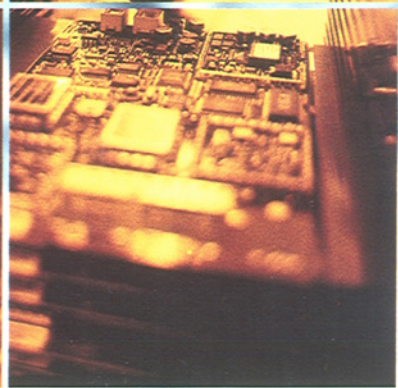
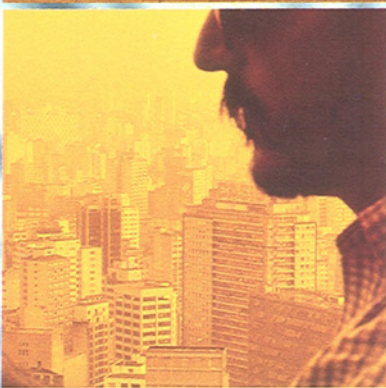
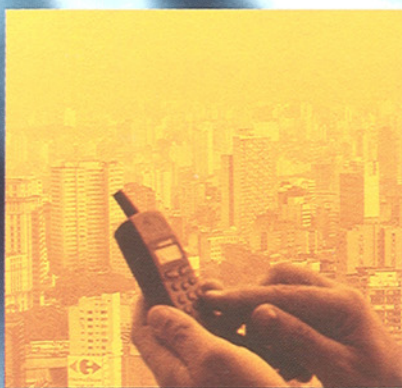
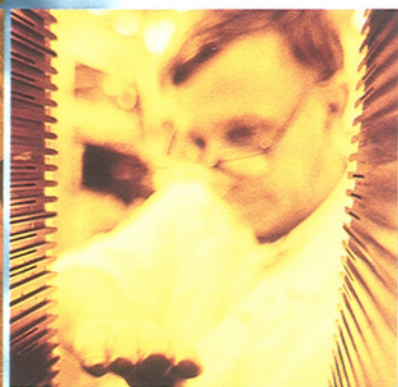


ANNUAL REPORT  
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## FINANCIAL INFORMATION FROM ERICSSON

Interim report January–March	April 29, 1998
Interim report January–June	July 23, 1998
Interim report January–September	October 22, 1998
Results 1998	January 28, 1999
Annual report 1998	March, 1999

Financial reports are available from:

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*It's about*

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*communication*  
*between people*



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## Ericsson in brief

Ericsson is a world-leading supplier in telecommunications. It produces advanced systems and products for wired and mobile telecom systems in private and public networks.

Since the end of the 19th century, Ericsson has been active worldwide and today, with its strong international presence in more than 130 countries, Ericsson has unique knowledge of market conditions in all parts of the world. Ericsson has developed the world's largest customer base in telecommunications, with customers on all continents.

Compared with most of its major competitors (Alcatel, Lucent, Motorola, Nokia, Nortel, Siemens and others), Ericsson has by far the highest percentage of international sales. In times when a region is hit by an economic slowdown, a broad international distribution of sales is an enormous strength.

Ericsson has always concentrated intensively on technical development. Annual investments in technical development in recent years have amounted to about 15–20 percent of sales. More than 22,000 employees in 23 countries are active in research and development. Among other factors, these investments are the main reason why Ericsson is a market leader in the field of mobile telephone systems, with a world market share of close to 40 percent.

Ericsson's research and development focuses on products and systems in its core business. The company's strategy in a number of important areas is to form joint ventures with other leading companies. IBM, Intel, Marconi, Microsoft, Novell, Sun and Texas Instruments are examples



of companies with which Ericsson cooperates in specific areas of technology.

Ericsson's product line is broader than the range offered by any competitor.

AXE, the digital switching system for wired and mobile networks, is the world's most successful telecom system. Today, it is installed in 125 countries. Due to its flexibility and adaptability, the system is used in all types of applications, in fixed and mobile networks.

Some 65 million mobile subscribers were added during 1997, an increase of 48 percent. Of today's 201 million subscribers, 75 million initiate calls in networks delivered by Ericsson. The growth in mobile systems will continue and it is expected that there will be nearly 600 million subscribers by year-end 2001.

Ericsson is the world's largest supplier of the GSM and D-AMPS digital mobile telecom systems and the second largest supplier of the Japanese PDC digital system.

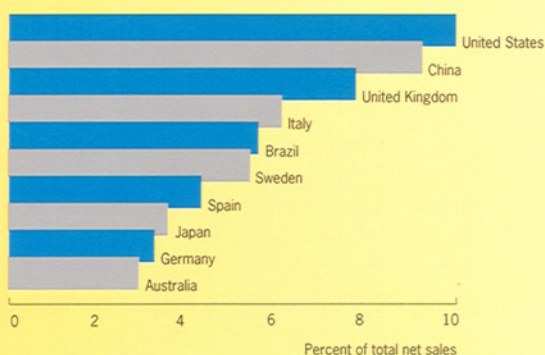
During 1997, it is estimated that 100 million mobile telephones were sold. Most of these were for digital systems. It is projected that the sharp rise seen in recent years in this market will continue. Ericsson offers an extensive range of phones for analog and digital systems and is one of the leading manufacturers of mobile telephones. □

# Ericsson highlights 1997

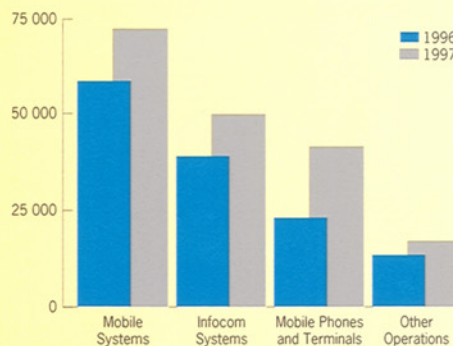
	1997 SEK m.	1996 SEK m.	Percent change
Orders booked	179,770	138,048	30
Net sales	167,740	124,266	35
Income before taxes	17,218	10,152	70
Income per share, SEK	12.15	7.27	67
Dividend per share, SEK	3.50 *	2.50	40
Number of employees, December 31	100,774	93,949	7

\* For 1997 proposed by the Board of Directors

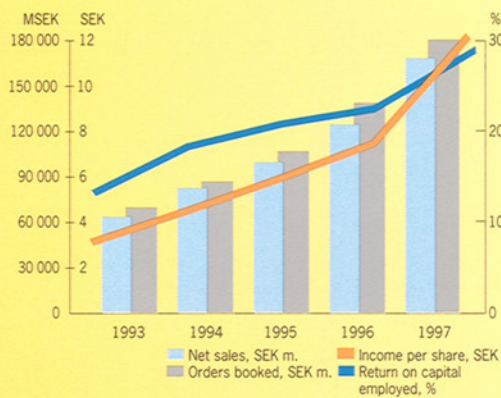
Ericsson's ten largest markets



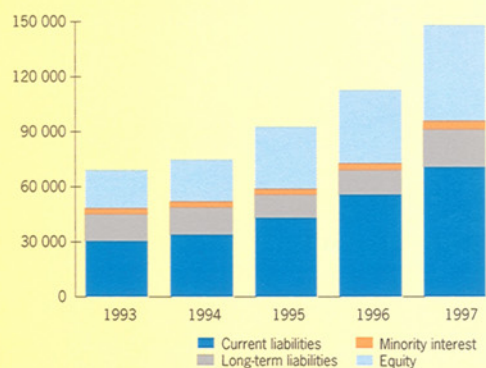
Net sales, by business area



Net sales (SEK m.), orders booked (SEK m.), income per share (SEK) and return on capital employed (percent)



Liabilities and equity, SEK m.



# Unique development of Ericsson's business

□ **It is with the greatest pleasure and satisfaction that I present this Annual Report to you, our shareholders. Nineteen-ninety seven was a fantastically good year of operations for Ericsson, with new records for order bookings, sales, earnings and positive cash flow. This was due to the uniquely fine efforts of our employees. I want to extend my deep gratitude to all who are employed within Ericsson. Thanks to our employees, Ericsson has achieved a position of world leadership in the dynamic and highly competitive telecommunications market.**

In addition to the favorable results that we are reporting, I want to point out that Ericsson is very well consolidated, with a strong balance sheet. During the year, the Company has continued to build up reserves – amounting to no less than SEK 11,5 billion – for risks related to customer financing, changes in technology and markets, as well as restructuring. Ericsson has never been stronger financially.

Business developed exceptionally well in 1997. The increase in sales during the year amounted to a full SEK 43,500 million. Operations in the mobile telephony field continue to develop well – very well. The mobile systems and mobile phone units both continued to expand operations during the year. Ericsson is defending its world-leading position in the systems sector and in 1997 we also achieved a position of leadership with our digital mobile phones, with an increase in sales in 1997 of 87 percent. In the Infocom Business Area, rationalization of the traditional AXE and Consono system operations continued at a rapid pace at the same time that we launched a number of new products in the Internet and data communications fields. Operations in the areas of components, cable, microwave systems and defense electronics developed very favorably.

*“We appreciate that success is based on our ability to continuously improve our competitiveness by being prepared to change our ways of doing things, at a faster rate – and for the better. The dynamics of the telecommunications market demand this.”*

We in Ericsson have never allowed ourselves to be blinded by our successes. On the contrary, we appreciate that success is based on our ability to continuously improve our competitiveness by being prepared to change our ways of doing things, at a faster rate – and for the better. The dynamics of the telecommunications market demand this.

## More dynamic market

What we can now expect during the years immediately ahead is an even more dynamic market. Despite the fact that we have experienced fantastic growth in telecommunications for a number of years, I still venture to assert that this has been only the beginning. Mobile telephony is continuing to grow. The Internet and intranet systems are growing even faster. And then we have data communications, and multimedia and many other new services that as yet we can only imagine. Deregulation and liberalization are continuing. One important deregulation is the one being implemented within the European Union in 1998. All in all, these are a number of factors, each of which in itself would have been enough to ensure very strong continuing growth in the industry.

It is gratifying to be able to report that the trend of business in terms of sales and orders booked was favorable in all geographical areas during 1997. Where invoiced sales were concerned, the ten largest countries were the United States, China, Great Britain, Italy, Brazil, Sweden, Spain, Japan, Germany and Australia. The trend in Eastern Europe is especially interesting. For the first time in the modern era, Russia is now one of Ericsson's ten largest markets in terms of order bookings.

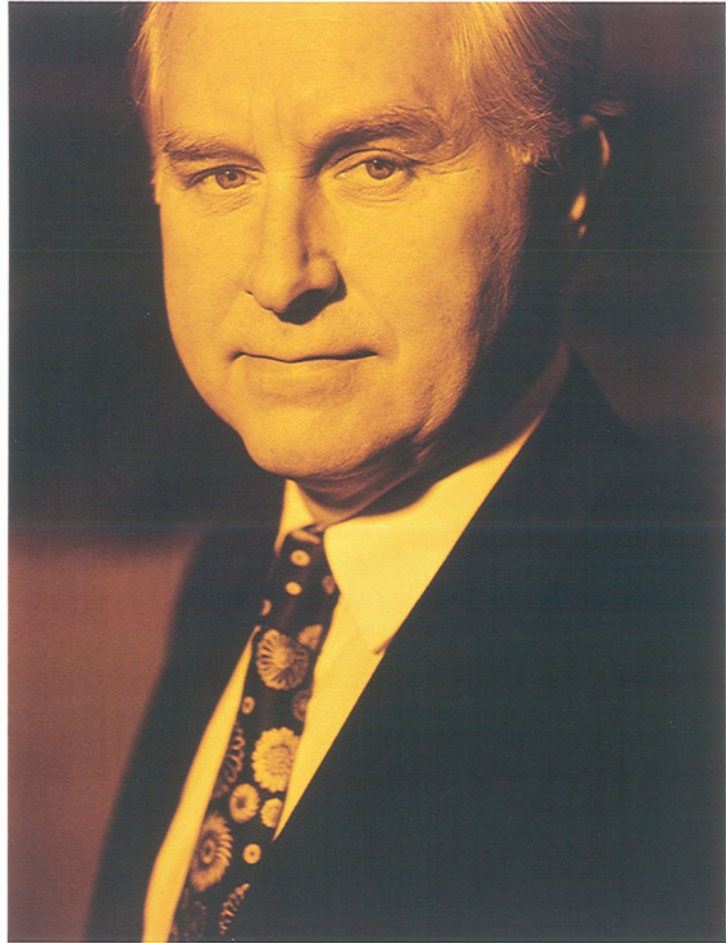
During 1997 we have continued to have strong growth in sales in Asia, but more modest growth in orders booked. During the fourth quarter we were also able to record increases – for the region as a whole – in both order bookings and sales. The signals from Asia are mixed, however. We have seen a decline in business in certain countries in Southeast Asia, while others have reported increased order bookings. The trend in China has been highly favorable, with strong increases in both orders and invoiced sales even during the fourth quarter of 1997. China thereby became

Ericsson's largest single market in terms of order bookings in 1997. On the whole, the trend of the market in Asia is uncertain and difficult to evaluate at the present time.

## A company in process of change

The dynamics in the telecommunications industry impose severe demands on all companies that are active in the field. Ericsson is in no way an exception to this rule. That is why we have devoted so much effort to planning for the future in recent years. As I reported in last year's Annual Report, we have carried out one of the most comprehensive "future studies" in the history of the telecommunications industry: "2005 - Ericsson entering the 21st century." Simply because we have agreed on possible scenarios indicating what the industry may be like during the next few years, this does not mean that the study has been completed. It is continuing and is giving rise to many internal activities throughout Ericsson. The "2005" study is now closely linked with the ongoing strategic planning that is always under way within the company, and from which we were able to note many specific results in 1997.

