shares were written up by SEK 124 m. Shares in subsidiaries were written down in a corresponding amount.

Shares owned by subsidiaries		Percentage of ownership
Subsidiaries		
Sweden	I Ericsson Cables AB	Sweden 100
Europe	I Ericsson NV/SA	Belgium 100
(excluding Sweden)	I LM Ericsson Ltd.	Ireland 100
	I Ericsson Telecomunicazioni S.p.A.	Italy 72
	II Ericsson Holding International B.V.	The Netherlands 100
	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 Canada	I Ericsson Communications Inc.	Canada 100
	I Ericsson Inc.	USA 80
	II Ericsson Holding Inc.	USA 80
Other Countries	I Ericsson Telekomunikasyon A.S.	Turkey 99
	I Ericsson Telecomunicações S.A.	Brazil 51
	I Ericsson Australia Pty. Ltd.	Australia 100

Key to functions of companies:

I Manufacturing and distributing companies	* Through subsidiary holdings, total holdings amount to 80% of Ericsson Inc.
II Holding companies	** Through subsidiary holdings, total holdings amount to 100% of Ericsson de Colombia S.A.
III Development companies	*** The voting power is 40%.
IV Finance companies	**** The voting power is 49%.
	***** Through subsidiary holdings, total holdings in MET amount to 50%.

NOTE 13 OTHER NONCURRENT ASSETS

CONSOLIDATED	1996	1995
GOODWILL, INITIAL VALUE		
Balance, January 1	1,690	1,612
Acquisitions	14	78
Balance, December 31	1,704	1,690
ACCUMULATED AMORTIZATION		
Balance, January 1	867	668
Amortization	172	202
Divestments	-30	-3
Balance, December 31	1,009	867
GOODWILL, NET	695	823
Noncurrent deferred tax assets	1,275	784
Other noncurrent assets	1,157	1,972
Total other noncurrent assets	3,127	3,579
PARENT COMPANY	1996	1995
Other noncurrent assets	64	519
INTANGIBLE ASSETS		
Cost	346	408
Accumulated depreciation	192	178
Net carrying value*	154	230
Total other noncurrent assets	218	749

* For Accumulated depreciation in excess of plan, see Note 19.

NOTE 14 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). Certain assets have been revalued, however, in accordance with accounting principles generally accepted in Sweden and in certain other countries.

Plan depreciation is based on historical cost and revaluation adjustments. Such depreciation is based on the estimated useful lives of the assets.

	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
COST				
Land	448	387	145	138
Land improvements	128	104	39	27
Buildings	5,002	4,470	1,081	1,010
Machinery and equipment	28,599	24,892	3,561	4,243
Construction in progress	1,732	1,213	690	481
	35,909	31,066	5,516	5,899
ACCUMULATED PLAN DEPRECIATION				
Land improvements	54	56	18	19
Buildings	1,617	1,380	373	366
Machinery and equipment	16,910	14,544	2,019	2,328
	18,581	15,980	2,410	2,713
NET PLAN VALUE	17,328	15,086	3,106	3,186
REVALUATION ADJUSTMENTS				
Land and land improvements	185	187	144	147
Buildings	678	682	310	325
Machinery and equipment	35	38	-	-
	898	907	454	472
ACCUMULATED PLAN DEPRECIATION ON REVALUATION ADJUSTMENT				
Land improvements	3	2	-	-
Buildings	434	432	287	297
Machinery and equipment	35	38	-	-
	472	472	287	297
REVALUATION ADJUSTMENTS NET AFTER PLAN DEPRECIATION	426	435	167	175
PROPERTY, PLANT AND EQUIPMENT NET AFTER ACCUMULATED PLAN DEPRECIATION	17,754	15,521	3,273	3,361

NOTE 15 SHORT-TERM BORROWINGS AND UNUSED LINES OF CREDIT

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

Unused portion of short-term lines of credit for the Company amounted to SEK 3,816 m. In addition, the Parent Company had unused long-term lines of credit amounting to SEK 1,375 m.

NOTE 16 OTHER CURRENT LIABILITIES

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Accrued expenses and prepaid revenues	17,974	13,511	1,326	1,770
Deferred tax liabilities	167	16	-	-
Other	11,140	8,381	204	480
	29,281	21,908	1,530	2,250

NOTE 17 BOND LOANS, CONVERTIBLE DEBENTURES AND OTHER LONG-TERM LIABILITIES

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Bond loans (maturing 1999)	500	1,495	500	1,495
Convertible debentures (maturing 2000)	1,772	2,028	1,493	1,628
OTHER LONG-TERM LIABILITIES:				
Mortgage loans and other secured loans (maturing from 1998–2014)	1,067	397	47	57
Other long-term loans (maturing from 1998–2013)	1,200	1,432	588	772
Other long-term liabilities	1,769	464	61	71
	4,036	2,293	696	900

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

1998	576
1999	1,042
2000	2,126
2001	123
2002	103
2003 and thereafter through 2014	569
	4,539

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 1996 debentures in the amount of SEK 255.8 m. were converted to 3,547,308 B shares.

Upon conversion of all outstanding debentures, there would be a further increase of 24,573,962 in the number of shares.

During the period beginning January 1 through February 15, 1997 additional debentures were converted to 552,319 B shares; as a result the number of shares carrying rights to dividends as of the record date is 961,714,524.

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 18 PENSION LIABILITIES

The pension liabilities, SEK 6,256 m. (5,825), include the Parent Company's and other Swedish companies' obligations in the amount of SEK 4,773 m. in 1996 and SEK 4,379 m. in 1995 in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities, SEK 2,533 m. (2,434), include an obligation in the amount of SEK 2,400 m. in 1996 and SEK 2,318 m. in 1995 in accordance with its agreement with PRI.

NOTE 19 OTHER UNTAXED RESERVES

	Jan. 1	Alloca- tions/ With- drawals(-)	Dec. 31
PARENT COMPANY 1996			
ACCUMULATED DEPRECIATION IN EXCESS OF PLAN			
Property plant and equipment	1,108	-88	1,020
Intangible assets see NOTE 13	19	-4	15
Total accumulated depreciation in excess of plan	1,127	-92	1,035
OTHER UNTAXED RESERVES			
Tax equalization reserve	594	-103	491
Reserve for doubtful receivables	904	-1	903
Income deferral reserve	304	216	520
Total other untaxed reserves	1,802	112	1,914
	2,929	20	2,949

Changes in other untaxed reserves in the Parent Company in 1995 consisted of the following: withdrawal of tax equalization reserve, SEK 169 m. (1,538); allocation to reserve for doubtful receivables, SEK 173 m. (214) and allocation to income deferral reserve SEK 166 m. (138).

NOTE 20 STOCKHOLDERS' EQUITY

CAPITAL STOCK

Capital Stock at December 31, 1996 consisted of the following:

	Number of shares out- standing	Aggregate par value
A shares (par value SEK 2.50)	82,027,330	205
B shares (par value SEK 2.50)	879,134,875	2,198
	961,162,205	2,403

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; Class A shares, however,

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.

Swedish legislation 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 1996 include current year earnings in associated companies, SEK 260 m.

Changes in cumulative translation adjustments include net gain/loss (-) from hedging of investments in foreign subsidiaries, SEK 26 m. (SEK 192 m. in 1995) and SEK -19 m. (SEK 0 m. in 1995) from sold companies.

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

CHANGES IN STOCKHOLDERS' EQUITY

	Capital stock	Reserves not available for distribution	Available retained earnings	Total
CONSOLIDATED				
January 1, 1996	2,394	22,061	9,808	34,263
Conversion of debentures	9	247		256
Dividends			-1,676	-1,676
Transfer from available retained earnings		1,374	-1,374	
Changes in cumulative translation adjustments		503		503
Net income for 1996			7,110	7,110
December 31, 1996	2,403	24,185	13,868	40,456

Of retained earnings, SEK 117 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.

	Capital stock	Legal reserve	Other reserves not available for distribution	Available retained earnings	Total
PARENT COMPANY					
January 1, 1996	2,394	11,914	75	6,654	21,037
Conversion of debentures	9	202	-	-	211
Dividends	-	-	-	-1,676	-1,676
Net income for 1996	-	-	-	4,931	4,931
December 31, 1996	2,403	12,116	75	9,909	24,503

NOTE 21 ASSETS PLEDGED AS COLLATERAL

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Real estate mortgages	414	594	1	152
Other mortgages	300	297	160	160
Bank deposits	432	248	432	247
Other	57	65	57	65
	1,203	1,204	650	624

At December 31, 1996, the Parent Company had no pledged assets in favor of subsidiaries. However, under certain conditions, it may pledge collateral for certain subsidiaries' pension obligations.

NOTE 22 CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Bills discounted	-	2	-	-
Guarantees for customer project financing	4,061	2,554	2,418	2,051
Unrecorded pension commitments	30	30	-	-
Other	2,349	1,517	4,631	4,708
	6,440	4,103	7,049	6,759

Of the guarantees assumed by the Parent Company, SEK 3,821 m. in 1996 and SEK 3,990 m. in 1995 are related to subsidiaries.

NOTE 23 INVESTMENTS IN ASSOCIATED COMPANIES

The Company's major investments in associated companies are accounted for using the equity method. Goodwill, net, constitutes SEK 271 m. (146) of the investments. Details of such investments are given in Note 12.

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 93 m. in 1996, SEK 231 m. in 1995 and SEK 264 m. in 1994.

Undistributed earnings of associated companies included in consolidated equity were SEK 1,166 m. in 1996 and SEK 1,983 m. in 1995.

NOTE 24 STATEMENT OF CASH FLOWS

In "Cash flow from operating activities", under "Adjustments to reconcile net income to cash" are from 1996 included amortization of intangible assets, previously reported under "Investing activities, Other", SEK 150 m. (earlier years restated: 1995 SEK 340 m., 1994 SEK 291 m.). In "Accounts receivable and other operating assets" are from 1996 included long-term customer financing, previously reported under "Investing activities, Other", SEK -309 m. (earlier years restated: 1995 SEK -15 m., 1994 SEK 486 m.).

Interest paid in 1996 is SEK 1,885 m., of which SEK 24 m. is capitalized when calculating US GAAP income. Income taxes paid in 1996 are SEK 3,147.

Non-cash transactions under "Cash flow from operating activities", not reported separately, are current year increases in pension liabilities of SEK 431 m. in 1996 (SEK 309 m. in 1995 and SEK 234 m. in 1994).

NON-CASH ITEMS IN "INVESTING" AND "FINANCING ACTIVITIES"

In 1996, voting majority in the Brazilian associated company EDB has been achieved through a swap of shares. Acquired cash in EDB, SEK 1,404 m., is reported as a separate line item in the statement of cash flows.

The sale in 1996 of SELGA has been made as a shareholder's contribution through a stock issue in an associated company. "Investing activities" are reduced by SEK 221 m. for sold cash in SELGA.

In 1996, conversions of debentures have been made for SEK 256 m. (1995 SEK 123 m., 1994 SEK 18 m.).

NOTE 25 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, FAS No. 86 "Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed", these costs are capitalized after the product involved has reached a certain degree of technological feasibility. Capitalization ceases and amortization begins when the product becomes available to customers. The amortization period for capitalized software is three years. Capitalization amounting to SEK 4,282 m. (SEK 3,879 m. in 1995) has increased income and amortization amounting to SEK 3,341 m. (SEK 2,637 m. in 1995) was

charged against income for the period when calculating income in accordance with U.S. accounting principles.

(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 FAS 87, Employer's 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 already booked at the 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 directly 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) BUSINESS COMBINATION ADJUSTMENTS

When applying 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 13). 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.

(H) TAX ON UNDISTRIBUTED 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 accrue for withholding taxes on dividends paid.

(I) DEFERRED INCOME TAXES

Deferred tax is calculated on all U.S. GAAP adjustments to income.

(J) INCOME PER SHARE

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, since these are considered Common Stock equivalents in accordance with U.S. GAAP (see also 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.

ADJUSTMENT OF NET INCOME

	1996	1995	1994
Net income as reported in the consolidated income statements	7,110	5,439	3,949
Items increasing reported income			
Depreciation on revaluation of assets	24	23	-
Capitalization of software development costs	942	1,242	1,004
Capitalization of interest expenses	24	15	16
Pensions	158	182	112
Stock issue costs, net	-	41	-
Sale of property	-	135	-
Tax on undistributed earnings in associated companies	99	-57	-
	1,247	1,581	1,132
Items decreasing reported income			
Business combination adjustments	2	-3	14
Deferred income taxes	379	376	190
	381	373	204
Net increase in net income	866	1,208	928
Approximate net income in accordance with U.S. GAAP	7,976	6,647	4,877
Approximate income per share in accordance with U.S. GAAP	8.15	7.11	5.29

ADJUSTMENT OF EQUITY

	1996	1995	1994
Reported Stockholders' equity	40,456	34,263	23,302
INCREASES			
Capitalization of software development costs	6,100	5,158	3,916
Capitalization of interest expenses	349	325	310
Pensions	746	588	406
	7,195	6,071	4,632
REDUCTIONS			
Revaluation of Assets	403	414	458
Sale of property	23	23	157
Business combination adjustments	74	72	75
Tax on undistributed earnings in associated companies	-	99	39
Deferred income taxes	2,230	1,848	1,510
	2,730	2,456	2,239
Adjustment of stockholders' equity, net	4,465	3,615	2,393
Approximate equity according to U.S. GAAP	44,921	37,878	25,695

ADJUSTMENT OF CERTAIN BALANCE SHEET ITEMS ACCORDING TO US GAAP

SEK m.	As per reported balance sheet		As per US GAAP	
	Dec 31 1996	Dec 31 1995	Dec 31 1996	Dec 31 1995
Other current assets	10,514	7,719	11,412	7,719
Other non-current assets	3,127	3,579	3,027	3,638
Property, plant and equipment	17,754	15,521	23,708	20,512
Deferred tax liabilities	800	826	3,779	2,772
Long-term liabilities exclusive of deferred tax liabilities	12,564	11,641	11,872	11,129

Deferred tax liabilities include the tax effect of undistributed earnings in associated companies.