Our Business Area Infocom Systems is currently undergoing basic changes. There are a number of important reasons for this. For a number of years the business area has not been able to meet the high profitability requirements that we impose on Ericsson's operations and it must accordingly examine its costs. As a consequence of technical development work - which in 1997 resulted in a completely new generation of AXE exchanges with a dramatic reduction in size and greatly simplified mechanical construction - it is now becoming much simpler to manufacture systems, and fewer man-hours per unit are required. Another important reason why changes are required in Infocom Systems is that the business area is operating in the sector of telecommunications that is undergoing the most revolutionary changes. In the multimedia and data communications fields Ericsson is facing a world in which it has earlier been active only to a limited degree. Here, we are competing with data companies that are characterized in many important respects by ways of working that are completely different from those that have predominated in the telecommunications industry.



Lars Ramqvist, Chief Executive Officer.

## Strong program in Infocom Systems

The program to improve the efficiency of our operations in Infocom Systems and adapt them to market and technical requirements was accelerated sharply during the year. Large parts of the production have been transferred to external partners through outsourcing arrangements. Often – but, unfortunately, not always – it has been possible to do so in such a way that the personnel affected have been offered continuing employment in the company that has taken over the production. In all such situations, we are doing everything that can be done to arrange other work within Ericsson for those who are affected, but this is regrettably not always possible. Due to the demands for competence in the sectors of our business that are expanding it is sometimes not a simple matter to merely transfer manpower.

The restructuring of production and of the entire supplier chain within Infocom Systems is a process that will continue for another year or two. Before we undertook the measures that were announced in December 1997, this restructuring had affected 10,000 employees and the steps that are now being taken in 1998 will affect an equal number.

The anticipated financial effects of all these measures will amount to cost savings of a couple of billion kronor when the full impact of measures has been felt. We expect that this will have occurred during the course of 1998/1999. In addition, as a result of the new organization of its operations, the Business Area Infocom Systems will be able to offer its customers much more rapid and reliable deliveries, a thoroughly modernized product portfolio and improved service.

## Technical challenges

The changes within Infocom Systems is only one example of how Ericsson is constantly adapting its operations to meet market demands. On the following pages of this Annual Report we present many interesting examples of how Ericsson throughout the world is changing in order to meet the new challenges in the industry. Ericsson, I dare say emphatically, is a world-class company where flexibility and change are involved. Ericsson's substantial success in modern times has always been based on our ability to interpret signals from the market more rapidly than any one else, and on the ability to adapt our products and our way of operating in accordance with these signals.

At times like these when we speak so much about changing our way of working, we should

not forget the importance of having the "right" products to offer customers. Ericsson is continuing to invest heavily in technical development. In 1997 we invested not less than SEK 27 billion, equal to 16 percent of total sales, in new technology. This means that Ericsson is still investing more than any other company in the industry in systems and products of the future. We face major technical challenges in the years ahead, but we feel secure in the knowledge that we have the expertise and resources with which to meet them. We place great emphasis on safeguarding our inventions, which is reflected in the fact that Ericsson submitted 1,200 new applications for patents in 1997.

The fact, that we are investing our resources in the right technologies, is often confirmed. In 1997, in what is now by far our most successful area – mobile telephony – we obtained strategically important confirmation that we invested correctly in our development program pertaining to the third generation of mobile telephone systems. Ten years of research and development work on systems for cordless multimedia communications were crowned with success when the Japanese NTT DoCoMo operator, and later Japan Telecom as well, awarded us contracts to develop the first systems based on what is known as WCDMA (Wideband Code Division Multiple Access).

The European Telecommunications Standards Institute (ETSI) has now also taken its important decision on the future standard for the next generation of mobile telephone systems. ETSI has decided to implement a standard based essentially on the WCDMA technology advocated by Ericsson – WCDMA. This confirms once again that Ericsson is on the leading edge in developing technology for future mobile telephone systems.

During the past year, in the area of telecommunications and data communications in fixed-wire networks, the company introduced a number of new products and systems directed to the important market for IP-based (Internet Protocol-based) communications systems. And now, in the beginning of 1998, we are presenting our new, smaller ATM exchange, which is still classified as a telecommunications system. In this sector, too, intensive development work in recent years has strengthened our position in the market appreciably. During 1998, as noted earlier, a new and significantly enhanced version of our AXE system will also be introduced.

## Preserving the world's largest customer base

When it is time to market our systems and products and earn money on the systems of the future, Ericsson's great strength is its access to a compre-



hensive marketing organization. As a result of our presence in more than 130 countries, we have substantial possibilities to combine our technical strength with knowledge of local and regional market conditions.

Ericsson has customers in all parts of the world and has built up the world's largest customer base in the telecommunications field. As is also described in theme articles in this Annual Report for 1997, we are investing heavily and purposefully to preserve and strengthen our relations with these customers. A fact that is sometimes neglected – it is so easy to be blinded by new, impressive contracts – is that we obtain a very large percentage of our revenue from the sale of upgrades and supplements for systems we have delivered earlier. More than 130 million lines of AXE equipment and a very large percentage of the world's mobile telecommunications systems have been delivered by Ericsson. Through good cooperation with our customers and with their continued confidence, Ericsson's customer base generates follow-up sales accounting for the lion's share of Ericsson's sales, year after year.

We are not satisfied with offering our customers upgrades and other improvements in the systems we deliver. In recent years we have also become successively much better at selling services to our customers. This offers substantial opportunities for business in the future. More than 90 percent of a telecom operator's total costs consist of such items as operation and maintenance of networks, administration, the development of new services, training programs, and the like. Ericsson's new portfolio of so-called professional services is addressed to all of these different areas. The company's revenue from this business today already amounts to SEK 10 billion per year.

## Four cornerstones

Our change program, our continued heavy investments in technical development, our global market presence and our program of constantly managing and enhancing our human resources are the four cornerstones of the new Ericsson that is now forcefully and confidently accepting the challenges that the new millennium offers.

The number of employees within Ericsson has now passed 100,000. Their unique collective expertise constitutes Ericsson's real strength. A new telecom operator anywhere in the world can turn to Ericsson with the question – What should I do to build my network and achieve success in this market? – secure in the knowledge that we have good answers to these questions. We have built more networks, and we know more markets, than any one else. It's as simple as that.

However, we are not content with the fact that Ericsson today can provide the best answers or help find the best solutions. Since telecommunications is developing continuously, we also have to develop our most important asset – the expertise and experience of our employees. That is why we are investing very substantial resources in competence development among our own personnel.

## New CEO

This is the last annual report I will be presenting. I have been part of a fantastically positive development for Ericsson since I became president and CEO in 1990. From the low point in conjunction with the Gulf War and the international recession at the end of 1991, the share has risen in value fifteen-fold, that is, an average of 57 percent annually, to the nearly SEK 300 billion market value on the Stockholm Stock Exchange at year-end 1997.

Thank you for the privilege of being part of this development. Thanks to all customers, partners and shareholders for your show of confidence. Thanks to all fellow employees and colleagues and to the entire workforce for the support you provided me during all these years. Guided by our common values of professionalism, respect and perseverance, I have tried to lead Ericsson to the best of my ability.

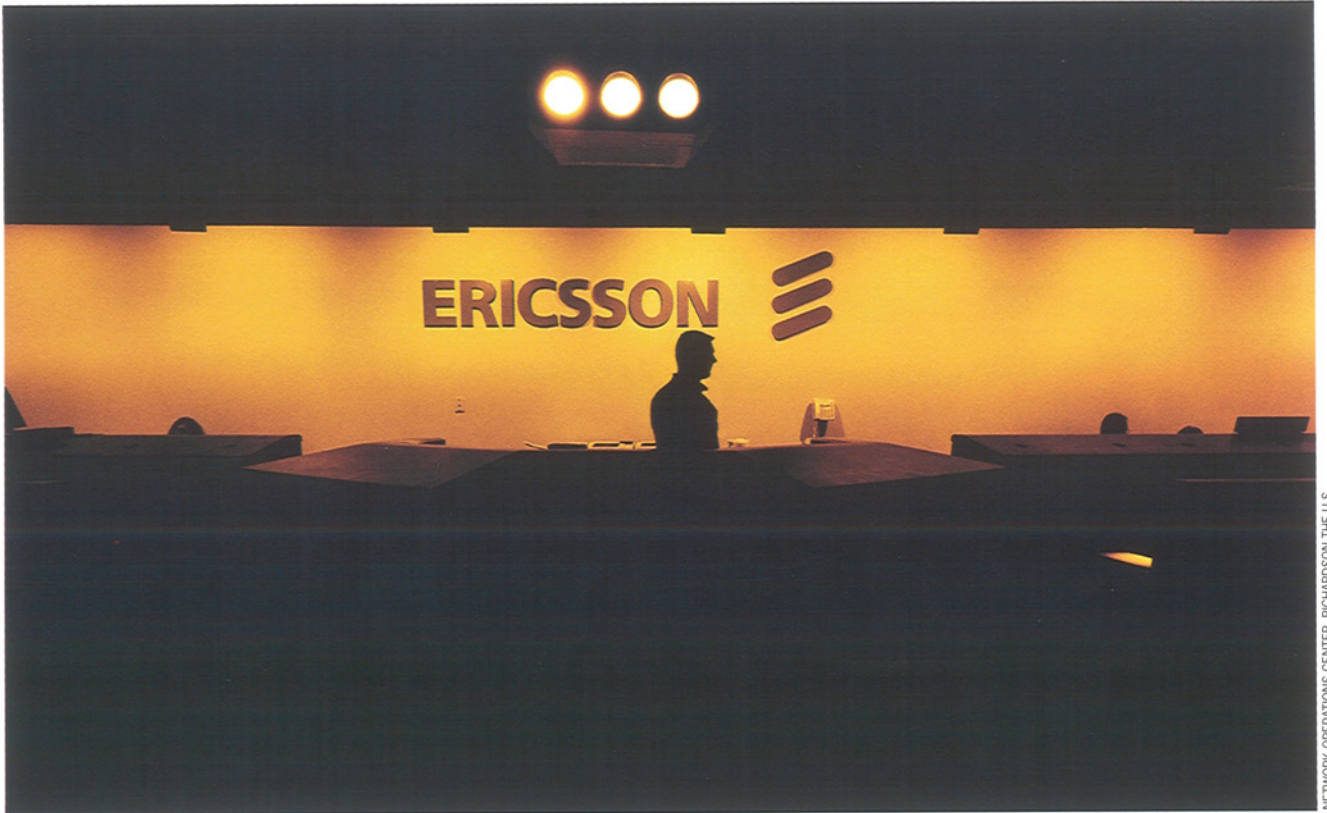
It feels very satisfying to turn over a strong and well-consolidated Ericsson to my successor Sven-Christer Nilsson. I wish Sven-Christer and all Ericsson personnel best of luck in the future. With the support that I know Sven-Christer will receive from the Board of Directors and personnel, there is every possibility that Ericsson's positive development will continue to benefit our customers, employees and shareholders.



Sven-Christer Nilsson, Ericsson's future Chief Executive Officer.

A handwritten signature in black ink, appearing to read 'Lars Ramqvist'. The signature is stylized and fluid, with a long horizontal line extending from the bottom of the 't'.

LARS RAMQVIST



NETWORK OPERATIONS CENTER, RICHARDSON, THE U.S.

## A checkpoint on the road to the next century



Lennart Grabe,  
Senior Vice President,  
Corporate Business Development

*“By achieving the goals defined in ‘Wanted Position Year 2000’ we will create a new Ericsson.”*

□ Today we stand on the threshold of the 21st century – a new era in human history. It’s hard to imagine what an industry as dynamic as telecommunications will be like in a few years. Therefore, with an eye to the future, Ericsson has launched a comprehensive program to prepare the Company for the major changes that can be expected in the years ahead. A major strategic study, “2005 – Ericsson entering the 21st Century”, laid the foundation for the substantial process of change that characterizes Ericsson at the present time. This work is the key to further success for Ericsson. The ability to understand the need for changes and to realize them is one of the most important explanations why Ericsson today is a world leading supplier of telecommunications.

Throughout Ericsson, in all of the more than 100 countries in which the Company operates, an intensive, goal-oriented program of change is under way. During the latter part of 1996 and most of 1997, the “2005” study and its conclusions have been discussed at every level in the Company. Ericsson’s basic objectives for the year 2000 – “Wanted Position Year 2000” – have been adopted by the entire organization worldwide and adapted to local conditions in the around 200 different companies that make up Ericsson.

“Wanted Position” is a process of achieving the goals and an ongoing and necessary part in transiting Ericsson to an even more efficient company. Progress towards the goals will continuously be measured. The goals in “Wanted Position” have one thing in common: they aim at creating an even better return from an investment in Ericsson – for shareholders, customers and employees.

Many subsidiaries have made substantial progress in adapting their objectives entering the

21st century. For other units, much remains to be done, but each and everyone have in their own way accepted the challenge. The best practices are now being evaluated in different internal networks and shared via more formal channels.

In Ericsson's Annual Report for 1996, we reported in detail on the work with the "2005" study and on the most important results of this, the largest strategic study in the Company's history. This year, we feel it is in order to offer the reader a tour of some of Ericsson's "home countries" to show how the program to achieve the challenging objectives in "Wanted Position" is progressing. Our tour through five continents will reveal a company that is being substantially transformed to face the new era which is approaching in our industry. A striking number of the changes that we described in our scenarios for the year 2005 have already been realized or are in the process of becoming reality.

Our tour brings us to seven countries, all of them important markets to Ericsson. We have selected companies in these countries, because they have made a substantial progress in important areas of "Wanted Position". Several other subsidiaries have also made great efforts in achieving their targets, but space is a limiting factor and that's why we have concentrated on some of the major companies and markets within the Ericsson group.