The company in principle follows FAS 95 when preparing the statement of cash flows.

According to FAS95, however, only cash, bank and short-term investments with due dates within 3 months shall be considered cash and cash equivalents, rather than within twelve months. Applying this definition would mean following adjustments of reported cash:

CONSOLIDATED, SEK m.	1996	1995	1994	1993
Cash, bank deposits and short-term cash investments, as reported	19,060	15,385	11,892	8,800
Adjustment for items with maturity of 4-12 months	-8,396	-7,902	-5,166	-3,186
Cash and cash equivalents as per US GAAP	10,664	7,483	6,726	5,614

**SUPPLEMENTARY INFORMATION
REQUIRED UNDER THE SWEDISH
COMPANIES ACT**

**AVERAGE NUMBER OF EMPLOYEES AND
REMUNERATION IN 1996**

	Average number of employees		Remu- neration
	Men	Women	
CONSOLIDATED			
Sweden	27,940	11,674	10,977
Other countries	36,300	13,477	12,635
	64,240	25,151	23,612
PARENT COMPANY			
Sweden	6,906	3,406	2,737
Other countries	361	47	58
	7,267	3,453	2,795
Paid to Board of Directors, President and Corporate Executive Vice Presidents			22.0

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

The Parent Company has operational units in 11 Swedish municipalities and has operations in 8 countries with more than 20 employees. On a consolidated basis, there are 33 operational units in Sweden and operations in 64 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.

TAX ASSESSMENT VALUES (SWEDEN)

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
Land and land improvements	369	393	215	233
Buildings	2,169	2,294	1,142	1,284

**SPECIAL INFORMATION REGARDING THE
PARENT COMPANY**

Sales of the Parent Company amounted to SEK 15,404 m. (SEK 16,940 m.), of which exports accounted for 69 (67) percent. Consolidated companies were customers for 70 (57) percent of the Parent Company's sales, while 52 (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 6 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 700,000 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 9,687,799 during the year, of which SEK 6,687,799 was salary, company car benefit and other, and SEK 3,000,000 was the bonus earned for 1995.

The following rules regarding severance pay and pension are applied for persons who are members of the company's management, including the president, except, when the employment contract was entered into during the last years.

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. Further, a retirement pension insurance based on defined contribution and supplemental pension insurance providing for higher survivor's benefits have 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.

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 1996 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 1996.

Stockholm, February 21, 1997

Carl-Eric Boblin
Authorized
Public Accountant
Price Waterhouse

Olof Herolf
Authorized
Public Accountant
Price Waterhouse

Thomas Thiel
Authorized
Public Accountant

TEN-YEAR SUMMARY

SEK m.	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
RESULTS FOR YEAR										
Net sales	124,266	98,780	82,554	62,954	47,020	45,793	45,702	39,549	31,297	32,400
Operating income 3)	10,758	8,164	6,553	3,530	1,754	2,282	5,694	4,557	2,678	2,185
Financial net	412	58	-386	8	-204	-189	-163	-431	-553	-895
Income before taxes 3)	10,152	7,615	5,610	3,108	1,241	1,595	4,855	3,715	1,840	1,108
YEAR-END POSITION										
Total assets 3)	112,152	90,832	72,999	67,490	56,637	50,080	47,167	40,856	34,625	33,282
Working capital	36,180	29,394	20,899	20,869	20,063	17,497	16,965	14,975	12,944	13,880
Property, plant and equipment, net	17,754	15,521	13,678	12,363	11,093	10,477	9,058	7,776	6,679	6,778
Long-term liabilities 1) 3)	13,364	12,467	14,726	14,529	12,796	11,211	8,795	9,008	9,945	10,864
Stockholders' equity 1) 3)	40,456	34,263	23,302	21,305	17,720	17,050	16,753	13,996	10,909	9,897
- after full conversion 1) 3)	42,269	36,353	25,519	23,512	18,349	17,690	17,398	14,721	12,450	11,512
OTHER INFORMATION										
Income per share, SEK										
- after current and deferred taxes, and after full conversion 3) 5) 6)	7.27	5.83	4.30	3.07	0.56	1.04	3.42	2.46	1.34	0.92
- in accordance with U.S. GAAP, 2) 4) 5)	8.15	7.11	5.29	3.72	1.51	1.81	3.95	2.54	1.55	0.83
Adjusted stockholders' equity per share after full conversion, SEK 1) 2) 3) 5)										
	43	40	29	26	21	20	20	17	14	13
Cash dividends per share 2) 5)	2.50 *	1.75	1.38	1.13	0.88	0.88	0.88	0.70	0.53	0.45
Shares outstanding - average (in thousands) 2) 5)										
	959,542	884,692	868,765	858,136	824,264	823,496	821,488	800,540	763,336	763,240
Additions to property, plant and equipment										
	7,188	6,457	5,137	3,805	3,847	3,583	3,448	2,672	1,739	1,592
Depreciation										
	4,216	3,614	3,004	2,651	2,193	1,863	1,572	1,294	971	1,213
Research and development										
- expenses	17,467	15,093	13,407	10,924	7,377	7,054	4,901	4,329	3,529	3,204
- as percent of net sales	14.1	15.3	16.2	17.4	15.7	15.4	10.7	10.9	11.3	9.9
RATIOS										
Return on equity, percent 1) 3)	19.0	18.9	17.7	14.5	2.8	5.3	20.4	17.5	11.5	7.5
Return on capital employed, percent 1) 3)										
	22.4	20.7	18.2	12.9	9.6	12.0	25.9	23.7	16.0	13.1
Equity ratio, percent 1) 3)										
	39.1	39.6	34.4	34.5	34.5	38.1	39.3	37.8	33.9	32.0
Debt-equity ratio 1) 3)										
	0.4	0.4	0.7	0.7	0.8	0.7	0.5	0.6	0.8	1.0
Current ratio										
	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.8	1.9	2.0
STATISTICAL DATA, YEAR-END										
Backlog of orders	63,401	48,401	45,671	45,296	38,050	28,777	30,415	29,426	26,876	24,171
Number of employees										
- Worldwide	93,949	84,513	76,144	69,597	66,232	71,247	70,238	69,229	65,138	70,893
- Sweden	43,896	42,022	36,984	31,796	29,979	31,244	30,817	32,226	32,094	37,386

* For 1996, proposed by the Board of Directors

1) 1987-1989 adjusted for change in accounting principles

2) 1987-1989 adjusted for 5-for-1 stock split

3) 1991-1992 adjusted for change in accounting principles.

4) 1993, before change in accounting principles.

5) 1987-1994 adjusted for stock issue and 4-for-1 stock split.

6) 1987-1994 adjusted for stock dividend element of the stock issue in 1995.

Definitions of terms used above are given on page 41.

TEN-YEAR SUMMARY

Definitions of Terms Used on Page 40

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 (t) under Accounting Principles and Notes, and Note 6.

CURRENT RATIO

Current assets divided by current liabilities.

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 non interest-bearing debts and deferred taxes.

Before 1996, long-term non-interest-bearing liabilities were not included. (The effect on capital employed for earlier years is not significant and restating has not been made.)

EQUITY RATIO

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

DEBT-EQUITY RATIO

Defined as full interest-bearing liabilities divided by the total of stockholders' equity and minority interest in equity of consolidated subsidiaries.

THE SHARE CAPITAL

The share capital of the Parent Company, Telefonaktiebolaget LM Ericsson, amounted at December 31, 1996, to SEK 2,402,905,513 represented by 961,162,205 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 879,134,875 B shares, carrying one thousandth of a vote.

During 1996 the number of shares increased by 3,547,308 through conversion of debentures. During the period between January 1 and February 15, 1997, additional debentures were converted to 552,319 B shares, increasing to 961,714,524 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 1,227 participants, has invested in Ericsson shares. At year-end 1996, the holding in this fund amounted to 540,000 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 under the symbol ERICY. Each ADR represents one B share.

At NASDAQ, ADDs (American Depositary Debentures) are also being traded under the symbol ERICZ. Each ADD represents a debenture.

Approximately 2 billion shares were traded during 1996. The turnover was distributed as follows (approximate percentages): 38 percent on the Stockholm Stock Exchange, 38 percent via NASDAQ, 23 percent on the London Stock Exchange and 1 percent on other exchanges.

SHAREHOLDERS

Approximately 70 percent of Ericsson's shares are owned by Swedish and international institutional investors. At year-end 1996, about 53 percent of the shares were held by shareholders outside Sweden, represented by (approximate percentages); 39 in the U.S., 6 in the U.K. and 8 in other countries.

DEVELOPMENT OF MARKET VALUE

The market value for Ericsson shares was, December 31, 1996, SEK 202,200 m. During 1996 the value of Ericsson shares (A and B shares) increased by 62 percent. General Index increased by 38 percent during the year.

TRADING ON THE STOCKHOLM STOCK EXCHANGE**SHARE DATA**

	1996	1995 ¹⁾	1994 ¹⁾	1993 ¹⁾	1992 ¹⁾
Export of shares from Sweden (SEK m.)	39,031	45,516	24,656	21,352	4,245
Import of shares to Sweden (SEK m.)	36,053	37,973	22,360	13,572	3,333
Net imports (-)/exports					
of shares to Sweden (SEK m.)	2,978	7,543	2,296	7,780	912
P/E ratio, "B" shares ²⁾	29.2	22.3	22.6	25.8	79.7
Dividend	2.50 *	1.75	1.38	1.13	0.88
Share prices, December 31,					
Stockholm Stock Exchange (SEK)					
"A"	218	138	105	102.5	48.8
"B"	212	130	102.5	85.3	46.3
"B" High for year	212	178.4	115.4	117.3	47.3
"B" Low for year	113	95.6	83.5	43	24.4

¹⁾ After 4-for-1 stock split

²⁾ P/E ratio = Price per share at December 31, divided by profit per share after taxes and after full conversion

* For 1996, proposed by the board of directors

CHANGES IN CAPITAL STOCK

		Number of shares	Capital stock
1990	January 1	40,974,934	2,048,746,700
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
1996	Conversions	3,547,308	8,868,270
1996	December 31	961,162,205	2,402,905,513

DISTRIBUTION OF SHARES, YEAR-END 1996

Shareholders' holding	Number of shareholders	%	Number of shares	%	Number of shares per shareholder
1 - 500	88,122	66.1	14,882,362	1.5	169
501 - 5,000	40,446	30.3	62,495,848	6.4	1,545
5,001 - 20,000	3,494	2.7	31,841,271	3.3	9,113
20,001 -	1,177	0.9	851,942,724	88.8	723,826
	133,239	100.00	961,162,205	100.00	7,214

THE LARGEST SHAREHOLDERS, RANKED BY VOTING RIGHTS, WERE AS FOLLOWS AT DECEMBER 31, 1996

	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	5,320,000	5.6
Livförsäkrings AB Skandia	14,796,446	5.0
Pensionskassan SHB Försäkringsförening	3,960,000	4.8
Wallanders och Hedelius' stiftelse	1,980,000	2.4
Wallenbergs stiftelse, Marianne och Marcus	1,980,000	2.4
EB-stiftelsen, S-E-Bankens Pensionsstiftelse	1,400,400	1.7
Oktogonen, Stiftelsen	1,760,000	1.6
Svenska Handelsbankens personalstiftelse	1,230,000	1.5
Fjärde AP-Fonden	37,291,509	1.4
Svenska Handelsbankens aktiefonder	9,498,316	0.9

As an international enterprise with operations in many countries, Ericsson's income statement and balance sheet are affected by changes in exchange rates in many ways. Because of its complex structure, the nature of its business and rapid expansion, it is difficult to determine the effects of exchange rate movements with a high degree of precision.

Expansion and penetration of new markets create new liquidity and credit risks, placing heavy demands on awareness by all parties involved in the management of such risks. Ericsson has a clearly defined risk policy established by Corporate Management to handle financial risks.

Ericsson is prepared to negotiate business transactions with customers in all convertible currencies, which creates exposure to more than 30 currencies, of which USD is the largest, accounting for about 45 percent of total net exposure. Ericsson's currency exposure is concentrated primarily in large production companies, most of which are Swedish. Production companies account for about 90 percent of all international trading. Commercial net cash flows of Ericsson's Swedish companies in various currencies are shown in TABLE I.

TABLE I. CASH FLOW, NET, TO AND FROM SWEDEN TRANSLATED TO SEK BILLION

Specification of currencies with net flows exceeding SEK 0.5 billion

	1996	1995
USD-related currencies, of which		
USD U.S. dollar	10.8	7.4
AUD Australian dollar	2.1	2.5
CAD Canadian dollar	-0.3	-0.6
HKD Hong Kong dollar	1.8	0.7
MYR Malaysian ringgit	1.4	1.8
Other USD-related currencies	0.6	0.3
	16.4	12.1
Other currencies, of which		
CHF Swiss franc	0.5	0.7
DKK Danish krone	0.5	0.3
ESP Spanish peseta	3.1	1.5
GBP British pound	-0.6	0.6
ITL Italian lira	1.0	0.9
JPY Japanese yen	1.3	-0.2
NLG Dutch guilders	1.2	0.4
Other currencies	0.1	0.7
	7.1	5
Total	23.5	17.1

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

CURRENCY AND INTEREST-RATE RISKS

Ericsson has rules and policies governing its management of currency and interest-rate risks. These rules apply to all Ericsson units. A summary of the principles applied and the various types of exposure are described below.

The risk mandate established for Ericsson Treasury Services was fixed at SEK 100 million in 1996, defined as a change of 1 percent in the level of interest rates and 5 percent of the change in all open currency positions. This limit was raised to SEK 150 million in the beginning of 1997.

FINANCIAL EXPOSURE

Financial exposure comprises advantages and disadvantages, relative to competitors, to which Ericsson is exposed as a result of changes in exchange rates and other forms of financial fluctuations in countries where Ericsson conducts business. With its widely distributed global operations, Ericsson has a certain degree of flexibility in shifting operations from one country to another. With more than 60 percent of production and only 6 percent of sales in Sweden, Ericsson's exposure to exchange-rate fluctuations for the Swedish krona (SEK) and general economic conditions in Sweden is relatively strong.

TRANSACTION EXPOSURE

To limit currency risks as much as possible in conjunction with its import and export activities, purchases and sales in foreign currencies should be hedged in all cases involving binding contracts with customers and suppliers. Currencies should be hedged for the anticipated period of continued cash flows. In addition, budgeted sales and purchases are hedged for periods up to 12 months, based on assessments of guaranteed volumes, pricing and other factors for Ericsson's business areas. Some framework agreements and bids outstanding are also hedged, preferably with currency options. About 90 percent of Ericsson's transaction exposure is concentrated to Sweden and is transferred via internal forward agreements to Ericsson Treasury Services, the Company's internal bank. Transaction exposure arising from borrowing is limited, since most loans by foreign subsidiaries are in local currencies.

TRANSLATION EXPOSURE

Ericsson's equity in foreign subsidiaries is hedged only to a minor degree and within the framework of parameters established by Corporate Management. During 1996, the framework corresponded to a maximum of 20 percent of equity holdings shown in TABLE 2. Selective currency hedging is also implemented, depending on projected exchange rate trends. In addition, Ericsson hedges 100 percent of equity in companies with financial activities. The total amount hedged is SEK 1,1 billion.

TABLE 2. SHAREHOLDERS' EQUITY IN CURRENT COMPANIES AT EXCHANGE RATES AT BEGINNING OF 1996 (INCLUDING ASSOCIATED COMPANIES), SEK BILLION.

ATS	Austrian schilling	0.7
AUD	Australian dollar	1.0
BEF	Belgian franc	0.1
CAD	Canadian dollar	0.3
CHF	Swiss franc	0.3
CNY	Chinese renminbi	0.3
DEM	German mark	0.7
DKK	Danish krone	0.2
ESP	Spanish peseta	1.4
FIM	Finnish markka	0.3
FRF	French franc	0.6
GBP	British pound	0.7
IEP	Irish punt	0.5
ITL	Italian lira	2.9
JPY	Japanese yen	0.1
MYR	Malaysian ringgit	0.2
NLG	Dutch guilder	1.5
NOK	Norwegian krone	0.4
NZD	New Zealand dollar	0.1
USD	U.S. dollar	4.1

INTEREST-RATE RISKS

Ericsson's interest-rate risks are managed centrally. Interest rate risks arise primarily as a result of borrowing and investments of surplus liquidity. During 1996, the aim has been to balance fixed and floating interest on interest bearing assets and liabilities to keep a net floating position. Liquidity is managed principally by Ericsson Treasury Services. The distribution of interest rates at year-end 1996 is shown in TABLE 3.

TABLE 3. DISTRIBUTION OF FIXED AND FLOATING INTEREST RATES

	1996		1995	
	SEK billion	%	SEK billion	%
Floating interest	9.1	52	6.2	40
Pension liability	6.2	35	5.8	37
Fixed interest	2.2	13	3.5	23
	17.5	100	15.5	100

CREDIT AND COUNTERPARTY RISKS

Credit risks arise when Ericsson lends money to external counterparties and in the management of derivative instruments, primarily in dealing with currency and debt management. Credit risks arising from customer financing are reviewed in a separate section below. Ericsson Treasury Services has fixed counterparty limits for every individual issuer. Market values of exposure in derivative instruments are calculated daily and expressed as a debt to, or receivable due from, the counterparty. Netting agreements, so-called ISDA contracts, are available for most counterparties and significantly reduce counterparty risks. Counterparty limits are reviewed continuously.

PAYMENT READINESS AND BORROWING CAPACITY

Ericsson's objective is to maintain payment readiness of 7-10 percent of consolidated sales, enabling the Company to meet rapid changes in liquidity requirements. Payment readiness is defined as net liquidity – liquid funds, less short-term borrowing (loans with less than one year to maturity) – plus confirmed long-term lines of credit. Ericsson's payment readiness at year-end 1996 was 14 billion; see TABLE 4.

TABLE 4. PAYMENT READINESS, SEK BILLION.

	1996	1995
Cash, bank deposits and short-term investments	19.1	15.4
Confirmed long-term lines of credit	1.4	1.3
Short-term borrowing	-4.3	-1.7
Short-term portion of long-term debt	-2.2	-2.2
Payment readiness	14.0	12.8
% of invoiced sales	11	13

To ensure payment readiness in the long-term perspective, most of Ericsson's borrowing is long-term and/or is covered by long-term line of credits. Long-term borrowing should have an evenly distributed maturity structure, and extremely long terms should be avoided to maintain flexibility. Ericsson's interest-bearing pension liability accounts for a substantial part of its interest-bearing long-term borrowing. Under conditions of the special Swedish pension system, pension funds may be used as working capital. The liability is long-term, with an option to repay loans at any time. The interest rate is fixed annually. For 1996, the interest rate used to calculate the financial cost of the pension liability was 6 percent. The pension commitments are guaranteed mutually by FPG, Försäkringsbolaget Pensiongaranti. The owners of FPG are the insured companies, consisting primarily of Swedish industrial corporations.

To secure the Company's long-term borrowing needs, Ericsson has established a Euro Medium Term Note (EMTN) program totaling USD 800 million.

With its present capital structure and capital valuation, A1/P1 for short-term borrowing and A+/A1 for long-term, with Standard and Poor's and Moody's, respectively, Ericsson has substantial borrowing capacity. Without risking its current ratings, Ericsson's borrowing capacity is estimated at approximately USD 2 - 2.5 billion.

Short-term borrowing requirements are secured through commercial paper programs in Sweden, the Euro market and the U.S. The total value of the programs is SEK 3.8 billion. They are supported by confirmed long-term credit lines totaling SEK 1.4 billion.

CREDIT RISKS IN CONNECTION WITH CUSTOMER FINANCING

Credit risks arise primarily in connection with credits arranged by Ericsson for customers. Credits granted have continued to rise, and no losses were reported in 1996. Total credit risks involved in customer financing amounted to SEK 6.8 billion, of which SEK 2.7 billion is included in Ericsson's balance sheet, with the remainder included in contingent liabilities. Included in the SEK 2.7 billion is Telecommunicacoes S.A. (EDB) in Brazil with SEK 2.2 billion. EDB is consolidated within Ericsson since the first of January 1996. Ericsson's objective is to sell as much of the risks as may be appropriate, taking into account the terms offered. The largest potential buyers of such risks are banks and credit institutions like the Exports Credit Guarantee Board in Sweden.

During 1996, Ericsson Project Finance AB (EFP) was established with equity capital of SEK 0.6 billion. The operations of EFP are concentrated on creating refinancing with limited recourse on Ericsson and, accordingly, lifting risks from Ericsson's balance sheet. At year-end 1996, long-term customer credits refinanced by AB LM Ericsson Finans (EFS) and EFP amounted to SEK 1.9 billion of which their own risk amounted to SEK 0.3 billion. EFS and EFP are associated companies and are not consolidated within Ericsson.

Ericsson's environmental work is changing character. The emphasis is shifting from environmental protection to proactive environmental management. This is the core intention of the revision of Ericsson's environmental policy, to be concluded during 1997. It includes the requirement of environmental certification in accordance with the ISO 14001 international standard. This requirement applies to all organizations and operations that significantly affect Ericsson's products.

The first operation to undergo certification of their environmental management was the Ericsson factory in Scunthorpe, UK. The factory was certified in accordance with the UK standard BS 7750 (which is soon to be converted to ISO 14001). Several units, in Sweden as well as other countries are during 1997 in line for certification of their environmental management systems. These units are necessarily not only production oriented, but also development and construction units.

Internal environmental audits have been carried out regularly since 1990. As an example of the effects of these regular audits, in the early 1990s Ericsson was one of the first companies in the world to phase out chlorofluorocarbons (CFCs) – Freon, for example – from its production.

ENVIRONMENTAL COUNCIL FORMED IN 1996

Ericsson's environmental work is now coordinated at the corporate level by an environmental council with representatives from the various business areas. Within each business area there are local committees and environmental organizations, whose task it is to handle internal environmental issues and to monitor adherence to the Group's environmental policy.

These bodies make up the top layer of the environmental management system which, when fully implemented, will cover all Ericsson operations throughout the world. As the central goals of Ericsson's environmental work, three high-priority areas have been identified:

- Implementation of environmental management system.
- Energy consumed by the operations and processes carried out within the Ericsson will be reduced and more energy-saving products will be developed.
- Increased knowledge of content of Ericsson products.

LIFE-CYCLE ASSESSMENTS

The following up of products is increasingly performed with the help of so-called life-cycle assessments, LCA. These are detailed investigations into a product's effects on the environment as seen from various angles – the entire path from extraction of raw material through product development, production and use, to possible scrapping or – as is becoming ever more common – recycling.

Internationally, Sweden is in the forefront where life-cycle assessments are concerned. In 1996, a national institute called the Center for Environmental Assessment of Product and Material Systems was founded in Gothenburg. This institute, which is located at the Chalmers University of Technology, is developing an open database which will contain background data for life-cycle assessments. Ericsson has played an active role in founding the institute and is involved in its work on a continuing basis.

ENHANCED LCA METHODOLOGY

A more in-depth method of gaining further knowledge of a product's effects on its environment is LCSEA (Life-Cycle Stressor Effects Analysis). Ericsson is applying this analysis, which takes into account local, regional and global environmental effects, in a study of mobile telephony. The study, covering the Stockholm area, is conducted in cooperation with internationally leading experts in the field.

EASILY INTELLIGIBLE INFORMATION

Data from life-cycle assessments, particularly from the more inclusive LCSEA, is difficult to interpret. It is scientifically complex information and has to be explained so that, for example, employees, customers or shareholders are able to understand it. Accordingly, Ericsson is at present deeply involved with a project to translate LCA information into a form of labeling, called "Type 3 labeling."

This labeling could become a highly valuable tool for Ericsson's marketing activities. Ericsson is hoping to use it to show the enormous potential for environmental improvements that mobile telephony and other telecommunications represent compared with physical transport for communities working to create sustainable development with respect to the environment and resources, both in the present and the future.

A TIME OF CHANGE

More than 20,000 Ericsson employees have acquired new work assignments in recent years as a consequence of the strong growth in the market for mobile telephony and the steps taken by the company to maintain its position of world leadership in this field.

It has been possible to implement this gigantic changeover without major interruptions of normal operations, and in a manner surprisingly devoid of friction. This was attributable in part to the fact that other operations within the company – notably in the Public Telecommunications Business Area – implemented a comprehensive rationalization program at the same time, whereby large numbers of surplus manpower could be transferred to areas in the company that were expanding.

Ericsson has become much stronger as a result of the changeover and the experience gained from it. The art of adapting to rapid changes in the market is worth a great deal in an industry as dynamic as ours.

As of January 1, 1997, Ericsson has got a new organization. The greatest innovation in the new organizational structure is that Ericsson's five former business areas have been replaced by three new ones.

INFOCOM SYSTEMS BUSINESS AREA

The most significant change in the new structure of business areas is that all operations directed to private or public operators of fixed-wire communications networks have now been brought together in the new Infocom Systems Business Area. This unit includes the operations of the former Public Telecommunications and Business Networks business areas, plus all activities pertaining to radio access to fixed-wire networks.