## Ericsson's "Wanted Position Year 2000"

### From a business viewpoint

1. *The business partner of choice*  
Customers perceive us as their best choice in the markets or market segments in which we operate.
2. *The number one supplier*  
We are regarded as the industry leader – a prime innovator setting new standards, introducing new systems and securing patents and other intellectual rights 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. *Lifelong learning for our pro-active employees*  
Our company offers an environment that encourages lifelong learning on the part of

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 price. We have employed world class innovators by providing them with 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 commercialisation.
3. *Leadership for empowerment, motivation, speed and flexibility*  
We develop and encourage leadership characteristics to improve speed, flexibility and business success. Our management act in a manner that conforms with, and strengthens, Ericsson's shared values.
4. *Strong corporate culture and common values*  
Our corporate culture is based on common values: professionalism, respect and perseverance. This promotes a flexible and entrepreneurial way of operating.

### As regards our structure

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 work together in global networks to ensure that we deal with customers as a single company. Our boundary-less organization encourages open communication within the Company and supports the development of internal networks and teamwork.
2. *Geared for responsiveness and world-class execution*  
We are continuously developing our organization and processes to achieve world-class execution. The objectives are to offer our customers the best possible solutions, to make our operations the most cost-effective, to maintain world-class quality, and to ensure our ability to change course quickly. Information technology, based on a common architecture, is an important tool in our operations, and we are recognized as one of the leading users of IT. We have fast, reliable, state-of-the-art reporting systems. □



# AUSTRALIA Set on becoming a world-class company

□ **“The 2005 Study” and its goals as expressed in “Wanted Position” are very much in line with the methodology implemented since a couple of years in Ericsson Australia. The company has worked intensively to implement goal-oriented management throughout the 1990s, and to establish a culture receptive to change. Ericsson Australia has set its overall strategic goal high: to achieve “World’s Best Practice” and become the best of the Ericsson companies!**



Kjell Sörme, President of Ericsson Australia Pty Ltd.

*“We work more on assignments for our customers rather than acting as the sales arm of the Ericsson business units. Our focus on partnership with the customer is largely about moving upward in the value chain and exploiting new business opportunities.”*

The Australian telecom market was one of the first to be deregulated. This relatively young nation has always been among the first to adopt new technology. Upon their introduction, innovations such as refrigerators, videos and mobile telephones all spread rapidly across this expansive country. Willingness to change, which to a great extent is an Australian hallmark, places special demands on the companies that have succeeded in the Australian market.

As a result, Ericsson Australia has established a corporate culture that accepts change. The company was also among the first within Ericsson to recognize the importance of establishing close partnerships with customers. In 1993, Ericsson signed an agreement on a strategic partnership with Telstra, the incumbent telecom operator in the country. This agreement launched Ericsson Australia on the path that led the Company to a position of total dominance in the public telecom market, for fixed as well as mobile networks.

The effort to develop Ericsson Australia’s work methods in the direction of “World’s Best Practice” began already in 1991. After a few years, improvement projects and new work methods began to yield tangible results, especially during 1994 and 1995 when these efforts produced some major successes. In 1996, when the Company won the National Quality Award in Australia, its operations were classified as MPR II Class A, an internationally recognized quality classification for industrial operations.

“Getting the quality award confirmed that we had begun gaining significantly better control



YARRA VALLEY, AUSTRALIA

over our operations than we previously had,” relates Kjell Sörme, President of Ericsson Australia. “We also received confirmation from our customers – particularly Telstra – that they perceived us as being a considerably more reliable and responsive company than before. By focusing on World’s Best Practice, we have reduced the cost of our operations. Doing it right the first time is not only profitable, it is vital to a company working in a market as competitive as ours.”

One of the most important elements in the change process at Ericsson Australia is that employees have gained increased responsibility

### In brief

- Having a culture that accepts change has advanced Ericsson Australia to a leading position among Ericsson companies worldwide.
- In Australia, Ericsson's expertise in developing partnerships with customers is highly advanced.
- Services and customer care account for an increasing portion of sales as the need to supply telecom equipment begins to taper off.

and greater opportunities to influence their jobs. Each quarter, discussions are held between the staff and their immediate managers about the personal goals that have been established for each employee. These goals, which are linked to the pay and incentive system, are an important part of the Company’s new approach to work.

“Consequently, the results of improvement benefit all three of our interest groups. Shareholders can be pleased about improved profitability, customers in that we do a better job for them and employees in that their efforts are rewarded in their pay envelopes,” explains Sörme. “But,” he adds, “a large portion of patience and perseverance is required to reach the world-class level and stay there.”

A new organization, with fewer decision levels, has also been implemented. Its main principle is that the customer meets one face – or rather, the same people – in contacts with Ericsson. Ericsson Australia has seven customer-oriented business units, one of them for new operators, who represent an increasingly important market segment in Australia.

These seven business units are supported by three units handling supply, technical development and customer service.

“Today, we have a significantly flatter organization than in the past. In order to avoid major disturbance in our daily operations, we implemented the new organization in a succession of stages. Now that we have created a corporate culture that accepts change, we are prepared to

modify and further develop the organization as quickly as the situation demands,” Sörme emphasizes.

Like many other Ericsson companies, Ericsson Australia has worked extensively to review its production processes, some of which – for example, manufacturing and assembly – have since been outsourced. The drive towards improvement has proceeded unabated in Australia, yielding results that are entirely attributable to the new corporate culture with its deep understanding of the need for change. In Australia, measures that bring about change and improvement are not questioned to any great degree; it is simply understood that they are necessary.

### Prepared for the next step

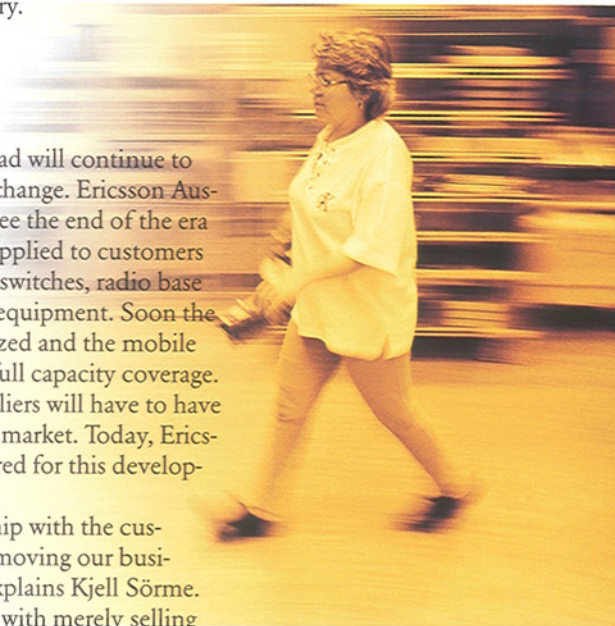
The years immediately ahead will continue to intensify the demands for change. Ericsson Australia is now beginning to see the end of the era when most of what they supplied to customers was hardware, such as AXE switches, radio base stations, and transmission equipment. Soon the fixed network will be digitized and the mobile radio system expanded to full capacity coverage. At that point, leading suppliers will have to have something else to offer the market. Today, Ericsson Australia is fully prepared for this development.

“Our focus on partnership with the customer has a lot to do with moving our business up the value chain,” explains Kjell Sörme. “We are not satisfied today with merely selling new products and services to the customer. Instead, we have become deeply involved in helping identify new business opportunities and formulating business plans. We supply more of the service functions in the customer’s network and develop new solutions for improving the network. For new telecom operators such as RSL and Western Mining, we have even taken responsibility to support the operation of their networks.

“Today, we work more on assignments to our customers rather than acting as the sales arm of the Ericsson business units, which was the case previously. Thanks to this dynamic and necessary change, we can now exploit the great development potential offered by customer service. Already by the turn of the century, we estimate that a third of Ericsson Australia’s revenues will be attributable to the services we provide customers.” □

**Wanted Position Year 2000:**

**Business:** The business partner of choice.



RADIO BASE ASSEMBLY,  
BROADMEADOWS, AUSTRALIA



SÃO PAULO, BRAZIL

## BRAZIL Global network offers major advantages

□ **When a telecom market opens for free competition and new operators gain access, Ericsson's global presence and well-established relations with new operators on their domestic markets is of great advantage. Brazil is a prime example of this. Here, a focused effort in creating a more efficient organization and production has resulted in further competitive advantages. Ericsson has been well-established as a telecom supplier in Brazil for many years. As a result of the market's deregulation, major telecom investments are being planned. In the battle for these new contracts, the local Brazilian company, Ericsson Telecomunicações is a strong player.**

Brazil has always been an important market for Ericsson, and a market in which Ericsson has held a strong position. The company's presence in the

country was established as early as 1924. The Brazilian market was strictly regulated and considered difficult to work in. Today this market is a prime example of how conditions can change radically, and in a short time.

When the enormous Brazilian market suddenly opened for free competition, the global players in the telecom industry were locked in a battle over operator licenses. This created many business opportunities for Ericsson Telecomunicações.

The current government has assigned top priority to the telecom sector and is now proceeding with a deregulation program that opens the market for competition. The government considers that investments in the telecom network must increase dramatically. Of the country's 170 million inhabitants, an estimated five million are waiting in line to become telephone subscribers.

The first step in deregulation are the auctioning off of licenses to operate mobile telecommunications systems, a step that is currently going

into its completion phase. These auctions have been a lucrative affair for the Brazilian government. Virtually all large international mobile operators are battling for the remaining regional licenses now on the auction block.

International interest is also keenly focused on privatization of the fixed network in Brazil. The traditional Telebras system, which is run by 27 state-controlled operating companies, is being reorganized into three large holding companies that will be privately owned. Embratel, which dominates long-distance and international telecom traffic, will also be privatized.

As a consequence of the international economic slowdown during the autumn, is uncertain if it will be possible to keep the timetable for the deregulation. This, however, does not contradict the fact that Brazil is a strong growth-market.

When the new holding companies become privatized, global operators like France Telecom, Italian Stet and Telefónica of Spain will be among the prospective buyers. As a result of the very good relations between Ericsson's Spanish company and Telefónica, Ericsson Telecomunicações have gained renewed confidence in serving as the main supplier to Telefónica's venture in the southern province of Rio Grande do Sul.

"When the internationally active telecom operators move into our market, Ericsson's global network is a great asset," relates Gerhard Weise, President of Ericsson Telecomunicações, "By capitalizing on the experiences and contacts of other Ericsson companies, we have much to offer new players in the market.

"We know this market better than any other international telecom supplier. We know the network, most of which was built using our equip-

### In brief

- The ongoing investment boom has opened new opportunities for Ericsson in Brazil.
- In the competition to supply the international telecom operators, Ericsson's familiarity with the local market and the Company's global experience are strong cards.

ment, and we have access to the experience and competence of the sister companies within Ericsson. Our method of assigning to a particular company – usually the Ericsson unit that is active in the international operator's home market – the main responsibility for handling all contacts with the operator, puts us on very good footing with the international telecom operators who are eyeing the Brazilian market."

"In recent years we have worked intensely to change our work methods and to enhance the

efficiency of our operations so that we will become an even more competitive player in the market. Ericsson is not alone in the fight for the business that the pending investment boom will generate. All of our competitors are lined up in the arena.

"Here in Brazil, we have chosen the same path that Ericsson has taken in other countries on being suddenly confronted by a market in which the number of customers increased dramatically. We have established a customer-focused organization and we have outsourced those segments that other suppliers can manage more efficiently. One example is our mechanical production, which is now handled by a company that we set up jointly with General Motors, and our assembly of circuit boards has been sold to Solectron, an American company, which took over the operation's 350 employees."

### Recruitment program

Despite the outsourcing of these and several other operations, the number of employees is increasing, largely as a result of the overall success of mobile systems as well as phones. Accordingly, recruitment of skilled personnel has a high priority, as does investment in the development of skills among experienced staff. A recruitment program has been under way for four years in which young persons with a college degree are invited to apply for some ten senior trainee positions. In the first year, 3,000 applied for these positions, and interest keeps on growing.

In cooperation with a university in São Paulo, an 18-month evening training program has been arranged for Ericsson employees. Currently, there are 130 participants in the program, which will yield each of them an MBA degree. The employee pays a symbolic fee, but invests his own leisure time in the educational program.

"Our focus on skills development and employee relations has given us a very good reputation in the Brazilian market. This reputation is reinforced by our very active participation in community programs in the areas where we are established. We support local cultural events and have provided several hospitals with telecommunications systems. As a result, our employees share a sense of pride in their company and their loyalty to Ericsson has increased," contends Gerhard Weise. □

#### Wanted Position Year 2000:

**Structure:** A customer-focused, networked organization.



Gerhard Weise, President of Ericsson Telecomunicações S.A.

*"By capitalizing on the experiences and contacts of other Ericsson companies, we have much to offer new players in the market."*



# SPAIN Impregnable wall of confidentiality

□ **Telefónica has always been Ericsson's largest customer in Spain. Thus, when the Spanish Government granted a license to a second GSM operator and the operator wanted to buy his system from Ericsson, a completely new situation arose. How would Ericsson's Spanish company be able to deal with Telefónica's competitor and still avoid customer-relations problems? Raimo Lindgren, President of Ericsson S.A. in Spain, seized upon an organizational concept that has been tested successfully by a number of other Ericsson companies. He created a new customer-oriented structure with "watertight bulkheads" between the units that deal with each customer. The concept was a success: both Airtel – the new operator – and Telefónica have enhanced the relationship to Ericsson, who is the prime supplier of both mobile networks.**



Raimo Lindgren,  
President of Ericsson S.A.

*"Airtel and Telefónica are today two very satisfied customers who are not particularly upset by the fact that Ericsson is working with both of them."*

When the European Union (EU) decided to deregulate the European telecommunications market by January 1, 1998, Spain applied for and received a grace period of five years within which to open up its market to free competition. The government wanted to shield Telefónica from foreign competitors for a few more years. But Telefónica, which was gradually becoming a more powerful player in the international arena, quickly came to appreciate that the support was rather a handicap in its own efforts to penetrate foreign markets.

Telefónica explained to the Spanish government that the Company no longer wanted any protection in its home market and recommended, instead, that Spain should deregulate at the same time as the other EU countries. This proposal was not adopted in full because the government realized that such rapid liberalization would not give a second operator in the fixed network adequate time to become established. It was therefore decided that the Spanish market would be deregulated on December 1, 1998 – eleven months after the other countries in the European Union.

The decision to deregulate in 1998 has radically changed conditions in the Spanish market. The Spaniards are now waiting to see what will hap-

pen when competition is permitted in the fixed network. A clear indication of what they can expect is what happened when the forces of competition were unleashed in the market for mobile telephony.

"It took twelve years for Spain to achieve a density of one percent in mobile telephony," Raimo Lindgren says. However, as soon as it became clear that a second GSM operator had actually received its license, everything changed. Telefónica stepped up its marketing programs and became much more aggressive in the market. When Airtel, the second mobile operator, put its network in service, a price war broke out. The subscriber density rose to ten percent within 30 months.

During 1997, the second fixed-wire network operator also won its license. The winner consists of a consortium in which Telecom Italia provides

## In brief

- Deregulation of the Spanish market is being implemented earlier than had been expected.
- The situation in the Spanish telecommunications market is effectively playing into Ericsson's hands.
- A new organizational structure with customer units and smaller production facilities is making Ericsson S.A. much more efficient than it has been in the past.

the telecommunications know-how, and Spanish finance and power companies supply capital and the already existing network structure. Other companies, who were not fortunate enough to be selected for a license this time, are now sharpening their claws, awaiting the continued liberalization of the market. But they can hardly be blamed for wanting a share of the large Spanish telecommunications market; besides Spain's 40 million inhabitants, the country plays host to an equal number of tourists from around the globe every year.

## Developments in line with Ericsson's plans

"Developments in recent years clearly illustrate how exciting and complicated the telecommunications market has become," Raimo Lindgren





MADRID, SPAIN

says. “At the same time, I am glad that the trend is well in line with Ericsson’s strategic plans. We see a great many opportunities for new business ahead of us. But there is also a short-term risk of a decline in business with Telefónica as a result of the new market situation.

“Telefónica is preparing for the convergence taking place between traditional telecommunication, information technology and multimedia. They are now moving up the value chain taking part also in program content. This new strategy will require additional funding and might delay the digitalization program of what is left of the analog network.”

Raimo Lindgren points out that Telefónica’s international programs more than fully offset any slowdown in its Spanish investments. Ericsson S.A., which has overall responsibility for Telefónica International as a global Ericsson customer, supplies telecommunications equipment to the Spanish operator’s networks in a number of Latin American countries.

In the new competitive situation that Telefónica is facing today, the prices of the products that Ericsson supplies are under pressure. This is having an impact on the Spanish company’s program to improve the efficiency of its operations. The new organization is an important element of this program.

“We can no longer afford to operate separate

companies for different business areas within Ericsson,” Raimo Lindgren says. “Instead, we have now set up a new organization in which we deal with our large customers via separate units. Each unit is headed by a ‘key account manager’ who has full responsibility for the results that will be presented for ‘his’ customer, and who is the only Ericsson person who deals with the customer at a high level.

“Since we have to guarantee that no sensitive information leaks from one customer to another via Ericsson’s organization, we have established ‘watertight bulkheads’ between the customer units,” Raimo Lindgren declares. The experience gained from Telefónica Moviles and Airtel demonstrates that this is possible.

“They are both very satisfied customers, and neither company seems particularly concerned that we have its prime competitor as our joint-venture partner.”

The customer units are supported by strong common functions for administration and various service functions. All logistics are also handled in a common center. The factory in Madrid will be one of Ericsson’s future global production centers, serving customers mainly in the Middle East, Africa and parts of Latin America. □

**Wanted Position Year 2000:**

**Structure:** A customer-focused, networked organization.



THE ERICSSON PLANT IN LEGANES, MADRID, SPAIN



FORT WORTH, THE U.S.

## THE U.S. A good image is worth good money

□ **Among a host of international competitors, Ericsson has been by far the most successful supplier, based outside North America, in this most demanding of all telecommunications markets. To promote continued strong growth and to boost sales of Ericsson's mobile phones, a clearly defined and comprehensive program to make the Ericsson brand name better known in the U.S. is beginning to bear fruit. The Ericsson name is beginning to mean something to the average American. This is worth a good deal of money, in terms of increased sales – not only of mobile phones, but for Ericsson's complete offering to the market.**

Ericsson's first sales office in the U.S. was opened in New York in 1902. Up until 1980, the Company had a relatively limited presence in the American

market. That year marked the beginning of a number of investments in joint ventures with American partners, which culminated in 1989 when Ericsson and General Electric formed Ericsson GE Inc., a company that became a decisive factor behind the great success of Ericsson's mobile systems in the U.S. One out of every three mobile telephone calls in the U.S. is transmitted over systems supplied by Ericsson.

### Digital phones – a success

Ericsson has good reason to be pleased with the great success of its mobile telephones in the American market. As a result of notable marketing programs, the Company has established itself as leader in the fastest-growing segment of the market – digital mobile telephones. The mobile phones sold in the U.S., which are manufactured in Lynchburg, Virginia, are designed in many different versions for the different standards and

frequencies used in the U.S. Certain telephones can handle a number of different frequencies and are known as “dual-band” or “triple-mode” terminals. Others handle both analog and digital standards and are designated “dual-mode.” The existence of a number of different technical systems for mobile telephony makes the U.S. market complicated, but no less attractive. The U.S. lags behind most Western European countries in mobile telephone density, with the result that the growth potential is very large.

## A strong brand

Brand names play a very important role in the U.S. market. Coca-Cola, Nike and Gillette are all examples of strong American brand names that mean much to these companies’ sales. The mobile telephone market is no exception to the rule that to sell, you have to be well known, and to be well-known, your name has to evoke positive values. That is why building up the brand name and initiating activities to improve the general perception of Ericsson in the market have been given priority at Ericsson Inc., where great importance is also attached to identifying Ericsson as an exemplary member of society.

“We are involved in a large number of activities – at both national and local levels – that are designed to make Ericsson known as a responsible ‘good citizen’ in American society,” says Bo Hedfors, the head of Ericsson’s U.S. operations.

By far the most spectacular project to strengthen Ericsson as a brand name in the U.S. is the contract signed with the Carolina Panthers. The team’s new home field in Charlotte is called the

### In brief

- More than 15 percent of U.S. citizens spontaneously associate the name “Ericsson” with mobile telephones.
- A better-known brand name has established the foundation for a ten-fold increase in sales of mobile telephones.
- Candidates for managerial positions are involved in preparing the annual applications for the world’s most prestigious quality award.

“Ericsson Stadium”, and they have Ericsson’s Mobile Phones as their prime sponsor.

“We are investing a great deal in Ericsson Stadium, but then, the Ericsson name is being seen and heard many times a day by a very large television audience during prime time. This single project has contributed strongly to the fact that more than 15 percent of U.S. citizens surveyed spontaneously recognize the Ericsson name and associate it with mobile telephones. A few years

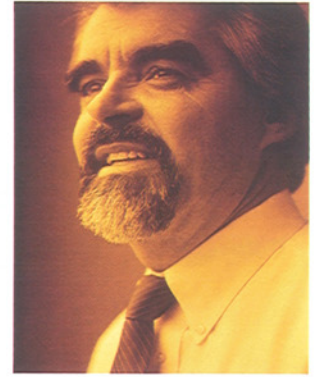
ago only a few percent made the right association with the Ericsson name. At that time, sales of Ericsson mobile telephones amounted to millions of dollars a year. Today, this portion of Ericsson Inc.’s operations is a billion-dollar business.

“There is a clear strategic connection between our image as a good citizen, our brand name and our sales,” Bo Hedfors points out. “That is why we are investing so much in this area.”

As early as the beginning of the 1990s the management of Ericsson Inc. decided that the Company should attempt to capture the Malcolm Baldrige Award, the distinguished American quality prize. Since that time, Ericsson has been systematically evaluating all its operations every year, based on the quality criteria established for the award, which is the most prestigious in its field. When Ericsson established its “Wanted Position Year 2000,” management was quick to note that its objectives could be achieved by continuously working with the Baldrige criteria.

“So we immediately decided to concentrate even more keenly on the Baldrige criteria with their strong focus on the customer,” Bo Hedfors explains. “We have tailored our program to identify and develop candidates for managerial positions. The managerial candidates we identify are allowed to prepare the annual self-evaluations that we conduct for the purpose of applying for the Malcolm Baldrige Award. This gives the candidates deep insight into what operations are like, and how they function, in divisions other than their own. The report that they produce, which is an evaluation of our weak as well as our strong sides, will then constitute the basis for the following year’s efficiency-improvement activities throughout the Company.

“I’m fully convinced that we are creating the foundation for continued success for Ericsson on the U.S. market by our devoted efforts to improve. By being known as a company which always has the customer in focus, we will improve our possibilities of becoming a leading supplier on this, the single largest, telecom market of all,” says Bo Hedfors. □



Bo Hedfors,  
President of Ericsson Inc.

*“There is a clear strategic connection between our image as a good citizen, our brand name and our sales.”*



CLIMATE CHAMBER IN MENLO PARK, THE U.S.

**Wanted Position year 2000:**  
**Business:** The number one supplier.

# SWEDEN A strong brand for the entire Company

□ **Ericsson is today one of the world's leading suppliers of mobile telephones. Its success in one of the most expansive and competitive markets in telecommunications is not due exclusively to the Company's ability to produce attractive, technically advanced and reasonably priced products. A deliberate and successful program to build a strong brand name is another important reason for its success. This program will benefit Ericsson as a whole.**

Ericsson's success as a supplier of mobile telephones began in connection with the introduction of the GSM system in Europe. The prices for telephones were good at the start. The demand was overwhelming. It did not take long to appreciate the potential this market offered.

Later, as sales grew – which occurred at a furious rate – it became increasingly clear that more than good products were required to maintain a position of market leadership over the long term. The mobile telephone market is a consumer market, offering totally different challenges from those Ericsson was accustomed to meet in recent years. The need for a strong brand was obvious.

## Well-defined platform

An intensive effort to create the conditions for a stronger brand image was begun within Ericsson Mobile Communications, the subsidiary that develops, produces and markets the Company's mobile telephones. This unit invested in comprehensive international research to determine how the Ericsson brand name was perceived by various categories of customers in different countries and cultures. The work of defining what a brand platform for Ericsson should look like then started in association with leading international experts in the field.

The brand platform that has been developed can be described as a collection of the valuations and descriptions of the portion of the market on which Ericsson is now concentrating. The brand platform describes in a structured manner the expectations and demands that the market is imposing on Ericsson, and the actions required to measure up to them.

“We soon came to appreciate that Ericsson's three internally shared values – professionalism, respect and perseverance – and the corporate culture they represent, also constitute a good foundation upon which to build a brand platform,” says Johan Siberg head of Business Area Mobile Phones and Terminals.

“As a result of our comprehensive work on the brand platform, we can now say that we have learned how to build our brand, that we understand our market, and that we have good control over our investments in marketing.”

## Following up investments

A number of different tools can be used to spread the message about the Ericsson brand name. Advertising is the most visible, but does not yield good results over the long term without the support of other activities. Cultivation of the media, investor relations, special events of various types, sponsorship and so-called product placements are tools in the Company's arsenal.

“The investment to gain exposure for existing and specially produced Ericsson products in the most recent James Bond film is a good example of how we now are expanding the boundaries of our marketing programs,” Johan Siberg says.

“In many markets, notably in the United States, this program has been highly successful. Our campaigns in connection with the Bond film have resulted in greatly increased interest on the

## In brief

- The brand platform is in harmony with Ericsson's corporate culture.
- A comprehensive program ensures internal understanding of the importance of the brand.
- Follow-up ensures control over the investments in marketing.

part of dealers there in selling Ericsson products and in thousands of contacts with individual consumers.

“As a result of our various activities before the Bond film project, we have increased brand awareness in the U.S. from a couple of percent at the end of 1996 to 15 percent a year later. We are



Johan Siberg,  
President of Ericsson Mobile  
Communications AB

*“We can now say that we have learned how to build our brand, that we understand our market, and that we have good control over our investments in marketing.”*



SOLLEFTEÅ, SWEDEN

now waiting expectantly to see how 'Agent 007' has helped us to further boost that figure.

"We are conducting continuous measurements in all our key markets to determine how awareness of the brand name is growing, and the impact of our various marketing programs. Data is collected in a central data base where managers responsible for the programs can read the results of the marketing investments that are being made. These results also constitute an important part of the follow-up report that is distributed throughout the Business Area. Of the more than 20 different measurement figures presented in the report, seven are market-related and obtained from the international surveys."

Understanding within the Company of the importance of the brand image and the efforts being made to enhance it is a prerequisite for establishing a strong brand. It is exceptionally important that all who are engaged in designing and shaping telephones of the future have a clear understanding of the brand platform. Johan Siberg says that there is no operation in the business area that does not require such knowledge.

"We are therefore carrying out internal programs and activities," he says. "We are now implementing a program known as 'living the brand,' in which all employees are participating. It takes the form of workshops in which groups of 30 or 40 employees first study an interactive 'informa-

tion package' and then discuss the brand and brand enhancement. All of our 12,000 employees in the business area will have been through this program before the end of 1999."