By organizing these operations in a common organization, Ericsson is for the first time combining the resources required to become a leading supplier to information and data communications networks of the future, including multimedia and communications based on Internet Protocols (IP).

ORDERS BOOKED AND SALES BY BUSINESS AREA

SEK m.	Orders booked		Sales	
	1996	1995	1996	1995
Radio Communications	84,213	64,046	79,101	56,358
Public Telecommunications	33,038	21,187	25,185	23,575
Business Networks	16,324	16,359	15,932	14,094
Components	8,102	8,157	7,793	7,721
Microwave Systems	4,512	3,061	4,330	3,682
Other operations	2,789	2,183	2,789	2,182
Less: intersegment	-10,930	-10,012	-10,864	-8,833
	138,048	104,981	124,266	98,780

ORDERS BOOKED AND NET SALES 1996
FOR ERICSSON'S ORGANIZATION 1997

1996 SEK m.	Orders booked	Sales
Mobile Systems	61,183	58,060
Infocom Systems	48,243	39,941
Mobile Phones and Terminals	24,527	22,658
Other operations	13,462	13,159
Less: intersegment	-9,367	-9,552
	138,048	124,266

MOBILE SYSTEMS BUSINESS AREA

Radio Communications, formerly the largest business area, has been divided into two distinct units, Mobile Systems and Mobile Phones and Terminals. Operations involving mobile systems have been streamlined in a separate business area, Mobile Systems. It includes – in addition to business units for mobile systems based on the analog and digital standards Ericsson is marketing – private radio systems as well as systems for mobile data communications and personal paging.

The Mobile Systems Business Area also includes the radio links product area, which earlier was part of the Microwave Systems Business Area.

MOBILE PHONES AND TERMINALS BUSINESS AREA

All operations that focus directly on end-users have been brought together in Ericsson's third new business area. The operations pertaining to mobile telephones initially constitute by far the dominant activity, but Ericsson has a number of other end-user products that it can offer or which are under development.

Organizing these operations in a separate business area was a natural step since they are directed to a market that imposes totally different demands, and has a completely different business logic, than Ericsson's system operations. The successes recorded by the company's mobile telephones has shown that Ericsson can also be a very strong player in this market.

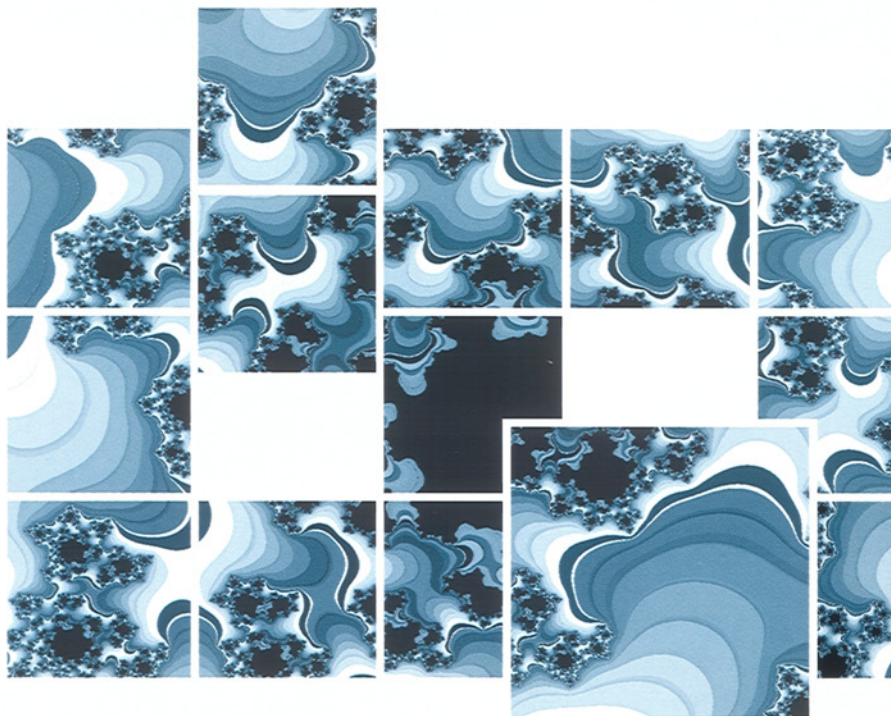
COMMON CORPORATE OPERATIONS

In addition to the three business areas, there are now four companies with designated responsibility for development of common systems and technologies strategically important for Ericsson:

- Ericsson Utvecklings AB works with AXE systems development.
- Ericsson Hewlett-Packard Telecommunication AB is responsible for operating support systems.
- Ericsson Components AB is responsible for microelectronics and energy systems.
- LM Ericsson Data AB, whose main task is to be the service provider for internal IT applications.

OTHER PRODUCT COMPANIES

Ericsson Microwave Systems AB and Ericsson Cables AB conduct business operations in their special product areas, which have also been placed outside Ericsson's business area organization.





THE RBS 884 ENSURES EFFECTIVE MOBILE COMMUNICATIONS IN DIFFICULT IN-DOOR ENVIRONMENTS.

MOBILE SYSTEMS

Ericsson is the only company in the market that offers total solutions for all market-leading standards of digital and analog mobile telecommunications systems. The Business Area Mobile Systems is the unit responsible for this product area in the new business area structure.

Mobile telephony – which continues to be the most expansive area of telecommunications – is estimated to have grown about 60 percent in 1996, representing the addition of 50 million new mobile telephone subscribers in a single year. For the first time, digital systems showed the

greatest growth, with a rate of more than three million new subscribers per month. More than 95 percent of the growth occurred in systems based on GSM/TDMA-technology, where Ericsson is a leading supplier. At year's-end 1996, 87 million subscribers were connected to analog systems and over 50 million to digital systems, according to the data available when this annual report went to press.

The year's greatest growth was observed in Asia, where the Chinese and Japanese markets are expanding very rapidly. During 1996 new operators' licenses were also granted in many Asian countries, among them the Philippines, India, Indonesia, Taiwan and Korea. Substantial gains are also being recorded in Latin America, notably in Brazil.

The market in North America, which initially showed the fastest growth in mobile telephony, has been somewhat sluggish in recent years. The long-drawn-out proceedings surrounding the auction of new Personal Communications Services (PCS) licenses have affected growth of the market there to a marked degree. In 1997, though, growth should accelerate again, since many of the new PCS operators are putting their systems in commercial operation.

The growth in number of GSM systems, which have now definitely become a world standard, is continuing in Europe. At the end of 1996 GSM systems had 33 million subscribers throughout the world. GSM technology has also become established in the United States, where the GSM-based PCS1900 system is being adopted by many PCS operators.

BUSINESS AREA RADIO COMMUNICATIONS IN BRIEF

SEK m. and percentage of Ericsson totals	1996		1995		1994	
Order bookings, external	83,713	61%	63,404	60%	42,506	51%
Net sales, external	78,586	63%	55,722	56%	40,500	49%
Net sales, internal	515	-	636	-	440	-
Number of employees	42,816	46%	30,841	36%	20,938	27%

Radio Communications was the largest business area in Ericsson's former organization. During 1996 sales amounted to SEK 78.6 billion and order bookings to SEK 83.7 billion.

95 percent of the sales pertain to mobile telephony, which consists of two product areas: mobile telephone systems and mobile telephones. Mobile Systems, which is now part of the new Business Area Mobile Systems, accounted for 66 percent of the sales of the Business Area Radio Communications in 1996, while telephones, which is part of the new Mobile Telephones & Terminals Business Area, accounted for 29 percent. Mobile telephones is a fastest-growing area.

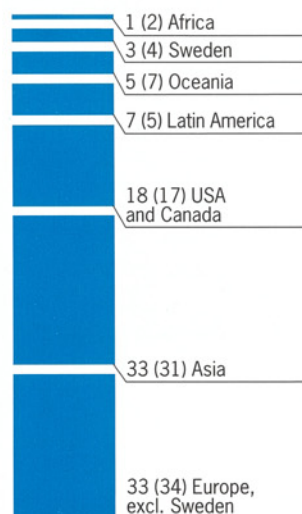
Ericsson has installed mobile telephone systems in

90 countries. Of the total of 137 million subscribers in the world's mobile networks in 1995, around 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. Since January 1, 1997, these are included in the Business Area Mobile Systems.

As of December 1996, Radio Communications had 42,800 employees. The head office is in Kista, north of Stockholm, which is also the case for two new business areas in the field of mobile telephony.

GEOGRAPHIC DISTRIBUTION OF SALES, %



THE EUROPEAN HOME MARKET

Europe is Ericsson's home market. The business trend in 1996 was favorable in virtually all European countries, with Italy, Germany and Spain showing a good growth. Ericsson has nearly 48 percent of the market for GSM systems in Spain, based on the number of network subscribers.

We continue to defend our very strong positions in China and Japan, where several expansion contracts were received during the year. China has long been one of Ericsson's largest single markets for mobile telecommunications systems. In India, Ericsson has been highly successful in the battle to supply the many new operators. The company now has contracts to deliver GSM systems to 10 operators in this country.

Ericsson has maintained its market position in North America, which constitutes approximately 30 percent of the total market for mobile telephone systems. PacBell and AT&T Wireless Systems are large operators who have chosen Ericsson as a systems supplier for PCS networks. PacBell has adopted the PCS1900 system while AT&T Wireless Systems is investing in D-AMPS technology – based on the new, improved IS 136 standard – for use in its entire nationwide network. AT&T Wireless System's launch of IS 136 has been successful, adding more than 500,000 subscribers during the last two months of 1996.

Ericsson has traditionally been a strong player in telecommunications in Latin America. This is also true in mobile telephony, where operators, particularly in Brazil, placed a number of important orders for systems during the year.

CONTINUING WORLD LEADERSHIP

Globally, Ericsson – with close to 40 percent of the world market, based on the number of subscribers connected to systems – is maintaining its certain position as the leading supplier of mobile telecommunications systems. Its strongest competitors are Lucent Technologies, Motorola, Nokia and Siemens.

Despite the severe competition that pervades the market for mobile systems, many factors are in Ericsson's favor. Since many of today's orders involve expansion of existing systems, the company's broad customer base is naturally of critical importance. Nine of the ten largest mobile system operators have Ericsson as their business partner.

A RELIABLE SUPPLIER

For new operators, Ericsson's recognized ability to supply complete systems – large as well as small – on tight delivery schedules is something of a trump card. It is important for new operators, who often have to pay dearly for their licenses, to be able to put their systems in service quickly so that revenues can be generated.

Ericsson's most important business strategy in the mobile telephone field is based on growing with its customers. Accordingly, major efforts are being made to find new ways of cooperating more closely with customers and helping them develop new income-producing functions in their mobile systems.

This applies in particular to new operators who may lack experience in telecommunications. Ericsson can help these customers to rapidly acquire the necessary expertise to become cost-effective and competitive.

A SECURE FUTURE

It is always difficult to predict the future. To date, our experience of mobile telephony has shown that growth has exceeded the most optimistic forecasts. Although the growth of mobile telephony has now reached mass-market proportions – this is said to occur when "subscriber density" exceeds 10 percent – it is nevertheless difficult to foresee how widespread the use of mobile telephony will really become. The number of mobile subscribers in Sweden, Norway and Finland already reached 30 per 100 inhabitants. A few years ago there was talk of 350 million subscribers throughout the world by the year 2000. Today, the figure 500 million is more often mentioned.

Another indication of continuing strong growth for mobile telephony is public interest in wireless data communications, in particular as a means of gaining access to the Internet. Internet access and other forms of data communications will necessitate an expansion of capacity. Ericsson is investing in Research and Development to study suitable technologies for mobile broadband systems.



ERICSSON'S MOBILE TELEPHONES FEATURE HIGH FUNCTIONALITY AND COMPACT DESIGN.





THE MOBILE TELEPHONE IS INCREASINGLY BECOMING AN AID FOR WIRELESS DATA COMMUNICATIONS. ERICSSON PRODUCES MODEMS FOR SEVERAL MOBILE TELEPHONE STANDARDS.

The potential for improved data communications was built into the GSM standard from the beginning. In the early summer of 1996 Ericsson, in association with Telia, demonstrated high-speed transmission at a rate of 64 kilobytes per second over the GSM network. Ericsson is working actively with other manufacturers in various international projects whose purpose it is to establish standards for data communications in mobile broadband networks.

The expansion of D-AMPS and GSM networks for in-house use is another area that is considered to have a future. During the year Ericsson received substantial orders for in-house system solutions from Vodafone in England.

Telia is another operator that has shown a strong interest in GSM services that have been adapted for in-house use, within companies in particular.

ERICSSON LEADS IN TECHNICAL DEVELOPMENT

No other company in the industry invests as much in research and development as Ericsson. The research and development currently under way in the systems sector focuses on two main areas:

To begin with, the company's development engineers are engaged in refining existing products with a view not only to increasing their "functionality" and performance, but also to reducing production costs. This work should be viewed in the light of the strong pressure on prices as well as the severe competition in the industry. Ericsson's objective is to be a world leader in terms of system performance.

The second main focus of the company's development of mobile systems is to ensure that Ericsson is better equipped to apply future technologies than any other company. Already during 1996, we were able to demonstrate the broadband technology of the future for mobile telecommunications – a technology that permits wireless transmission of multimedia at data speeds as high as 2 Mb per second.

In Mölndal, Ericsson Microwave Systems AB is currently developing advanced antenna products and micro base stations with built-in microwave links. In this work, both passive and active

antennas are being developed; in particular, the performance of active antennas is being improved by moving the amplifier stage in the radio base station to the antenna itself to create "adaptive antennas". Adaptive antennas function essentially as radar instruments, by scanning a large area and "zeroing in" on the mobile terminals that they identify within it. In 1996, this technology, which offers great power and range, was tested by Mannesmann Mobilfunk, Ericsson's large GSM customer in Germany, with highly promising results.

A WELL-OILED PRODUCTION MACHINE

The major successes achieved by Ericsson's mobile telecommunications systems in recent years is directly linked to the major expansion of its operations in this sector. To provide support for systems operations, it has been necessary to mobilize personnel resources on a large scale – in part through intra-company transfers but also through external recruiting.

The production apparatus has been expanded and fine-tuned. The company's plant in Gävle, the largest unit for the production of radio base stations, has been substantially expanded.

Today Ericsson has access to resources for development and production that none of its competitors can match. Not only does the company possess the world's most efficient organization for the production of base stations and radio exchanges, but no other manufacturer turns over such large volumes of business as Ericsson. This further strengthens the company's ability to compete on the basis of quality and performance, as well as in terms of price.

MOBILE TELEPHONES

It is estimated that global sales of mobile telephones in 1996 amounted to approximately 65 million units. For the first time, digital units accounted for the greater part of these sales. Forecasts indicate that the strong growth in this market is continuing. In 1997, the market may account for as many as 100 million handsets per year, most of them digital. This is a market trend that is very favorable for Ericsson.

The company's strong gains in the market for mobile telephones are continuing at an undiminished pace. Ericsson's position as one of the three leading suppliers – along with Nokia and

Motorola – was further confirmed during the year when the company increased its market shares. Ericsson is notably strong in the segment for digital mobile telephones. In many of the 80 countries where these products are sold, Ericsson is the market leader.

During 1996, the company strengthened its position in a number of key markets, including Southeast Asia and China, where Ericsson now produces mobile telephones in a joint-venture company. The company's deliveries have increased sharply in recent years and its production resources are continuously expanding.

RAPID EXPANSION

The largest production unit, the plant in Kumla, is currently being substantially enlarged. Plants in Linköping and in Lynchburg, Virginia, USA, are also producing telephones. During 1996 a new facility for the manufacture of analog telephones was opened in Bilbao, Spain, and Ericsson took over all the operations of Orbitel, a British company that also produces and develops mobile telephones. In addition, production was started at Ericsson's company in Brazil.

This year, 1997, a completely new development center will be opened in Lund, Sweden. Together with the development center in Raleigh, North Carolina, USA, that was expanded in 1996, the new facility will work to develop future generations of mobile telephones and related accessories. In Japan during 1996, Ericsson established a development center for mobile telephones based on the Japanese PDC standard.

Quite a few new telephone models were introduced during the past year. The introduction of the new "388" generation of digital telephones used in GSM, D-AMPS, PCS1800 and DCS1900 systems marked an important generation shift, since the new models offer much greater "functionality" and improved performance in terms of data communications, call-time and battery life.

To penetrate new segments in the market, one further GSM model in various colours, GA318, was launched.

THE NEXT GENERATION

The first model in Ericsson's next generation of pocket telephones, an analog model for the AMPS system, was introduced in North America in October. The new digital model for GSM systems,

which will be launched in the spring of 1997 is much smaller than its predecessor; its weight has now been reduced to less than 140 grams (approx. 5 oz.), including a standard battery.

Several different telephone models for use in various systems were also developed during the year. Telia, for example, began to sell a model for GSM and DECT systems, and models that can be used with three different standards – analog AMPS and digital D-AMPS in both the 1900 Mhz and 850 Mhz bandwidths – are now available in the U.S.

The voice quality offered by digital telephones improved substantially during the year thanks to the introduction of telephones and systems that employ a much improved speech encoder, the so-called "Enhanced Full-Rate" device. Ericsson was the first manufacturer to apply this technology.

With the new technology, the voice quality in a D-AMPS or GSM telephone, for example, is at least equal to that in fixed networks.

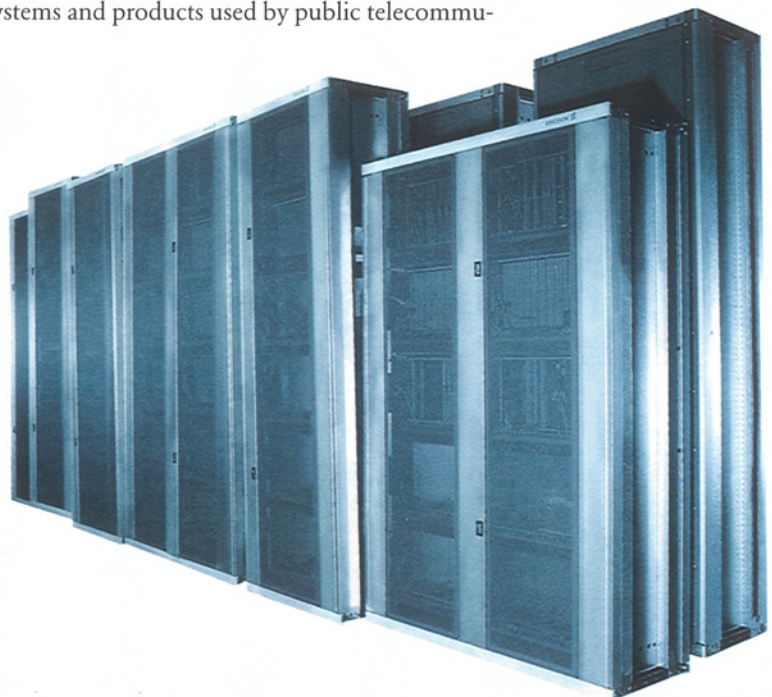
Ericsson's head-start on the competition in this new field is confirmed by a recently received order from Indonesia, specifying the delivery, in 1999, of satellite telephones!

INFOCOM SYSTEMS

Ericsson defines "Infocom Systems" as the communications systems required by the increasingly intertwined telecommunications, media and data industries – the infocom industry.

The company's AXE and Consono MD110 systems and products used by public telecommu-

AXE IS THE WORLD'S MOST SOLD TELE-SYSTEM. THROUGH CONTINUOUS DEVELOPMENT, AXE IS ALWAYS BEING ADAPTED TO NEW DEMANDS IN THE TELECOM MARKET.



nications operators are based on the same basic technology: the AXE system. AXE – with 118 million lines installed or on order in 117 countries – is the world's most widely sold telephone system.

The Consono MD110, with 11 million installed lines, is one of the world's leading systems for large business exchanges. AXE is also the "exchange platform" for Ericsson's mobile telephone systems.

A common basic technology maximizes Ericsson's opportunities to take advantage of synergies in technological development. Accordingly, productivity in the new development organization is much higher than it was earlier.

AXE is a system that is being modernized continuously.

As far as Ericsson can determine today, all the new technologies can be integrated in the AXE system. Systems and services designed to meet the future needs of fixed networks are being built around this strong nucleus. This means that AXE will continue to serve as the technical base for what we now call "infocom systems." MD110 and other systems, primarily within data communication and access, are strong components in Ericsson's offering to the market.

THE INTERNET IS CREATING OPPORTUNITIES

A new technology, "Internet Protocol" or "IP" technology, has enabled the unparalleled proliferation of subscribers to the Internet. It is expected that the increase in Internet subscribers will be as great as we have witnessed in mobile telephony. There are 70 million Internet users today; within five years we can expect to see 400 million – and perhaps 600 million by 2005. Ericsson obviously sees major opportunities in such a trend. By forming the new Infocom Systems Business Area, the company is concentrating and reinforcing its investment in solutions for IP-based traffic.

New types of telecommunications equipment that are better adapted to the requirements of Internet traffic will be needed – by end users, in

access networks, in exchanges and in transport networks. Ericsson is working vigorously to develop solutions that meet these needs. As Internet users increase their demands for speed, security, functions and reliability, they will seek a supplier who has experience of providing high-quality real-time services.

NEW PRODUCTS FOR THE INTERNET

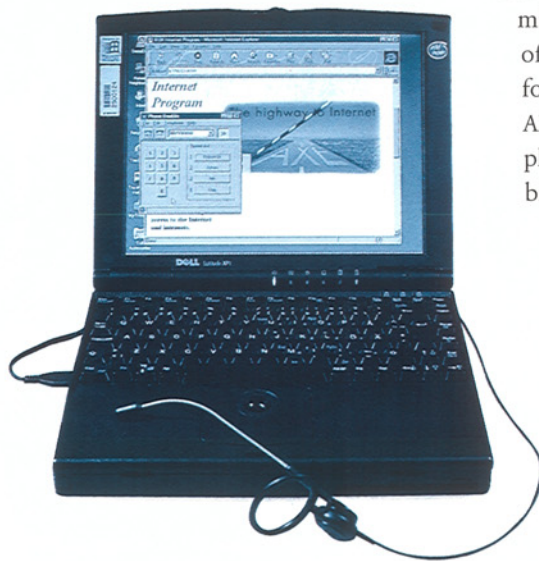
Ericsson introduced two attractive products for the Internet market in 1996. The "Phone Doubler" is a new AXE-exchange function that allows the user to receive or place telephone calls while he is connected to the Internet by his telephone line. The other product, "Internet Access Service", is an adaptation of the AXE exchange that facilitates data communications via the Internet, and supports access via an ISDN (Integrated Services Data Network) or a regular telephone line. In the future it will also support technologies for an ADSL (Asynchronous Digital Subscriber Line) – which increases bandwidth in copper wire networks – and for ATM (Asynchronous Transfer Mode), the broadband technology that is increasingly being introduced in public as well as business telecommunications networks.

Ericsson's Eripax data exchange made something of a comeback in 1996 because of the Internet's strong growth. Deutsche Telekom and the Irish Postal Service are customers who have purchased Eripax exchanges in order to improve their Internet service.

The Consono MD110 business exchange is another product that got a boost thanks to the growth of the Internet. Its sales are thriving on the strength of the marketing argument that it is "Internet-ready."

CONTINUING TRUST

Although interest today is being focused on exciting future developments offered by the Internet and IP technologies, much remains to be done in the traditional area of telecommunications. The vast majority of the world's population still lack access to telecommunications. The world market for fixed networks amounts each year to approximately 100 million lines – which is more than the annual increase in mobile subscribers – is evenly divided between investments in new systems and the replacement of older ones.



PHONEDOUBLER PERMITS SIMULTANEOUS TELEPHONE AND INTERNET TRAFFIC.

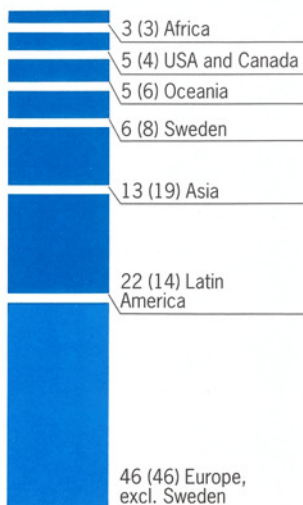
Ericsson has traditionally held a strong position in the replacement market, partly because the AXE exchange has been continuously modified to offer intelligent network (IN) services. Ericsson has supplied IN systems to 60 customers in 30 countries and is clearly the leader in the IN market. Network intelligence may be said to be the "glue" in telecommunications networks. It is, for example, what binds fixed and mobile networks together when numbering plans, debiting systems, advanced services and many other elements have to be coordinated.

The global distribution of the AXE system further strengthens Ericsson's position in the battle for expansion contracts and upgrading assignments.

During 1996, many of Ericsson's major customers demonstrated renewed confidence in the company as a system supplier. Long-term general agreements were signed with customers in China, England, Italy, Russia, Spain, Thailand and countries in Latin America. The company also received orders from a host of new operators.

Brazil, India and South Africa are markets in which Ericsson is well positioned to participate in the massive expansion programs that these and other countries have on the agenda.

GEOGRAPHIC DISTRIBUTION OF SALES, %



PRESSURE ON PRICES NECESSITATES NEW STRUCTURE

A highly efficient production apparatus is required to be successful in the market for telephone systems, as the pressure on prices in this market continues with unabated force.

To offset this trend, Ericsson concentrates its resources on its core operations. In the past two years, much of our primary production – involving transformers, relays, metalworking, adapters, etc. – has been assigned to outside companies. As Ericsson's partners, they continue to supply us with these products and in most cases have taken over all of the employees who formerly worked in the units affected by the change. The sale of operations to external partners will continue.

Because there is a similar price situation in the market for business exchanges, production in this sector is also being rationalized through restructuring. At the end of 1996, an agreement was concluded whereby all production of business exchanges and system telephones in Karlskrona is being sold to Flextronics, Inc., an American company.

A GOOD YEAR FOR CONSONO

The Consono family of products used in business communications enjoyed a good year in 1996.