### A campaign serving the entire company

Ericsson's mobile phone business was the first to operate in a truly competitive environment. Ericsson Mobile Communications has thus been the driving force in the Company's brand name activities. Sales of mobile telephones have paid for the comprehensive programs that have been carried out but the business area's management naturally appreciates that Ericsson as a whole is benefiting from these investments.

"When we defined our brand platform, we also made sure that it would work for Ericsson's other business areas," Johan Siberg notes. "We are happy to share, and are now starting an new institutional campaign in 1998 that does not deal specifically with mobile telephones. The campaign – based on the theme 'Make yourself heard' – is designed so that it will strengthen the Ericsson brand name in all of the Company's different product areas." □

**Wanted Position Year 2000:**

**Business:** The business partner of choice.



MOBILE PHONE DELIVERY TEST IN KUMLA, SWEDEN

# CHINA Setting the focus on local competence

□ **Probably no other market has grown so large so quickly for Ericsson as China. The U.S. and China now outdistance all other markets in terms of annual sales. The U.S. has long been Ericsson's largest market but, as a result of strong growth, China is now running a close second.**

John Gilbertson, President of Ericsson (China) Company Ltd., believes there is a bright future for the Company in the world's most populous country.

"China has 1.2 billion inhabitants but there are only 75 million fixed telephone subscribers in the country," he says. "Another 14 million Chinese have mobile telephones, but the demand is very great. It is difficult for the Chinese operators in both fixed and mobile networks to keep up with the demand. The need for telecommunications in rural sections of China, where more than 70 percent of the population lives, is especially strong. More than 40 percent of China's villages still do not have any telecommunications link with the outside world."

Ericsson today has a number of strong legs in China. The Company is extremely strong in the market for mobile systems and terminals. There are more than seven million subscribers in the world's largest GSM network, run by China Telecom. Ericsson supplies approximately half of the

analog and digital mobile network capacity in China.

For many years now, the market for telecommunications equipment for the fixed network has attracted the large international suppliers. In Ericsson's case, ten million lines of AXE equipment have been installed.

"The winners in China in recent years are the local suppliers – companies that have become highly skilled at building telecommunications systems and which, with their low production costs, are now taking an increasingly firm grip on the market."

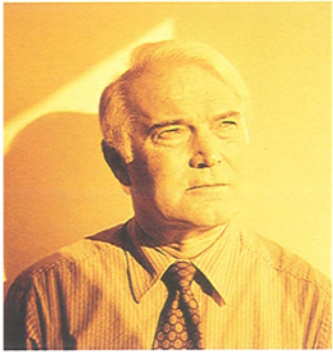
## New opportunities

John Gilbertson is convinced that Ericsson in the coming years will further advance its position in China. The new products for multimedia and data communications that are now in the pipeline will provide new opportunities. Furthermore, the Chinese people have always shown great interest in the latest generations of telecommunications technology, and they firmly appreciate Ericsson's willingness to share new technology. The new research center that was inaugurated in Shanghai in 1997 was applauded by the Chinese authorities, as were the joint ventures established earlier in such fields as transport network technology. Ericsson is currently operating a number of joint-venture companies in cooperation with Chinese interests, sharing its expertise in the specific fields involved.

Recently, Ericsson's Chinese operations were thoroughly overhauled and reorganized. The Company is shifting from being a centrally controlled organization to becoming a strongly regionalized and customer-focused organization.

"To get closer to our customers, we are deliberately distributing our knowledge and important functions into the regions," John Gilbertson says. "At the same time we are concentrating heavily on local recruitment and training. Among other things, we want to have many more Chinese in key positions in the Company. The new organization, with four strong regions, offers substantially greater career opportunities for our domestic employees than we were able to offer earlier."

In November, the Company inaugurated the Ericsson China Academy, which represents its largest investment to date in the development of



John Gilbertson, President of Ericsson (China) Company Ltd.

*"We want to have many more Chinese in key positions in the Company. Our new organization offers much better career opportunities for local personnel."*



MODERN PRODUCTION TECHNOLOGY IN BEIJING, CHINA



BEIJING, CHINA

local expertise in China. The Academy has been established in cooperation with a number of domestic and international universities. Here, high-level managers are being offered training that will equip them even better to meet the great challenges that the next century will pose. This important educational resource will not only serve Ericsson managers, but will also accept students from customer companies and related public authorities. Ericsson's initiative has attracted a great deal of praise from the Chinese. It is one of the largest investments of its kind any foreign company has made to help China develop its own information society for the next century.

### An attractive employer

The development of expertise at a somewhat lower level has long been offered at Ericsson's training center in Beijing. Courses covering more than 30,000 study days were conducted there last year, with both Ericsson employees and personnel from the Company's Chinese customers in attendance. Regional training centers are also being built up in the new regional organization.

"For a long time now, Ericsson in China has also worked closely with universities and colleges," John Gilbertson adds.

These activities are stimulating a great deal of

### In brief

- As a result of the Company's success in selling mobile systems and mobile telephones in recent years, China is now one of Ericsson's largest markets.
- A new regional organization is bringing Ericsson's expertise closer to customers.
- Ericsson has taken several important and highly-appreciated initiatives to support the build-up of local expertise in China's telecommunications.

interest in working at Ericsson," John Gilbertson says. "China has a high educational standard so there are plenty of qualified students who can be recruited. But the competition to attract the truly skilled ones is tough, so it's really important for Ericsson to stand out in the race to recruit expertise. Ericsson (China) had slightly more than 3,300 employees at the end of 1997, and the Company expects to recruit another 700 persons by the end of 1998. So it's important to have a good reputation among the country's technical students." □

#### Wanted Position Year 2000:

**Employees:** Leadership for empowerment, motivation, speed and flexibility.



BREDA, THE NETHERLANDS

## THE NETHERLANDS The quality awards – a good start

□ In 1997, Ericsson Telecommunicatie won the Dutch Quality Prize. This was the second time they achieved a quality award. The first time, in 1994, the prestigious recognition was the reward for several years of substantial improvement efforts. When the achievement was repeated in 1997, it was a confirmation of the further success in the Company's continued improvement efforts. Since then, Ericsson Telecommunicatie has continued to conduct detailed quality audits in accordance with the European Business Model.

When Ericsson began working with the "Wanted Position Year 2000" project, many of the goals

Ericsson had set were familiar to the Dutch company, since there is a strong correlation between the Wanted Position and the quality criteria underlying the European Quality Award.

According to the basic concept underlying the European model for business excellence, a company has to get positive recognition from customers, personnel and the community in order for it to be able to achieve favorable business results. To maintain this awareness, the Company must have full control over its operations and its improvement efforts. Therefore, it is essential that corporate leadership can inspire staff to focus on improvements, and that the Company establishes, propagates and adheres to a policy that leads in this direction. The company must also focus great attention on how it utilizes its



resources – personnel and tools alike. Ericsson benefits from adhering to the European model for business excellence, whose recommended activities are directly linked to business results. To get favorable results, a company has to have control of its operations, but to get that control, improvement projects have to be successfully carried out.

Senior management at the Dutch company compared the sub-goals of Ericsson's "Wanted Position Year 2000" with the quality model. In a short time, management identified five major projects, each of which could influence one or more of the factors stated. A leader was selected from senior management for each of the projects.

A company which focuses its improvement projects around the entire business chain that includes suppliers and customers is considered to be in the fourth of five phases of its development as defined in the European model for business excellence. When Ericsson Telecommunicatie won the Dutch Quality Prize it had achieved phase four.

Strengthening the Company's leadership capabilities by securing phase four and advancing to phase five is the goal of the first improvement project for which Haijo Pietersma, President of Ericsson Telecommunicatie, is responsible.

"Our continued pursuit of business excellence is mandatory to further develop leadership attitudes and capabilities. In this way we create maximum opportunities and benefits for our

### In brief

- Ericsson Telecommunicatie won the Dutch Quality Award in 1994 and the Dutch Quality Prize in 1997.
- The company is moving ahead with extensive improvement projects aimed at further strengthening its competitive edge.

customers, employees and shareholders as we will be optimally geared to initiate and act on the changes that characterise our industry," says Haijo Pietersma.

## A knowledge company

Improvement project number two is closely related to the Company's policy and strategy; it aims at bringing about the change that all of Ericsson is now undergoing, namely, the transition from being a production company to being a knowledge company. Many of the production activities in the Dutch company have been outsourced to external partners.

"Our know-how and understanding of the needs of our customer's business processes drives

the development of new service activities and will further increase our value added."

Ericsson Telecommunicatie's corporate policy puts great effort in how the Company can best utilize and develop the competence of its employees and thereby create a good environment for productive employees, who act on their own initiative. Improvement project number three concentrates on this area.

Information technology and how it can be applied in the Company is the focus of the fourth project. Currently, SAP R/3, which is a powerful computer aid for companies who wish to enhance the efficiency and control of increasingly more complex business routines, is being implemented within Ericsson worldwide. The Dutch company was one of the first within Ericsson to install this integrated information system.

Increased efficiency and reduced operational costs are the goal of the last of the five major improvement projects now under way in the Company. This project is aimed at getting the various steps in the global supply chain more smoothly coordinated, which involves shortening time-to-market as well as time-to-customer. Advances in this area are measured continuously.

## Stronger partnerships

The five projects will strengthen the Dutch company's competitiveness significantly.

"In the deregulated market, our organisation has been totally customer-focused in the recent years. As a result, we can concentrate optimally on each customer in strengthening our business partnerships," relates Haijo Pietersma.

Ericsson is the main supplier towards PTT Telecom in The Netherlands since many years. In the past two years Ericsson also became main supplier towards Libertel and Telfort.

Supported by a strong brand image and a well developed distribution network the Company is now one of the leading suppliers of mobile phones. Today all parties aim to enhance their relationship with Ericsson as a partnership more than a traditional customer/supplier relation. This process is monitored regularly by measuring extensively customer motivation. To date, the results have pointed strongly upwards. □



Haijo Pietersma, President of Ericsson Telecommunicatie B.V.

*"Our organization has been totally customer-focused for many years. This has contributed heavily to further intensifying cooperation with our customers."*



DELIVERY CENTER IN RUJEN, THE NETHERLANDS

### Wanted Position Year 2000:

**Structure:** Geared for responsiveness and world-class execution.

# IT – a tool to create an environmental society

*Environmental questions are, by their very nature, complex. Within Ericsson, the opinion is that basic environmental questions should be handled under the aegis of science.*

□ **The 1997 environmental conference in Kyoto dealt with the necessity of reducing, worldwide, discharges of fossil greenhouse gases. At the conference, the world's major industrial nations agreed to reduce discharges by 5.2 percent, compared with the figure for 1990, by 2012 at the latest.**

This decision should be seen as a challenge to the entire IT world, whose technology—with its low consumption of energy and low general effects on the environment—might well replace or make more effective the activities in society that are today dependent on fossil fuels. It is estimated, for example, that our mobile data systems could increase the efficiency of goods transport, taxi dispatches, etc., by up to 20 percent, and save still more in the way of costs. Furthermore, our systems for broadband data communication, with applications such as distance training, distance work and video-conferences, could drastically reduce the need for making business trips and keeping offices heated, and, as an additional spin-off effect, generate considerable cost savings and efficiency revenues. Ericsson and other IT companies will therefore play an important role as a support industry in society.

It is primarily against this background Ericsson has established the environmental goal of saving energy at every step of its operations, in other words, for its products and systems, for its production, its facilities, etc.

Another important event that took place in 1997 and will affect Ericsson over the long term, is the laws governing manufacturer's responsibility that are beginning to take effect, first of all in Europe. These laws will establish that the ultimate legal responsibility for a product's entire life cycle rests within the manufacturer's chain of processes. These laws are especially specific about scrapping products after their term of use is over in ways that are environmentally sound and economically defensible. As a guideline for its own operation, but also as influential input to legislation, Ericsson—along with several other major suppliers—has carried out pilot projects for collecting and scrapping outmoded mobile telephones in Sweden and Great Britain. In addition the Business Area Mobile Systems has initiated a long-term

## In brief

- With its low consumption of energy, IT generates considerable cost savings and efficiency revenues.
- Ericsson has initiated long-term collaborations on finding the best way of recycling its products.

collaboration with several scientists that focuses on finding the best way of recycling or reusing today's radio base stations when they have worn out, and examines how tomorrow's base stations should be designed with that objective in mind.

In this context the environmental profile for products and services is no better than the weakest link in the processing chain. Thus, Ericsson has established as one of its central environmental goals that the Company must have complete control over the products' chemical composition. To plainly show where Ericsson stands on this issue, the Company has developed – mainly for its suppliers – information and instructions for the use of chemically problematical substances that have been classified as banned matter and are not acceptable in Ericsson's products, or substances that should be phased out in due time.

On the organizational side, the Company continues to invest in environment management systems, primarily ISO 14001, for which certification was issued to several units during 1997. Ericsson's ultimate goal is to ensure that all its companies and organizations that run operations which, to a discernible degree, can influence the environment, will have introduced environment management systems by the year 2000 at the latest. To facilitate the introduction of these systems and raise general awareness among staff, the Company is investing in training on a broad basis.

Environmental issues are, by their very nature, extremely complex. Moreover, they are perceived differently in different parts of the world. Within Ericsson, this complexity is approached with a degree of humility. However, the opinion is that basic environmental questions should be handled under the aegis of science. The Ericsson Environmental Report, which is produced in connection with the Annual Report, further describes Ericsson's views on environmental issues. □

# Ericsson safeguards its primary asset

□ **As a knowledge-based company, Ericsson has much greater assets than those visible in its balance sheet. Knowledge and expertise are critically important in determining Ericsson's ability to defend its leading position among the world's suppliers of telecommunications equipment. The more than 100,000 employees within Ericsson thus constitute the most important item in the list of the Company's "hidden" assets.**

The unique knowledge of telecommunications in all parts of the world that Ericsson possesses is invaluable in a market in which the players are becoming increasingly internationally oriented.