BUSINESS AREA PUBLIC TELECOMMUNICATIONS IN BRIEF

SEK m. and percentage of Ericsson totals	1996		1995		1994	
Order bookings, external	31,174	23%	18,676	18%	20,823	25%
Net sales, external	23,101	19%	21,691	22%	22,678	28%
Net sales, internal	2,084	-	1,884	-	3,253	-
Number of employees	24,905	27%	27,840	33%	30,524	40%

Public Telecommunications, one of the two business areas which form the new Business Area Infocom Systems as of January 1, 1997, is responsible for Ericsson's products and systems used in wired public networks. The business area had external sales of SEK 23.1 billion and order bookings of SEK 31.2 billion in 1996.

The greater part of operations pertain to the AXE switching system which to date has been installed in 117 countries, making it the world's best-selling telephone system. Other product areas include access

equipment, transport network products, broadband switches and operating support systems.

The restructuring and rationalization of the business area continued in 1996, including the sale of parts of main production to external cooperation partners.

As of December 1996, Public Telecommunications had 25,000 employees, of whom slightly more than 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 20.



CORDLESS COMMUNICATIONS WITH FREASET IS INCREASINGLY REPLACING THE COMMON TABLE-TOP TELEPHONE.

The volume of sales of the MD110 exchange increased 20 percent, to 1.5 million lines. China was the largest market during the year.

Sweden – with 100,000 lines delivered, mainly to Telia – is another strong market. A truly prestigious contract was awarded us in 1996 by the

European Parliament, which, in the first stage of expansion, ordered equipment for a network that links operations in Strasbourg, Brussels and Luxembourg. In South Africa, an important distribution agreement was signed with Plessey, which dominates the market for business exchanges there. Iran and Pakistan became new customers for a version of the MD110 exchange that is used as an exchange in public networks in rural areas, notably in China.

Sales of Ericsson's Freaset system for cordless business communications increased in 1996. During the year Ericsson, which had a global share of more than 50 percent, maintained its position as the leader in the market for such systems.

The DECT (Digital Enhanced Cordless Telecommunications) standard on which the Freaset system is based has now been approved in more than 40 countries. Like the GSM standard, it has advanced from being a European standard to become the de facto world standard. As a result, Ericsson has also been able to sell the DECT system in the USA, Australia and Brazil. In all, 11,000 Freaset systems with a total capacity of 300,000 lines have been sold.

BUSINESS AREA BUSINESS NETWORKS IN BRIEF

SEK m. and percentage of Ericsson totals	1996		1995		1994	
Order bookings, external	15,665	11%	15,720	15%	14,357	17%
Net sales, external	15,283	12%	13,578	14%	12,617	15%
Net sales, internal	649	-	516	-	344	-
Number of employees	13,794	15%	14,143	17%	15,060	20%

The operations of Business Networks, which became part of the Infocom Systems Business Area on January 1, 1997, comprises complete, integrated information networks for voice, data and multimedia in wired and mobile applications. Sales in 1996 amounted to SEK 15.3 billion and order bookings totaled SEK 15.7 billion.

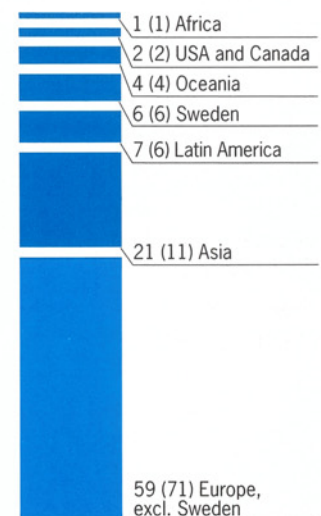
The principal product in the business communications area is the Consono MD110 subscriber exchange. With 11 million lines installed to date in 60 countries, it is one of the most widely sold large subscriber exchanges. Consono Eripax is a system for large data networks and BusinessPhone is a family of small telephone exchanges. Consono MD110 and

BusinessPhone can both be expanded through the addition of the Business Area's Freaset cordless system for business communications.

Network engineering and construction operations are focused largely on the new telecom operators in the market. These operations are well established in many parts of the world.

As of December 1996, Business Networks had about 13,800 employees, a majority of whom were located outside Sweden. The head office is in Nacka Strand, in eastern Stockholm. The business area has development centers in 7 countries and plant facilities in 6.

GEOGRAPHIC DISTRIBUTION OF SALES, %



NETWORK CONSTRUCTION

A growing number of operators today are demanding total solutions when they invest in telecommunications networks. In this area, Ericsson, with its expertise in network construction, can assume total responsibility for a project – from specification and design to putting the network in service. Ericsson's role in projects of this type involves designing and planning the network, procuring all materials and supervising construction until the network has been completed. Services offered customers also include help in calculating profitability and planning operations and business development.

Deregulation of telecommunications has substantially increased the market for network construction projects. Both new and established operators are increasingly electing to transfer to external suppliers the responsibility for putting a network in operation quickly.

Ericsson is a prominent player in the market for network construction projects which – like so many others – is characterized by razor-sharp competition. All the competitors among the major suppliers of telecommunications systems and products are intently focusing on this type of business. A strong product portfolio and a fine reputation as a manager of telecommunications network projects are Ericsson's most powerful weapons in this competition. So, too, is its long experience in operating in all parts of the world.

Nineteen ninety-six was another good year for Ericsson's network construction operations. In Sweden, the company began deliveries of the complete telecommunications network ordered by France Telecom for its operations in Sweden. This project, which amounts to SEK 700 million, will be carried out over a five-year period.

During the year Ericsson received a contract for SEK 300 million covering construction of a cable-TV network in Turkey. In Latin America, customers in Mexico and Peru placed orders for large network construction projects. A major project in Russia involved building an optical-fiber communications network for the so-called October railway line.



DIALOG 3000 IS A COMPONENT IN CONSONO SOLUTIONS DELIVERED WORLD-WIDE.

ACCESS PRODUCTS

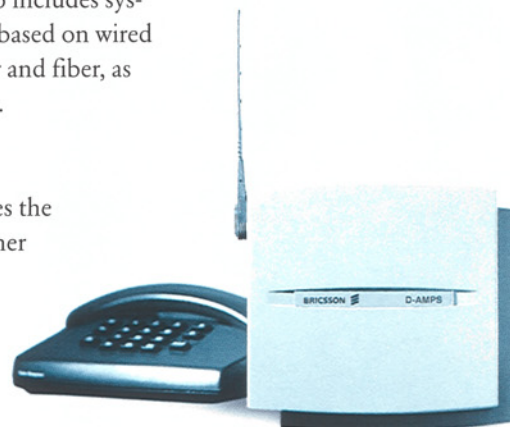
The subscriber communicates with the local exchange via the access network. Because operators invest considerable amounts in local exchange networks, stringent requirements apply to the equipment that Ericsson and other suppliers offer for these networks. The equipment must lend itself to network expansion, besides supporting the introduction of new services.

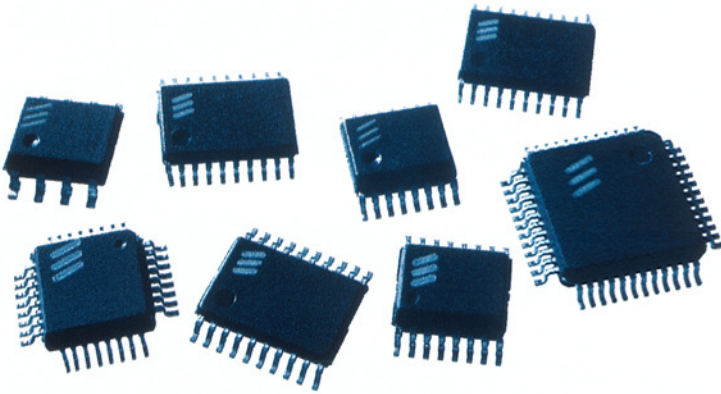
Ericsson responds to these demands by providing a range of different products that handle many types of traffic in the network: regular telephony, video, data and interactive services. Our access products can of course be connected to AXE systems but they also work in local exchanges supplied by other manufacturers. Ericsson's product portfolio includes systems and products that are based on wired technology for both copper and fiber, as well as on radio technology.

RADIO ACCESS

Radio access, which involves the use of radio technology rather than traditional wiring, allows operators to expand or modernize their networks faster and more cheaply than is the

LINKING FIXED TERMINALS VIA THE CELLULAR NETWORK IS ONE WAY TO QUICKLY CREATE NEW TELEPHONE CONNECTIONS.





RESOURCES FOR DEVELOPMENT AND MANUFACTURE OF MICRO-CIRCUITS IS STRATEGICALLY IMPORTANT FOR ERICSSON.

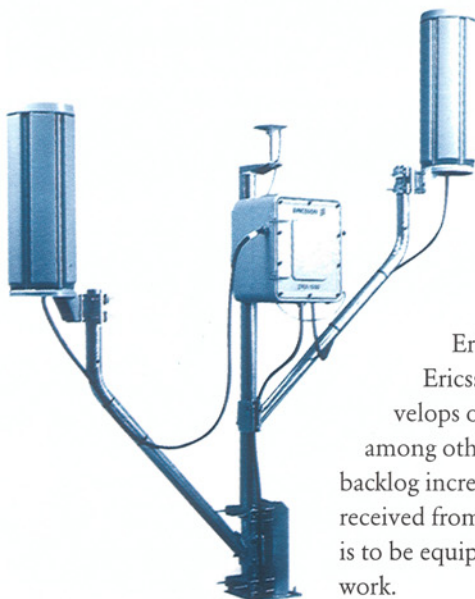
IN JUST ONE YEAR, USING DRA 1900 AS RADIO ACCESS TO THE FIXED NETWORK HAS BECOME A 150-MILLION-DOLLAR BUSINESS.

case with traditional wired access. Ericsson offers a number of different solutions, including the RAS 1000 system based on the NMT standard, and the DECT-based DRA1900 system.

Nineteen ninety-six was a breakthrough year for DRA1900. Contracts received from customers in a large number of countries included orders for 10,000 lines in Bolivia, 10,000 lines in Colombia, 50,000 lines in Indonesia, 55,000 lines in Sri Lanka, and more than 60,000 lines in Hungary.

The "Airline" access system, which handles services at speeds up to 2 Mb per second, was also introduced in 1996. Airline offers "broadband to order," depending on the user's needs. The system is excellent for use in telephony and ISDNs (Integrated Services Digital Networks), and for providing rapid access to the Internet.

In Italy, Ericsson has succeeded with yet another wireless access system based on DECT for fixed networks. In this product, the AXE system has been supplemented with what is known as Cordless Terminal Mobility (CTM).



FIBER ACCESS

Ericsson Fiber Access Inc. (formerly Ericsson Raynet), based in the USA, develops optical-fiber access systems for video, among other products. During 1996 its order backlog increased as a result of a large contract received from Indonesia, where the city of Jakarta is to be equipped with a fiber-based access network.

TRANSPORT NETWORK PRODUCTS

One fourth of all investments in telecommunications equipment today are being made to expand transport networks. This development is being driven, in particular, by the fantastic growth of the Internet and the World Wide Web, as well as by the greater range of real-time services – all of which crave dramatic increases in network capacity.

The technology known as Synchronous Digital Hierarchy (SDH) dominates these new investments. Ericsson's SDH product portfolio is now more competitive than ever, following the strategic cooperation in this field that was begun with Marconi (Italy) in 1995. This cooperation enables Ericsson to supplement its own portfolio with SDH products made by Marconi.

During 1996 Ericsson received substantial orders for SDH from various countries, among them China and England.

MICROELECTRONICS

Microelectronic technology, a field that has seen some quite dramatic developments, is becoming increasingly important to Ericsson's products and systems. Many individual electronic components are now being replaced by faster, more energy-efficient integrated silicon circuits that are more reliable than their predecessors and perform more functions on a single chip. The size and cost are being reduced continuously.

Against the background of these developments, it is of great strategic importance to Ericsson to have access to advanced resources for the design of printed circuits. Ericsson Components is the company responsible for microelectronics.

Ericsson Components has some 1,200 employees. In 1996, all of Ericsson's microelectronics expertise was concentrated in this unit, even as its operations became totally business-oriented.

Four distinct areas in Ericsson Components have been identified as important for Ericsson, in which investments in new technology and production have been made.

LINEAR CIRCUITS

The linear circuit card in an AXE exchange handles all incoming and outgoing traffic. The num-

ber of linear circuits in each exchange is equal to the number of lines the exchange can serve. These circuits thus constitute a large and important "volume" product. In 1996, Ericsson, which is the world's second-largest producer of linear circuits, introduced a new generation of them, thereby reaffirming its status as a world leader in this area.

Much of Ericsson Component's production is sold to external customers – including Ericsson's competitors. Despite the fact that production increased from 8.5 million circuits in 1995 to 12 million in 1996, external demand exceeds production capacity.

CIRCUITS FOR RADIO

Ericsson Radio Systems and Ericsson Components have jointly developed strategic silicon circuits for use in the radio frequency (RF) field. These circuits, which are used in radio base stations as well as mobile telephones, are highly advanced. During 1996, operations in the so-called "submicroelectronic" plant in Kista that was placed in service in 1995 were fine-tuned for production of the mobile telephony circuits of the future. The circuits and manufacturing facilities will be ready for volume production in 1997.

Mobile telephony circuits are strategic products that are not sold to external customers. Ericsson absorbs all of the production. Thanks to the strong growth in mobile telephone operations, production of mobile telephony circuits tripled.

These circuits are produced in Kista and in Morgan Hill, California, where they are encapsulated and tested.

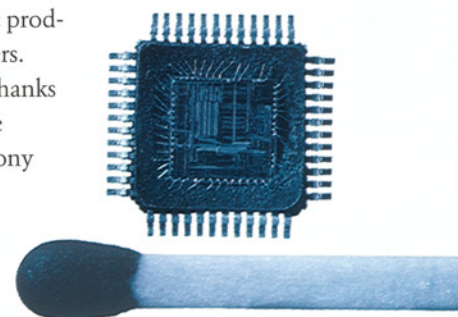
OPTOCOMPONENTS

Ericsson Components will increase its investment in optical fiber research in 1997. Fiber optics is a field in which continuing strong growth is anticipated. The technology is on the threshold of a changeover to receiver and transmitter modules that can handle signal speeds as high as 10 Gb per second.

These circuits are currently being produced mainly for external customers, including Lucent Technologies, the company that was spun off from AT&T.

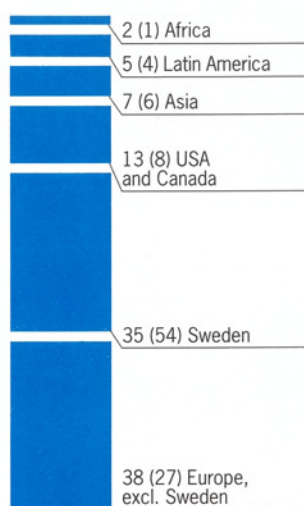
NEW MICROELECTRONIC SERVICES

Ericsson Components has considerable experience in the design and manufacture of integrated



SMALL MOBILE TELEPHONES REQUIRE SMALL CIRCUITS WITH VERY HIGH CAPACITY.

GEOGRAPHIC DISTRIBUTION OF SALES, %



BUSINESS AREA COMPONENTS IN BRIEF

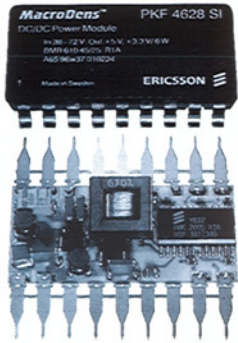
SEK m. and percentage of Ericsson totals	1996		1995		1994	
Order bookings, external	4,009	3%	4,924	5%	4,126	5%
Net sales, external	3,909	3%	4,771	5%	4,073	5%
Net sales, internal	3,884	–	2,950	–	2,244	–
Number of employees	5,285	6%	5,532	7%	4,746	6%

Ericsson Components AB is Ericsson's center of expertise in the field of microelectronics. This unit develops and markets advanced integrated circuits and energy solutions for telecommunications systems. A subsidiary distributes electronic components in Scandinavia. Previously, the company was part of the former Components Business Area which also included the cable production operations of Ericsson Cables AB.

The business area's sales in 1996 amounted to SEK 3.9 billion and order bookings totaled SEK 4.0 billion.

As of December 1996, Components had about 5,300 employees. The entire components operation, now under the name Ericsson Component Companies is coordinated from Kista, north of Stockholm, which is also the site of advanced facilities for the development and production of microcircuits. Ericsson Components also carries out production in Morgan Hill, California and Shanghai in China. Ericsson Cables produces cable in Falun and in Hudiksvall, where the head office is located.

circuits and the logistics of developing them. By designing and using both our own and externally purchased design elements, we have found an effective way of creating advanced microcircuits. Production is assigned to one of our semiconductor suppliers, thus increasing the capacity for design and delivery without having to invest additional capital.



MICRO-DENSE IS A POWER COMPONENT MOUNTED DIRECTLY ON THE PRINTED CIRCUIT.

ENERGY SYSTEMS

Energy Systems, a business unit within Ericsson Components, is expanding at a rate parallel with Ericsson's overall sales – by more than 20 percent per year. During 1996, to be able to handle the expansion, the company invested more heavily than ever before in this operation. Sales during the year amounted to slightly more than SEK 3 billion world-wide. In all, installations have been sold in more than 100 countries.

Customers include such system suppliers as Ericsson, NEC, Nortel, Fujitsu and Siemens, and operators such as Telia and British Telecom. New operators have also become customers, as have computer manufacturers such as Stratus, Honeywell and Schneider.

Along with its sales of large energy systems, Ericsson has been successful in marketing power modules, i.e., very small power components that are mounted directly on printed circuit cards in electronic equipment. With production of 5 million units per year, Ericsson became the largest producer in this field in 1996.

POWER AND TELECOM CABLE

Ericsson's line of telecommunications cable comprises both copper and optical fiber cable – so-called optocable. Traditional copper cable still accounts for 60 percent of sales, but sales of optocable are rising fastest. This is true, in particular, of marine cable, a segment

in which Ericsson introduced a new product in 1996. In this type of cable, traditional lead sheathing has been replaced by a jacket that is much more environmentally compatible. Marine cable has been sold for use in a new

link between Sweden and Poland, via Bornholm.

Production of optocable was slowed during the year by a global shortage of fiber.

"Skywrap," a special fiber-cable product, is marketed by Eriofocas, the joint-venture company in which Ericsson's partner is Focas, a British company. Skywrap is installed on power lines by a special machine that winds the fiber cable around high-voltage cable. Svenska Kraftnet, in Sweden, has installed Skywrap in an optical fiber network that links the country's three largest cities.

New and environmentally safer products for power cable were also introduced during the year.

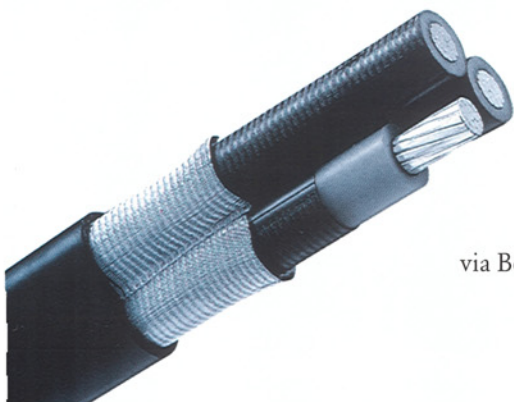
A new type of power cable that can be laid in water and underground as well as installed above ground – a feature that substantially simplifies the installation of cable under difficult conditions – has also attracted a great deal of interest.

DEFENSE ELECTRONICS

Ericsson's defense electronic operations encompass ground-based, naval and airborne radar and communications systems. These operations focus on a growing segment within an otherwise decreasing total market, namely defense technology. The segment is expected to become still more important in the future.

"Giraffe," Ericsson's largest radar product of all time, has been sold to customers in 19 different countries during the past 20 years. Thailand, from which an order was received in 1996, became the nineteenth. When it comes time to renew large parts of the air-defense systems in Europe in the first decade of the next century, Ericsson will be ready with its new generation of surveillance radar systems. This is the radar that is being developed for the Swedish "Bamse" air-defense system, and which is being built for two different applications – as signal-tracking and as fire-control radar.

The first order for "Arthur," an artillery-location radar system that Ericsson has developed for the Swedish Defense Materiel Administration and the Norwegian Military Supply Command, was received during 1996. Arthur is a small mobile radar system that is much less expensive than competitors' products, although no less effective in performance. It can be Ericsson's next major product in the defense sector.



ERICSSON IS A LEADING SUPPLIER OF POWER CABLE IN EUROPE.

Deliveries of "Erieye" – an airborne surveillance radar – to the Swedish Air Force were begun during the year. Like Arthur, Erieye is much smaller than competing systems and is priced considerably lower. Several international negotiations pertaining to this system are under way. Ericsson, together with two aircraft manufacturers, SAAB and Lockheed Martin and Embraer, is marketing Erieye to defense forces in a number of countries.

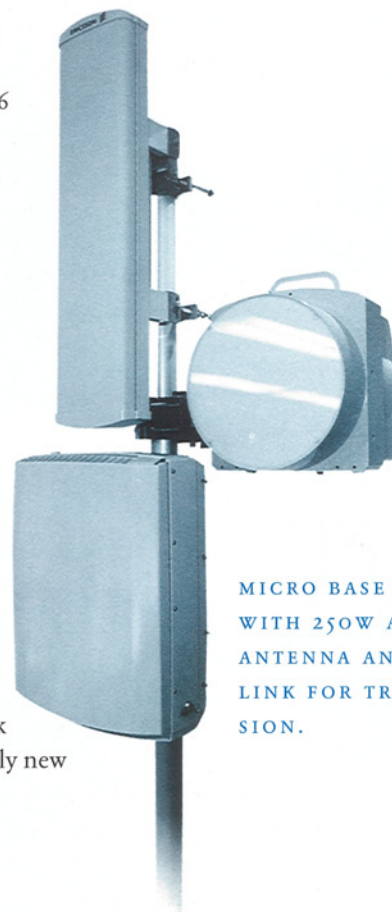
Work is also under way on the development of a new generation of radar for the JAS39 Gripen multirole military aircraft. The development of this highly advanced system will result in new solutions that can be applied to new commercial products, as is often the case with projects for the defense sector. Ericsson is one of a handful of companies throughout the world that are able to develop the very latest generation of electronics for microwave applications.

MICROWAVE SYSTEMS

With 28 percent of the world market, Ericsson became in 1996 the dominant company in the market for microwave links. Its lead over competitors also increased during the year.

"MiniLink", the company's successful product family in the microwave field, is widely used in the expansion of mobile telephone networks. This accounts for its strong growth in sales in recent years. During the last three years production has tripled.

South Africa, Spain, Germany and quite a few Latin American countries were large markets for MiniLink in 1996. India is one of the totally new markets.



MICRO BASE STATION WITH 250W ACTIVE ANTENNA AND MINI-LINK FOR TRANSMISSION.

GEOGRAPHIC DISTRIBUTION OF SALES, %



BUSINESS AREA MICROWAVE SYSTEMS IN BRIEF

SEK m. and percentage of Ericsson totals	1996		1995		1994	
Order bookings, external	3,222	2%	1,998	2%	2,122	2%
Net sales, external	3,111	3%	2,760	3%	2,441	3%
Net sales, internal	1,219	-	922	-	479	-
Number of employees	4,166	4%	3,714	4%	2,978	4%

Ericsson Microwave Systems AB is Ericsson's development center for microwave technology and high-speed electronics. The company's expertise in these fields is employed in the development of advanced systems based on radar, radio and optoelectronic technologies for military and civil applications.

As of December 1996, the Business Area Microwave Systems, in which Ericsson Microwave Systems was organized, had 4,200 employees, most of whom are located in Kista, Borås, Lysekil and Mölndal, the site of the head office. In Ericsson's new organization,

the radio links product area is included in the Business Area Mobile Systems.

External sales in 1996 amounted to SEK 3.1 billion and order bookings totaled SEK 3.2 billion.

The Defense Electronics product area includes radar for air defense and display systems. The Microwave Link product area focuses mainly on the civil market. Ericsson Microwave Systems works with other Ericsson units on the development and production of components for mobile telephony, including radio base stations and antennas.

**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 ABB, ABB AB, Volvo, STORA and SAS Sverige AB.
Member since 1977.
Shares held: B 39,798.
Convertible debentures: 15,000.**

Tom Hedelius (2)
(1939*)
Deputy Chairman. Honorary Doctor of Economics. Chairman of the Boards of Handelsbanken and Bergman & Beving. Vice Chairman of AGA and Industrivärden. Member of the Boards of Volvo, SCA and SAS Sverige AB.
Member since 1991.
Shares held: B 8 800.
Convertible debentures: 2,000.**

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

Bo Berggren (4)
(1936*)
Honorary Doctor of Technology. Chairman of the Boards of STORA, Astra, SAS and SAS Sverige AB. Deputy Chairman of Investor, Skandinaviska Enskilda Banken and Federation of Swedish Industries.
Member of the Boards of Danisco A/S and the Royal Institute of Technology.
Member since 1994.
Shares held: B 4,000.

Göran Engström (5)
(1948*)
Employee representative.
Member since 1994
Shares held: B 860
Convertible debentures: 625.**

Jan Hedlund (6)
(1946*)
Employee representative.
Member since 1994.

Per Lindh (7)
(1957*)
Employee representative.
Member since 1994.

Sverker Martin-Löf (8)
(1943*)
President and CEO of SCA. Member of the Boards of AGA, Industrivärden, Federation of Swedish Industries and Swedish Employers' Confederation.
Member since 1991.

Lars-Eric Petersson (9)
(1950*)
President and CEO of Skandia. Member of the Board of GRI (Gothenburg Research Institute).
Member since 1996.

Clas Reuterskiöld (10)
(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.

Peter Sutherland (11)
(1946*)
Honorary Doctor. Chairman of the Boards of Goldman Sachs International and the Overseas Development Council, Washington. Deputy Chairman of British Petroleum. Member of the Boards of Investor, ABB, Delta Air Lines, Allied Irish Banks and Foundation of the World Economic Forum.
Member since 1996.