Technical knowledge, represented by thousands of important patents and 22,000 technicians in its technical development organization, have made Ericsson a leader in such key areas as digital exchange technology, mobile telephony and defense electronics. Ericsson's technical capacity extends over many more fields, but these three examples illustrate the width of the Company's area of expertise. Ericsson's technical knowledge comprises all the disciplines that are important for a company that wants to build modern tele or data communications networks.

Intensive activity is under way around the world to realize Ericsson's "Wanted Position Year 2000" program, which deals with even better management of the Company's "knowledge capital." This program is described in detail in the section "A company in transition" (pages 8-23).

## New forms of compensation

The maintenance of people with key expertise is one of Ericsson's most important tasks. Accordingly, the Company must be able to offer challenging tasks, competitive terms of employment and adequate forms of compensation. During 1997 Ericsson implemented one of the largest international issues of convertible debentures to employees that any company has ever arranged. In all, 41 497 employees in 46 countries took advantage of this opportunity to participate directly in the Company's financial development. The total amount of the convertible loan was SEK six billion.



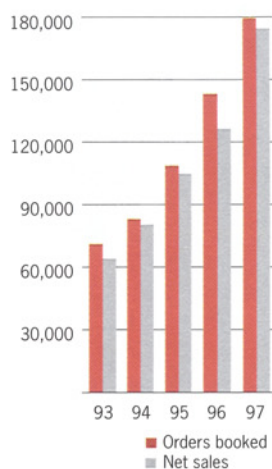
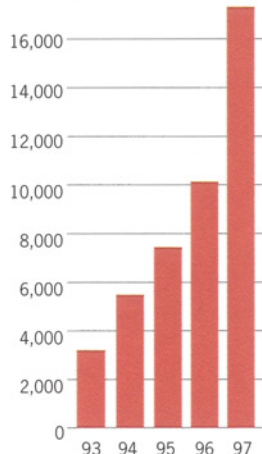
SOFTWARE DESIGN IN ATHLONE, IRELAND

Parallel with this broad program that comprised all employees in all the countries where local laws permit convertible debenture programs, a more sharply focused options program for about 500 key persons within Ericsson was approved.

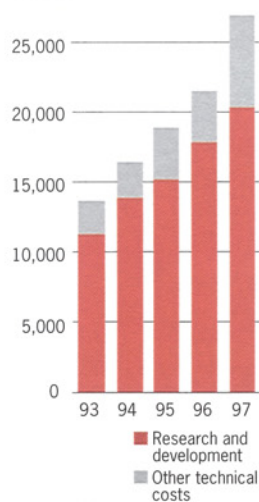
In accordance with this second program, which gets under way in 1998, these key persons will receive stock options, equal to a fixed percentage of their salaries, as a bonus. The amount allocated will depend not only on the individual's salary but on how well Ericsson fulfills the commercial objectives set for the year in question. The options program thus serves as an encouragement to key persons to stay with Ericsson and as a challenge to do an even better job in each person's area of responsibility.

Additional information on Ericsson's investments in expertise and the development of special skills, and on current programs and activities to safeguard the Company's knowledge assets, appears in the special Personnel Report for 1997 produced in connection with Ericsson's Annual Report. □

*The maintenance of key expertise is one of Ericsson's most important tasks. Accordingly, the Company must be able to offer challenging tasks, competitive terms of employment and adequate forms of compensation.*

**Orders booked and net sales, SEK m.****Income before taxes, SEK m.**

Income improved to 17,218 SEK m. in 1997 an increase of 70% compared with 1996.

**Total technical costs, SEK m.****Orders booked and sales**

Ericsson's orders booked increased by 30 percent, to SEK 179,770 million (SEK 138,048 m.). Calculated over rolling periods of four quarters, orders booked have increased 25 quarters in a row. The order backlog at year-end was SEK 77,499 m. (63,401). Consolidated sales were SEK 167,740 m., (124,266), an increase of 35 percent compared with the previous year.

Markets outside Sweden accounted for 94 (94) percent of sales, and markets within the European Union for 38 (39) percent of sales. The United States, with 10 percent of sales, is Ericsson's largest market, followed by China, the UK, Italy, Brazil and Sweden. The Latin American area showed the greatest increase during the year. Exports from Sweden, including sales to foreign subsidiaries, amounted to SEK 93,100 m., (73,000), an increase of 28 percent.

**Earnings**

Consolidated income before taxes were SEK 17,218 m. (10,152), 70 percent higher than last year. Of this amount, SEK -147 m. (341) are attributable to net capital gains after deduction of minority interests. Excluding net capital gains, income before taxes rose by 77 percent. Income per share were SEK 12.15 (7.27). The tax rate in 1997 was 31 (30) percent.

Other operating revenues declined, due to the high capital gains recorded in the preceding year. The share of earnings in associated companies was higher than a year earlier, due primarily to the trend of earnings in MET S.A. in France, Ericsson Nikola Tesla d.d. in Croatia and AB LM Ericsson Finans. The Brazilian company, Ericsson Telecomunicações S.A., was consolidated in 1996 as well as in 1997.

Total operating expenses for research and development, selling and administration were SEK 52,461 m. (40,946). As a percentage of sales, total expenses amounted to 31 percent, compared with 33 percent in 1996. During 1997, Ericsson continued its substantial investments in technical development and in plants and technical equipment. Total costs for research and development (including such costs related to customer orders of SEK 1,421 m. (1,763), reported as part of cost of sales) were SEK 20,906 m. (17,467), or 12 (14) percent of sales. The total technical costs, including cost of modifying systems and products for specific markets, amounted to SEK 26,609 m. (21,947), or 16 (18) percent of sales. The number of patent applications filed increased to 1,200 (900).

Operating income amounted to SEK 18,757 m. (10,758) and was attributable mainly to the Mobile Systems and Mobile Phones and Terminals business areas. The Infocom Systems business area was charged with costs for its ongoing restructuring. The weaker Swedish krona, compared with the preceding year, had a favorable impact of close to SEK 1,900 m. on earnings.

The operating margin improved from 8.7 percent to 11.2 percent.

Ericsson's financial net was SEK 48 m. (412). The financial turmoil during the second half of the year, notably in Southeast Asia and Latin America, affected the financial income and expenses only marginally.

The minority interest in income before taxes, including minority interests in Brazil, Japan, China, Italy and other countries, was SEK 1,587 m. (1,018).

Cash flow before financing activities was positive in the amount of SEK 7,746 m. (4,044), an improvement of SEK 3,702 m. The strong earnings capacity and higher rate of capital turnover, primarily in inventory, were the principal factors contributing to this cash flow. The rate of capital turnover, based on capital employed, increased from 2.2 times to 2.4 times as a consequence of the improved turnover of inventory. The inventory was equal to 14 (16) percent of sales. Other provisions were SEK 11,550 m. (10,715) at year end, related to warranty commitments, risks regarding customer financing, restructuring, and changes in technology and markets. The equity ratio was 38.7 (39.1) percent. The reduction was attributable mainly to increased liquid assets and accounts receivable.

The *Mobile Systems* business area continues to show good growth and defended its position as leading supplier. The system standards supplied by Ericsson increased their market shares. Orders booked increased by 26 percent, and sales by 23 percent. The mobile telephone systems business developed very favorably, due to the rapid growth in the number of subscribers, for digital systems in particular. Operating income rose and accounted for a substantial percentage of total operating income.

Orders booked by *Infocom Systems* increased by 9 percent, and sales by 23 percent. The business area as a whole still showed unsatisfactory earnings due to pressure on prices in its larger product areas, the costs of ongoing restructuring of operations, and continued heavy investments in technical development.

Growth in the *Mobile Phones and Terminals* business area was very strong. Sales rose by 87 percent. Ericsson broadened the product range and carried out a number of successful product introductions during the year. As a result of increasing market shares, we consolidated our position as a leading supplier of digital mobile phones. Operating income rose sharply and accounted for a substantial percentage of Ericsson's operating income.

*Other Operations* (energy systems, components, cables and defense electronics) posted an increase in orders booked of 41 percent and 25 percent in net sales. Product areas with high demand were telecables, energy systems and microelectronics for mobile systems. The market for defense electronics remained weak, but Ericsson's product portfolio is attracting a lot of interest, which in 1997 resulted in highly favourable growth. Operating income in *Other Operations* was very satisfactory.

The dynamic nature of the telecommunications industry demands continuous awareness and adaptation. Ericsson therefore will closely monitor the market development, especially concerning Internet and the telecom operators' demands for additional services beyond traditional systems and equipment. Markets in Asia will, due to the troublesome currency situation, need special attention in the near future.

The technical development in the industry has, through the recent ETSI decision on next generation's mobile system standard, developed favorably from Ericsson's point of view, and the WCDMA work will be forcefully continued.

Within Business Area Infocom Systems, the restructuring of production and distribution will go on also during 1998.

## Financing

During October–November of 1997, an SEK 6,000 m. issue of convertible debentures in Telefonaktiebolaget LM Ericsson was made, directed to the employees. AB Aulis, a wholly owned Swedish subsidiary, subscribed for SEK 1,125 m. These convertible debentures will be offered to new employees on market terms. A total of 41,497 employees in 46 countries subscribed for a maximum amount of SEK 145,347. The loan is due for payment June 30, 2003. The debentures carry rights to conversion to class B shares. The conversion price was set at SEK 472. Upon full conversion, the issue will dilute the number of shares outstanding by 1.3 percent.

The total amount of Ericsson's short- and long-term accounts receivable increased by SEK 9,846 m. in 1997; of this amount, SEK 784 m. were related to customer financing. The net of Ericsson's cash and short-term investments and interest-bearing debt (including pension liabilities) was SEK 5,981 m. (1,515). Ericsson's liquidity improved during the fourth quarter as a result of the increasingly positive cash flow and the issue of convertible debentures.

The need for export and project financing – related primarily to customers in the United States, Brazil and China – continued to increase at the same rate as sales during the year. No significant credit losses were incurred. It is still difficult to refinance customer credits related to completely new projects. Significant amounts of customer credits were, however, sold gradually during the year to third parties.

Ericsson Treasury Services AB, responsible for handling most of Ericsson's liquidity and currency transactions, operates as an internal bank and acts on behalf of Ericsson in the currency and capital markets. Income related to the handling of currencies and liquidity was satisfactory and had a favorable impact on Ericsson's financial net. The Treasury Services unit works within a policy for risk management established by the Board of Directors.

Ericsson's policy for hedging flows in foreign

currency was not changed during the year. Binding contracts with customers and suppliers are hedged. Expected additional sales and purchases are hedged up to 12 months, based on estimates of the certainty of volumes, price trends, etc. in each business area.

## Capital expenditures

Investments in tangible assets were SEK 7,237 m. (7,188). Capital expenditures in Sweden increased from SEK 3,415 m. to SEK 3,539 m. Of the total amount invested, SEK 1,541 m. (1,483) were attributable to other countries within the European Union. Ericsson's larger investments included projects to increase production capacity in Kumla (Sweden), Brazil, Malaysia, and USA.

## Personnel

The number of employees increased by 6,825 to 100,774. In Sweden, the net increase was 1,464, mainly in the expanding Mobile Systems and Mobile Phones and Terminals business areas. Of the total number of employees, 69,290 – including 45,360 in Sweden – are in units within the EU.

Wages, salaries and other remuneration paid amounted to SEK 28,159 m. (23,612). Information on the average number of employees, and on wages, salaries and other remuneration paid, as well as benefits to senior executives, appears in Notes to the Financial Statements.

## Significant changes within Ericsson

The Board of Directors has appointed a new President and Chief Executive Officer after Lars Ramqvist, who is proposed to the Annual General Meeting to assume the role of Chairman of the Board. The new President, Sven-Christer Nilsson, will take up his position on March 30, 1998, after the Annual General Meeting. The changes are supported by a majority of the shareholders.

In January 1997, Saab and Ericsson formed a new jointly owned company in Sweden – Ericsson Saab Avionics AB – in the field of military aircraft electronics. At the same time, Saab Dynamics acquired Ericsson's unit for electro-optics.

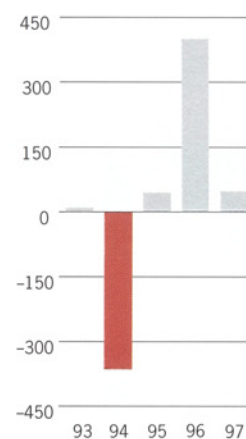
In February, Ericsson acquired 41 percent of the shares of AU-System Invest AB from the majority owner, Telia AB. AU-System is active in the segment of so-called smart cards for mobile phone applications.

Ericsson's 40-percent holding in Ascom Ericsson Transmission AG was sold to Ascom Holding AG in February 1997.

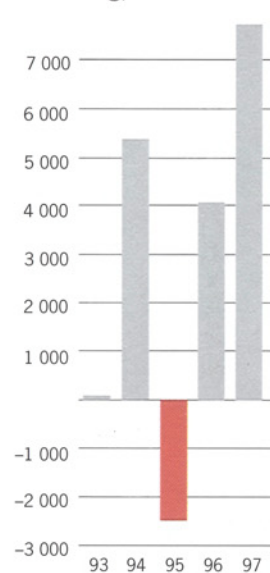
In August, Ericsson acquired a minority interest in Juniper Networks, a California-based company that specializes in the development of products for large Internet Protocol (IP) networks.