Marcus Wallenberg (12)
(1956*)
Vice President of Investor. Deputy Chairman of Astra and Saab. Member of the Boards of Incentive, Investor, Scania, Skandinaviska Enskilda Banken and Knut och Alice Wallenbergs Stiftelse.
Member since 1996.
Shares held: B 44,000.

Sven Ågrup (13)
(1930*)
Chairman of the Board of AGA. Member of the Boards of Handelsbanken, Sandvik and Tetra Laval.
Member since 1983.
Shares held: B 2,000.

**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.

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 Forsberg
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 needed.

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
Tiencen
M Mami

ARGENTINA

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

AUSTRALIA

Ericsson Australia Pty. Ltd.
Broadmeadows
Kjell Sörme

Ericsson Data
Australia Pty. Ltd.
Melbourne
Lars Löfberg

Ericsson Defence
Systems Pty. Ltd.
Preston
John Scanlon

Nira Australia Pty. Ltd.
Sydney
Brian Fitzgerald

AUSTRIA

Ericsson Austria AG
Vienna
Lars G. Josefsson

BAHRAIN

Ericsson Radio Systems AB
Bahrain Branch
Manama
Håkan Johansson

BELGIUM

Ericsson Business
Communications NV/SA
Brussels
Torbjörn Possne

Ericsson European
Affairs Office
Brussels
Torbjörn Ihre

BOLIVIA

Ericsson de Bolivia
Telecomunicaciones S.A.
La Paz
Jan Hartzell

**BOSNIA-
HERZEGOVINA**

Ericsson djl
Sarajevo
Anders Ericsson

BRAZIL

Ericsson Tele-
comunicações S.A.
São Paulo
Lars Sköld

BULGARIA

Ericsson
Telecommunications
Bulgaria EOOD
Sofia
Roland Engman

CANADA

Ericsson
Communications Inc.
Toronto
Bernt Högberg

CHILE

Compañía Ericsson
de Chile S.A.
Santiago
Carlos Ortiz

**CHINA, PEOPLES
REPUBLIC OF**

Ericsson (China)
Company Ltd.
Beijing
Olof Lenneman

Beijing Ericsson Mobile
Communication Co. Ltd.
Beijing
Bernt Hult

Beijing Ericsson
Communication
Systems Co. Ltd.
Beijing
Gunnar Wenneberg

Dalian Ericsson
Communication Co. Ltd.
Dalian
Bill Timmings

Guangdong Ericsson
Engineering Co. Ltd.
Guangzhou
Jan Hagne

Guangzhou Ericsson
Communication Co. Ltd.
Guangzhou
Jan Hagne

Nanjing Ericsson
Communications
Company Ltd.
Nanjing
Lars Edvardsson

Shanghai Ericsson Simtec
Electronics Co. Ltd.
Shanghai
Hans-Eric Carlsson

COLOMBIA

Ericsson de Colombia S.A.
Bogotá
Björn Magnusson

COSTA RICA

Ericsson de Costa
Rica S.A.
San José
Julien Sideris

CROATIA

Ericsson Nikola Tesla d.d.
Zagreb
Per Olof Sjöstedt

CZECH REPUBLIC

Ericsson spol.s.r.o.
Prague
Sepp Leimgruber

DENMARK

LM Ericsson A/S
Copenhagen
Björn Olsson

LM Ericsson
International A/S
Copenhagen
Bo Stokholm

Cabelco ApS
Virum
Jörgen Dinesen

Ericsson DIAx
Telecommunications A/S
Struer
Jörgen Yde Jensen

TERMA Elektronik AS
Lystrup
Johannes Jacobsen

ECUADOR

Teléfonos Ericsson C.A.
Quito
Bo Westman

EGYPT

Telefonaktiebolaget
LM Ericsson
Egypt Branch
Cairo
Robert Andersson

EL SALVADOR

Ericsson El Salvador
S.A. de C.V.
San Salvador
Jorge Juarez

ESTONIA

Oy LM Ericsson Ab
Representative Office
Tallinn
Matti Lentimäki

Ericsson Eesti AS
Tallinn
Matti Lehtimäki

**FEDERAL
REPUBLIC
YUGOSLAVIA**

LM Ericsson
International AB
Representative
Office Belgrade
Belgrad
Jan B Hultgren

FINLAND

Oy LM Ericsson Ab
Jorvas/Helsinki
Jan-Mikael von Schantz

Viikinkaapeli Oy
Esbo/Helsinki
Kalervo Ulander

FRANCE

Ericsson Radio S.A.
Guyancourt
Erland Lonaeus

MET Communication S.A.
Massy
Jacques Payer/
Lars Jarnryd

Ericsson Hewlett-Packard
Telecommunications
Grenoble
Claude Perrigault

S.A. Ericsson
Malakoff
Gilles Pichon

GERMANY

Ericsson GmbH
Düsseldorf
Manfred Buchmayer

Ericsson Eurolab
Deutschland GmbH
Herzogenrath
Jarl-Eric Nylund/
Jef Keustermays

GHANA

Ericsson Radio
Systems Ghana
Accra
Sobhi Ayache

GREECE

Ericsson Hellas
Telecommunications
Equipment S.A.
Athens
Lars Björkenor

GUATEMALA

Ericsson de
Guatemala S.A.
Guatemala City
Ignacio Gonzáles

HONG KONG

Ericsson Communications
(Hong Kong) Ltd.
Hong Kong
John Gilbertson

HUNGARY

Ericsson Kft
Budapest
Istvan Fodor

INDIA

Ericsson Communi-
cation Pvt. Ltd.
New Delhi
Rolf Granström

Ericsson Telecommuni-
cations Pvt. Ltd.
New Delhi

Birla Ericsson Optical Ltd.
Rewa
D.R. Bansal

Ericsson India Ltd.
New Delhi
G.S. Bains

INDONESIA

PT Ericsson Indonesia
Jakarta
Mats H. Olsson

Erindo Utama PT
Jakarta
F. Siddik

IRAN

Telefonaktiebolaget
LM Ericsson
Iran Branch
Tehran
Philippe Durand

IRELAND

LM Ericsson Holdings Ltd.
Dublin
Vincent Daly

Ericsson Business
Communications Ltd.
Dublin
John L. Kennedy

Ericsson Systems
Expertise Ltd.
Athlone
Diarmuid O'Colmain

LM Ericsson Ltd.
Dublin
Ian Cahill

Broadcom Eirann
Research Ltd.
Dublin
Gerhard Cahill

ISRAEL

Telefonaktiebolaget
LM Ericsson
Representative
Office Israel
Tel Aviv
Bo Andersson

ITALY

Ericsson S.p.A.
Rome
Gian Luigi Tosato
Aurelio Renna

Ericsson Tele-
comunicazioni S.p.A.
Rome
Giovanni De Guzzis

JAPAN

Nippon Ericsson KK
Tokyo
Morgan Bengtsson

Ericsson Toshiba
Telecommunication
Systems K.K.
Yokohama
Tomas Hillás

KENYA

Ericsson GT Telecom Ltd.
EGK
Gilligill
J.K. Mosonik (Act.)

**KOREA,
REPUBLIC OF**

Ericsson Korea Ltd.
Seoul
Bengt Forss

KUWAIT

Kuwait Ericsson Telephone
Equipment & Services
Kuwait
Bo Zaine

LATVIA

LM Ericsson
International AB
Representative Office
Riga
Ilkka Jäntti

LEBANON

Société Libanaise des
Téléphones Ericsson
S.A.R.L.
Beyrouth
Jan Embro

LIBYA

Telefonaktiebolaget
LM Ericsson
Libya Branch
Tripoli
Torsten Andersson

LITHUANIA

LM Ericsson
International A/S
Representative Office
Vilnius
Conni Simonsen

UAB Lietuva
Vilnius
Conni Simonsen

MALAYSIA

Ericsson Telecommuni-
cations Sdn Bhd
Shah Alam, Selangor
Olle Ulvenholm

Perwira Ericsson Sdn Bhd
Shah Alam, Selangor
Kamaludin bin Abdul Kadir

Opcom Cables Sdn Bhd
Shah Alam, Selangor
Mukhriz Mahatir

MEXICO

Teleindustria Ericsson S.A.
Mexico D.F.
Gerhard Skladal

Ericsson Radio
Systems S.A.
Mexico, D.F.
Per Fredén

Empresa Tecnológica
Ericsson S.A. de C.V.
Mexico, D.F.
Rolf Hansén

Sistemas Ericsson S.A.
Mexico, D.F.
Roberto Rosales

Telemontaje Ericsson
S.A. de C.V.
Mexico, D.F.
Roberto Rosales

MOROCCO

Telefonaktiebolaget
LM Ericsson
Délégation Technique du
Projet au Maroc
Rabat-Agdal
Harald Oberbeck

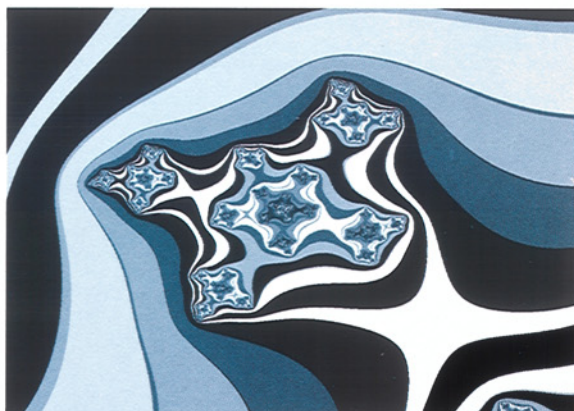
NETHERLANDS

Ericsson Telecommuni-
catie B.V.
Rijen
Haijo Pietersma

Ericsson Holding
International B.V.
Rijen
Leo de Hoon

Ericsson Holding
Nederland B.V.
Rijen
Leo de Hoon

Ericsson Property Co. B.V.
Rijen
Leo de Hoon



Ericsson Business Mobile Networks B.V. Amsterdam/Enschede	OMAN Telefonaktiebolaget LM Ericsson Technical Office Oman Muscat Sune Larsson	SAUDI ARABIA Saudi Ericsson Comm. Co. Ltd. Riyadh Lennart Kalling	Ericsson Data Spain S.A. Leganés Philip Jörding
Ericsson Data Netherlands B.V. Rijen Philip Jörding	PAKISTAN Ericsson Pakistan Ltd. Islamabad Kjell Björk	SINGAPORE Ericsson Telecommuni- cations Pte. Ltd. Singapore Göran Berntsson	SRI LANKA Ericsson Telecommuni- cations Lanka (Pvt.) Ltd. Colombo Bo Almlöf
Ericsson Radio Systems B.V. Emmen Hoofddorp Gerrit Koning	PANAMA Telefonaktiebolaget LM Ericsson Technical Office Panama Francisco Peralta	SLOVAKIA Ericsson Slovakia spol.s.r.o. Bratislava Jan Cisarik	SWEDEN Telefonaktiebolaget LM Ericsson Stockholm Lars Ramqvist
Ericsson Real Estate Netherlands B.V. Emmen Gradus Bruins	PERU Compañía Ericsson S.A. Lima Román de los Martiréz	SOUTH AFRICA Ericsson South Africa Pty. Ltd. Johannesburg Christer Hohenthal	Ericsson Telecom AB Stockholm Anders Igel
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Jan Kemwall

Ericsson Telephone
Corporation Far East AB
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Jan Kemwall

Ericsson Thai Networks
Company Ltd.
Bangkok
Jan Kemwall

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Bureaux Techniques de
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Tunis
Wadih Skaf

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Wadih Skaf

STITELE S.p.A
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Stig Johansson

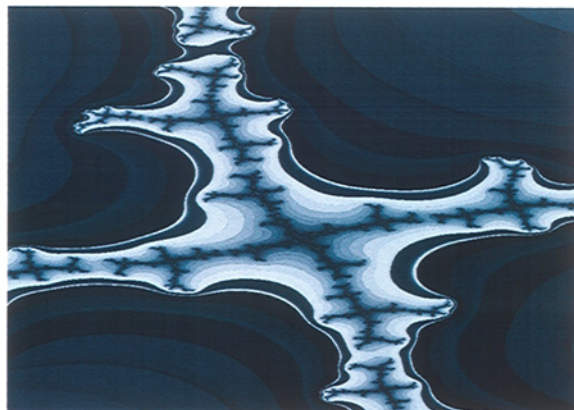
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Hanoi
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Harare
Lars-A. Andersson



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

DECT – Digital European 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.

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.

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.

TRADEMARKS

A number of trademarks are mentioned in this annual report. The following trademarks are owned by Ericsson:

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Consono®
EriEye®
Freeset®
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UNCERTAINTIES IN THE FUTURE

“Safe Harbour” Statement under the U.S. Private Securities Litigation Reform Act of 1995:

Some statements in the 1996 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 Berwald Hall, Strandvägen 69, Stockholm, at 5 p.m. Friday, April 25, 1997.

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 15, 1997.

Shareholders, whose shares are registered in the name of an agent, must temporarily be entered in the share register not later than April 15, 1997, 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 April 22, 1997 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 April 30, 1997 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 9, 1997.

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.