In September, Ericsson exercised an option to

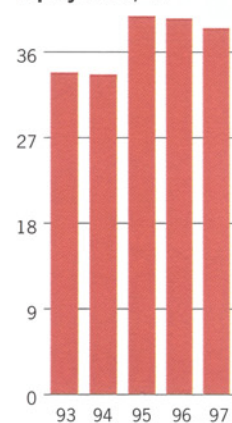
Financial net, SEK m.



Cash flow before external financing, SEK m.

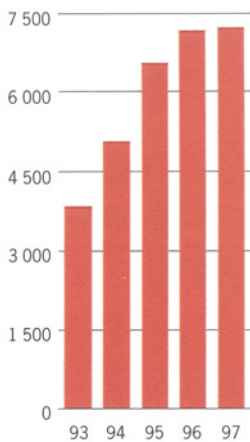


Equity ratio, %

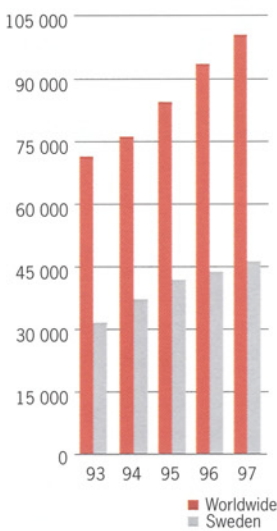


Ericsson's equity ratio was 38.7 (39.1) percent.

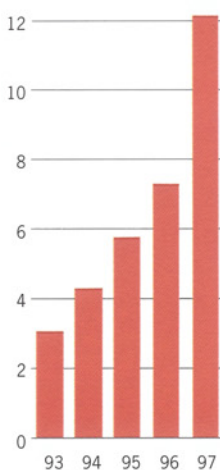
**Capital expenditures, SEK m.**



**Number of employees**



**Income per share, SEK**



acquire the outstanding 20 percent of the shares of its Austrian subsidiary, Ericsson Austria AG.

In December, the Italian subsidiary, Ericsson S.p.A., concluded an agreement to sell 80 percent of the shares of Cosir S.p.A., a network and cable installation company. The sale will be completed during the early part of 1998.

Also in December, an agreement was signed with the French Lagardere Group covering Ericsson's acquisition of the outstanding 50 percent of the shares of MET S.A., an associated company. The acquisition will be finalized during 1998.

Since July 1989, Ericsson's products, systems and services for mobile telephony and private radio systems in North America have been manufactured in a company owned jointly with General Electric ("GE"). The agreement pertaining to this company contains provisions that are to be applied if and when either party wishes to terminate the joint venture. GE has informed Ericsson that it intends to exercise its contractual option to sell its shares in the company as of April 1, 1998.

Ericsson has branches/representative offices in about 40 countries. Major offices are located in Russia, the United Arab Emirates and Libya. In 1997, new offices were established in Uzbekistan, Jordan and Ethiopia.

During 1997, a number of outsourcing arrangements – involving the transfer of activities to suppliers as a means of obtaining benefits of scale in their operations while streamlining Ericsson's operations – were implemented in Sweden and other countries.

The major outsourcing activities in Sweden were: sale of Ericsson's plastics factory in Kristianstad to Nolato AB in February, sale of the circuit board assembly operations in Karlskrona to Flextronics in March, and transfer of printed circuit production in Norrköping to SCI Systems Inc. and Solectron Corporation.

Major outsourcing events outside Sweden involved Ericsson's operations in Brazil, Croatia, Malaysia, Norway, Spain and Great Britain.

**Parent company**

Parent Company sales amounted to SEK 16,217 m. (15,404). Net income for the Parent Company after appropriations and taxes amounted to SEK 4,758 m. (4,931). Earnings available for distribution at year-end amounted to SEK 12,263 m. (9,909).

**Proposed bonus issue**

The Board of Directors proposes that, after distribution of dividends, a bonus issue of 1-for-1 is made, whereby one new share is received for each old share held. The par value of the shares will remain at SEK 2.50. The bonus issue will increase the capital stock amount from SEK 2,436 m. to SEK 4,872 m. through transfer from restricted reserves. The intention is to perform the bonus issue at the end of May with May 27 as record date.

**Proposed disposition of earnings**

The amount of SEK 12,262,726,204 is available for distribution 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 3.50 per share be paid to shareholders duly registered on the record date	SEK 3,450,075,832
<i>and that</i>	the remainder be retained within the business	SEK 8,812,650,372
		SEK 12,262,726,204

Debentures 1993/2000 converted up to February 6, 1998, are also entitled to dividend for 1997. Assuming all such debentures are converted, by February 6, 1998, the total dividend will be the above mentioned amount.

Stockholm January 29, 1998  
Telefonaktiebolaget LM Ericsson (publ)  
Reg. No. 556016-0680

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 <i>President</i>	

## CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK m.		1997	1996	1995
Net sales	NOTE 1	<b>167,740</b>	124,266	98,780
Cost of sales		<b>-97,868</b>	-74,179	-57,755
<b>GROSS MARGIN</b>		<b>69,872</b>	50,087	41,025
Research and development and other technical expenses		<b>-24,242</b>	-19,837	-16,891
Selling expenses		<b>-20,464</b>	-14,765	-11,890
Administrative expenses		<b>-7,755</b>	-6,344	-4,981
Other operating revenues	NOTE 2	<b>866</b>	1,193	487
Share in earnings of associated companies		<b>480</b>	424	414
<b>OPERATING INCOME</b>		<b>18,757</b>	10,758	8,164
Financial income	NOTE 3	<b>2,413</b>	1,908	1,497
Financial expenses	NOTE 3	<b>-2,365</b>	-1,496	-1,439
<b>INCOME AFTER FINANCIAL ITEMS</b>		<b>18,805</b>	11,170	8,222
Minority interest in income before taxes		<b>-1,587</b>	-1,018	-607
<b>INCOME BEFORE TAXES</b>		<b>17,218</b>	10,152	7,615
<b>TAXES</b>				
Income taxes for the year	NOTE 4	<b>-5,755</b>	-3,399	-2,341
Minority interest in taxes		<b>478</b>	357	165
<b>NET INCOME</b>		<b>11,941</b>	7,110	5,439
Income per share, SEK	NOTE 5	<b>12.15</b>	7.27	5.83

NET SALES:  
SEK 167,740 m.

INCOME BEFORE TAXES:  
SEK 17,218 m.

INCOME PER SHARE:  
SEK 12.15

Comparative years are adjusted due to the Swedish Annual Accounts Act.

## CONSOLIDATED BALANCE SHEET

December 31, SEK m.		1997	1996
<b>FIXED ASSETS</b>			
Intangible assets	NOTE 6	748	919
Tangible assets	NOTE 7, 23, 25	19,225	17,754
Financial assets	NOTE 8		
Equity in associated companies		2,643	2,631
Other investments		1,434	1,142
Long-term customer financing		2,000	2,921
Other long-term receivables		3,365	2,208
		<b>29,415</b>	<b>27,575</b>
<b>CURRENT ASSETS</b>			
Inventories	NOTE 10	23,614	19,619
Receivables			
Accounts receivable – trade	NOTE 11	46,151	35,384
Other receivables	NOTE 13	19,133	10,514
Short-term cash investments		20,416	10,410
Cash and bank		8,711	8,650
		<b>118,025</b>	<b>84,577</b>
<b>TOTAL ASSETS</b>		<b>147,440</b>	<b>112,152</b>
<b>STOCKHOLDERS' EQUITY</b>			
	NOTE 14		
Capital stock		2,436	2,403
Reserves not available for distribution		29,172	24,185
Restricted equity		31,608	26,588
Retained earnings		9,075	6,758
Net income		11,941	7,110
Non-restricted equity		21,016	13,868
		<b>52,624</b>	<b>40,456</b>
<b>MINORITY INTEREST IN EQUITY OF CONSOLIDATED SUBSIDIARIES</b>		<b>4,395</b>	<b>3,410</b>
<b>PROVISIONS</b>	NOTE 16	<b>21,095</b>	<b>17,938</b>
<b>LONG-TERM LIABILITIES</b>			
	NOTE 17, 20		
Notes and bond loans		2,476	500
Convertible debentures		6,034	1,772
Liabilities to financial institutions		2,209	2,267
Other long-term liabilities		510	1,687
		<b>11,229</b>	<b>6,226</b>
<b>CURRENT LIABILITIES</b>			
	NOTE 20		
Current maturities of long-term debt		742	2,185
Current liabilities to financial institutions	NOTE 18	4,242	4,340
Advances from customers		7,633	4,932
Accounts payable – trade		14,803	11,371
Income tax liabilities		4,100	2,813
Other current liabilities	NOTE 19	26,577	18,481
		<b>58,097</b>	<b>44,122</b>
<b>TOTAL STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		<b>147,440</b>	<b>112,152</b>
<b>ASSETS PLEDGED AS COLLATERAL</b>	NOTE 20	<b>1,018</b>	<b>1,203</b>
<b>CONTINGENT LIABILITIES</b>	NOTE 21	<b>7,305</b>	<b>6,440</b>

Comparative years are adjusted due to the Swedish Annual Accounts Act.



## CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK m.	1997	1996	1995
<b>OPERATIONS</b>			
Net income	NOTE 22 <b>11,941</b>	7,110	5,439
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH</b>			
Minority interest in net income	<b>1,109</b>	661	442
Depreciation and amortization	<b>5,756</b>	4,659	4,156
Capital gains (-)/losses on sale of fixed assets	<b>152</b>	-345	68
<b>CHANGES IN OPERATING NET ASSETS</b>			
Inventories	<b>-3,396</b>	1,118	-7,237
Customer financing	<b>-347</b>	-309	-15
Accounts receivable – trade and other operating assets	<b>-16,669</b>	-9,205	-8,402
Provisions and other operating liabilities	<b>16,356</b>	5,609	8,695
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>14,902</b>	9,298	3,146
<b>INVESTMENTS</b>			
Investments in tangible assets	<b>-7,237</b>	-6,290	-6,423
Sales of tangible assets	<b>642</b>	767	397
Acquisitions/sales of other investments, net	<b>-69</b>	-540	-466
Net change in capital contributed by minority	<b>21</b>	1	-33
Other	<b>-513</b>	808	867
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-7,156</b>	-5,254	-5,658
<b>CASH FLOW BEFORE FINANCING ACTIVITIES</b>	<b>7,746</b>	4,044	-2,512
<b>FINANCING</b>			
Changes in current liabilities to financial institutions, net	NOTE 22 <b>96</b>	1,453	-217
Issue of convertible debentures	<b>4,875</b>	-	-
Proceeds from issuance of other long-term debt	<b>2,571</b>	682	247
Repayments of long-term debt	<b>-2,672</b>	-2,029	-615
Stock issue	<b>-</b>	-	7,831
Dividends paid	<b>-2,805</b>	-1,917	-1,510
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>2,065</b>	-1,811	5,736
Effect of exchange rate changes on cash	<b>256</b>	38	269
Cash effect from consolidation of previously associated entity	<b>-</b>	1,404	-
<b>NET CHANGE IN CASH</b>	<b>10,067</b>	3,675	3,493
<b>CASH, BEGINNING OF PERIOD</b>	<b>19,060</b>	15,385	11,892
<b>CASH, END OF PERIOD</b>	<b>29,127</b>	19,060	15,385

## PARENT COMPANY INCOME STATEMENT

NET SALES:  
SEK 16,217 m.

INCOME BEFORE TAXES:  
SEK 5,151 m.

Years ended December 31, SEK m.		1997	1996	1995
Net sales	NOTE 1	<b>16,217</b>	15,404	16,940
Cost of sales		<b>-12,205</b>	-11,018	-12,948
<b>GROSS MARGIN</b>		<b>4,012</b>	4,386	3,992
Research and development and other technical expenses		<b>-6,578</b>	-5,387	-5,446
Selling expenses		<b>-1,408</b>	-1,035	-873
Administrative expenses		<b>-1,546</b>	-892	-915
Other operating revenues	NOTE 2	<b>2,368</b>	2,220	1,571
<b>OPERATING INCOME</b>		<b>-3,152</b>	-708	-1,671
Financial income	NOTE 3	<b>6,223</b>	6,578	3,300
Financial expenses	NOTE 3	<b>-1,827</b>	-1,491	-1,660
<b>INCOME AFTER FINANCIAL ITEMS</b>		<b>1,244</b>	4,379	-31
Appropriations to (-)/transfers from untaxed reserves				
Changes in depreciation in excess of plan	NOTE 15	<b>337</b>	92	-14
Changes in other untaxed reserves	NOTE 15	<b>-504</b>	-112	-170
		<b>-167</b>	-20	-184
Contributions from/to (-) subsidiaries		<b>4,074</b>	811	2,116
<b>INCOME BEFORE TAXES</b>		<b>5,151</b>	5,170	1,901
Income taxes for the year	NOTE 4	<b>-393</b>	-239	-160
<b>NET INCOME</b>		<b>4,758</b>	4,931	1,741

Comparative years are adjusted due to the Swedish Annual Accounts Act.

## PARENT COMPANY BALANCE SHEET

December 31, SEK m.		1997	1996
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Intangible assets	NOTE 6	177	154
Tangible assets	NOTE 7	2,887	3,273
Financial assets			
Investments			
Subsidiaries	NOTE 8, 9	14,212	14,002
Associated companies	NOTE 8, 9	1,025	1,228
Other investments	NOTE 8	45	39
Receivables from subsidiaries	NOTE 12	5,699	4,189
Long-term customer financing	NOTE 8	124	58
Other long-term receivables	NOTE 8	101	64
		<b>24,270</b>	<b>23,007</b>
<b>CURRENT ASSETS</b>			
Inventories	NOTE 10	1,771	1,460
Receivables			
Accounts receivable – trade	NOTE 11	2,655	2,168
Receivables from subsidiaries	NOTE 12	13,296	9,740
Other receivables	NOTE 13	8,599	3,316
Short-term cash investments		17,988	7,265
Cash and bank		3,481	2,880
		<b>47,790</b>	<b>26,829</b>
<b>TOTAL ASSETS</b>		<b>72,060</b>	<b>49,836</b>
<b>ASSETS PLEDGED AS COLLATERAL</b>		<b>529</b>	<b>650</b>
	NOTE 20		

Comparative years are adjusted due to the Swedish Annual Accounts Act.

## PARENT COMPANY BALANCE SHEET

December 31, SEK m.	1997	1996
<b>STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		
<b>STOCKHOLDERS' EQUITY</b>	NOTE 14	
Capital stock	2,436	2,403
Share premium reserve	1,614	–
Revaluation reserve	75	75
Other reserves	12,116	12,116
Restricted equity	16,241	14,594
Retained earnings	7,505	4,978
Net income	4,758	4,931
Non-restricted equity	12,263	9,909
	<b>28,504</b>	<b>24,503</b>
<b>UNTAXED RESERVES</b>	NOTE 15	
	3,116	2,949
<b>PROVISIONS</b>	NOTE 16	
	3,360	2,703
<b>LONG-TERM LIABILITIES</b>		
Notes and bond loans	NOTE 17	2,476
Convertible debentures	NOTE 17	5,943
Liabilities to financial institutions	NOTE 17, 20	399
Liabilities to subsidiaries	NOTE 12, 17	1,910
Other long-term liabilities	NOTE 17	42
	<b>10,770</b>	<b>4,396</b>
<b>CURRENT LIABILITIES</b>	NOTE 20	
Current maturities of long-term debt		207
Current liabilities to financial institutions	NOTE 18	232
Advances from customers		351
Accounts payable – trade		1,099
Liabilities to subsidiaries	NOTE 12	19,250
Income tax liability		295
Other current liabilities	NOTE 19	4,876
	<b>26,310</b>	<b>15,285</b>
<b>TOTAL STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		<b>72,060</b>
		<b>49,836</b>
<b>CONTINGENT LIABILITIES</b>	NOTE 21	
		<b>7,792</b>
		<b>7,049</b>

Comparative years are adjusted due to the Swedish Annual Accounts Act.

## PARENT COMPANY STATEMENT OF CASH FLOWS

Years ended December 31, SEK m.	1997	1996	1995
<b>OPERATIONS</b>			
Net income	<b>4,758</b>	4,931	1,741
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH</b>			
Depreciation and amortization	<b>665</b>	547	659
Capital gains (-)/losses on sale of fixed assets	<b>94</b>	-2,166	31
Appropriations to/transfers from (-) untaxed reserves	<b>167</b>	20	184
Unsettled contributions from (-)/to subsidiaries	<b>-4,000</b>	-821	-2,114
Unsettled dividends	<b>-3,269</b>	-1,137	-965
<b>CHANGES IN OPERATING NET ASSETS</b>			
Inventories	<b>-311</b>	319	509
Customer financing	<b>-86</b>	38	59
Accounts receivable – trade and other operating assets	<b>-5,079</b>	1,093	151
Provisions and other operating liabilities	<b>5,158</b>	-652	-1,480
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>-1,903</b>	2,172	-1,225
<b>INVESTMENTS</b>			
Investments in tangible assets	<b>-622</b>	-799	-931
Sales of tangible assets	<b>401</b>	403	376
Acquisitions/sales of other investments, net	<b>-97</b>	-1,052	-558
Lending, net	<b>-3,370</b>	6,131	-2,600
Other	<b>-111</b>	-	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-3,799</b>	4,683	-3,713
<b>CASH FLOW BEFORE FINANCING ACTIVITIES</b>	<b>-5,702</b>	6,855	-4,938
<b>FINANCING</b>			
Changes in current liabilities to financial institutions, net	<b>207</b>	-9	-152
Changes in current liabilities to subsidiaries	<b>13,199</b>	-2,784	27
Issue of convertible debentures	<b>6,000</b>	-	-
Proceeds from issuance of other long-term debt	<b>1,866</b>	831	138
Repayments of long-term debt	<b>-1,804</b>	-2 321	-445
Stock issue	<b>-</b>	-	7,831
Dividends paid	<b>-2,404</b>	-1,676	-1,195
Other	<b>-38</b>	124	-131
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>17,026</b>	-5,835	6,073
<b>NET CHANGE IN CASH</b>	<b>11,324</b>	1,020	1,135
<b>CASH, BEGINNING OF PERIOD</b>	<b>10,145</b>	9,125	7,990
<b>CASH, END OF PERIOD</b>	<b>21,469</b>	10,145	9,125

## NOTES TO THE FINANCIAL STATEMENTS

### ACCOUNTING PRINCIPLES

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

The financial statements are restated due to new Swedish legislation regarding annual reports for companies (The Swedish Annual Accounts Act 1995:1554).

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 24.

#### (A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries. Subsidiaries are all companies in which the Company has an ownership and directly or indirectly has a voting majority or by agreement has a decisive influence. 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 earned after their acquisition.

In the consolidated Income Statement, minority interests are, in deviation from the Swedish Financial Accounting Standards Council's recommendation No. 1, divided into two items; share in income before taxes and share in taxes. The reason is that this method, considering the significant minority interest holdings in the group, gives a more fair view of the important measure Income before taxes.

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. 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, positive and negative, resulting from acquisitions of consolidated companies is amortized/reversed according to individual assessment of each item's estimated economic life, on the average 5–10 years.

#### (C) REVENUE RECOGNITION

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

For 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 transactions between affiliated companies.

Revenue from large long-term contracts with external customers is recognized in accordance with the percentage-of-completion method. If costs required to complete such contracts are estimated to exceed remaining revenues, provision is made for estimated losses.

#### (D) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS IN CONSOLIDATION

For most subsidiaries and associated companies, the local currency is the currency in which those companies primarily generate and expend cash, and thus is considered their functional (business) currency. 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 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. Adjustments from translation of financial statements of these subsidiaries and associated companies are included in the consolidated income statement (see Note 14). 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 other currency, have been translated in two steps. In the first step, 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.

#### (E) TRANSLATION OF FOREIGN CURRENCY IN INDIVIDUAL COMPANIES

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

Forward exchange contracts, options and investments not used to hedge the Company's currency positions have been valued at market, whereas contracts, options and investments hedging certain positions have been valued in a manner reflecting the accounting for the hedged position.

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 on foreign exchange attributable to financial assets are included in financial income, and gains and losses attributable to financial liabilities are included in financial expenses.

**(F) VALUATION OF FINANCIAL INVESTMENTS AND INTEREST DERIVATIVES**  
Financial investments held by companies other than Ericsson Treasury Services AB are valued at the lowest of acquisition cost 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 interest-related derivatives as well as financial investments held by Ericsson Treasury Services AB are valued at market value, whereas from 1997 net unrealized profit is reserved. The effect of this change in principle from previous years is not material.

**(G) RESEARCH AND DEVELOPMENT COSTS**  
Research and development costs are expensed as incurred. Costs based on orders from customers are included in Cost of sales.

**(H) 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.

**(I) DEFERRED TAX IN UNTAXED RESERVES**  
The Company reports deferred taxes attributable to temporary differences between the book value of assets and liabilities and their tax value and also 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 reported by consolidated companies have been restated by applying the current tax rate applicable in each country. The deferred tax so calculated is 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.

**(J) LEASING**  
Property leases with the company as lessee are normally expensed over the term of the lease. The Company applies the Swedish Financial Accounting Standard's Council's recommendation No. 6 for material lease contracts. Accordingly, certain leasing contracts are capitalized and reported as acquisitions

of tangible assets and as other current liabilities and other long-term liabilities.

**(K) TANGIBLE ASSETS**  
Tangible assets are stated at cost, except for revaluation adjustments, which under certain circumstances are allowed according to accounting principles generally accepted in Sweden and in certain other countries.

**(L) DEPRECIATION ON TANGIBLE ASSETS**  
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. Depreciation is included in Cost of Sales and in the respective functional operating expenses. Previous years are restated for integration of depreciation, and the amounts included in the respective cost items are shown in the table below.

CONSOLIDATED	1996	1995
Cost of sales	2,306	1,977
Research and development and other technical expenses	899	771
Selling expenses	444	380
Administrative expenses	567	486
Total depreciation	4,216	3,614
PARENT COMPANY	1996	1995
Cost of sales	201	220
Research and development and other technical expenses	166	237
Selling expenses	17	15
Administrative expenses	77	73
Other operating revenues	9	12
Total depreciation	470	557

The consolidated companies normally claim 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 (i) above. In the Parent Company, depreciation in excess of plan is reported as Appropriations to Untaxed Reserves.

During 1989, certain telephone exchange equipment was leased to customers, which is reported as assets sold in the consolidated accounts. The assets are included in Other equipment in the Parent Company accounts.

**(M) CHANGE IN REPORTED COST OF SALES**  
From 1997, production costs for internally sold computer services are included in Cost of Sales instead of in operating expenses. Previous years are restated. The change has no effect on income.

CONSOLIDATED	1996	1995
Cost of Sales before adjustment	-70,106	-54,323
Depreciation (according to table in (L) above)	-2,306	-1,977
Production costs for internally sold computer services	-1,767	-1,455
Adjusted Cost of Sales	-74,179	-57,755

**(N) INCOME PER SHARE**

Income per share is based on average number of shares per year after full conversion of convertible debentures and after stock dividend element of stock issue, i.e. dilution due to favorable stock issue pricing.

Net income according to the Income Statement is adjusted by reversal of interest expense for convertible debentures net of tax.

For reference to income per share in accordance with U.S. GAAP, see Note 24.

**(O) STATEMENT OF CASH FLOWS**

Statement of Cash Flows is prepared principally in accordance with Statement of Financial Accounting Standards No. 95 (FAS 95), "Statement of Cash Flows". The Statement of Cash Flows shows changes in the cash position during the year attributable to operations, investing activities and financing activities respectively. Foreign subsidiaries' transactions are translated at the average exchange rate during the period.

For subsidiaries purchased and/or sold, the net effects, net of cash acquired/sold, are reported as cash flow from investment activities and do not affect reported cash flow from operations.

In preparation of the Statement of Cash Flows, changes in deferred tax assets and liabilities have been taken into account.

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

Ericsson Treasury Services AB and Ericsson Telecom AB conduct their operations on commission basis for the Parent Company.

**NOTE 1 SALES BY GEOGRAPHIC AREA**

CONSOLIDATED	1997	1996	1995
Sweden	9,320	7,616	9,043
Europe (excl. Sweden)	66,386	48,098	40,806
USA and Canada	18,973	15,729	11,154
Latin America	21,267	12,047	6,830
Africa	2,570	2,379	1,945
The Middle East	5,068	3,941	3,381
Asia	37,613	28,896	19,804
Oceania	6,543	5,560	5,817
	<b>167,740</b>	<b>124,266</b>	<b>98,780</b>
Of which EU	64,244	48,906	43,669
PARENT COMPANY	1997	1996	1995
Sweden	3,789	4,591	5,484
Europe (excl. Sweden)	6,281	6,161	5,014
USA and Canada	282	349	286
Latin America	2,185	1,096	1,148
Africa	414	422	441
The Middle East	630	386	441
Asia	2,292	1,940	3,517
Oceania	344	459	609
	<b>16,217</b>	<b>15,404</b>	<b>16,940</b>
Of which EU	6,064	6,727	7,546

**NOTE 2 OTHER OPERATING REVENUES**

CONSOLIDATED	1997	1996	1995
Commissions, license fees and other operating revenues	1,017	849	556
Net losses (-) on sales of intangible and tangible assets	-150	-67	-53
Net gains/losses (-) on sales of investments and operations	-1	411	-16
	<b>866</b>	<b>1,193</b>	<b>487</b>
PARENT COMPANY	1997	1996	1995
Commissions, license fees and other operating revenues	2,398	2,234	1,629
Net losses (-) on sales of tangible assets	-30	-14	-58
	<b>2,368</b>	<b>2,220</b>	<b>1,571</b>

**NOTE 3 FINANCIAL INCOME AND EXPENSES**

CONSOLIDATED	1997	1996	1995
<b>FINANCIAL INCOME</b>			
Result from securities and receivables accounted for as fixed assets	491	117	4
Other interest income and similar profit/loss items	1,922	1,791	1,493
Total financial income	<b>2,413</b>	<b>1,908</b>	<b>1,497</b>
<b>FINANCIAL EXPENSES</b>			
Interest expenses and similar profit/loss items	2,365	1,496	1,439
Total financial expenses	<b>2,365</b>	<b>1,496</b>	<b>1,439</b>
FINANCIAL NET	<b>48</b>	<b>412</b>	<b>58</b>
PARENT COMPANY	1997	1996	1995
<b>FINANCIAL INCOME</b>			
Result from participations in subsidiaries			
Dividends	4,326	2,322	1,305
Net gains on sales	7	2,115	28
Result from participations in associated companies			
Dividends	54	119	104
Net gains on sales	2	-	-
Result from other securities and receivables accounted for as fixed assets	1	68	-
Other interest income and similar profit/loss items			
Subsidiaries	650	635	517
Other*	1,183	1,319	1,346
Total financial income	<b>6,223</b>	<b>6,578</b>	<b>3,300</b>
<b>FINANCIAL EXPENSES</b>			
Losses on sales of participations in subsidiaries	-	3	-
Losses on sales of participations in associated companies	74	-	1
Interest expenses and similar profit/loss items			
Subsidiaries	859	673	682
Other	888	804	913
Other financial expenses	6	11	64
Total financial expenses	<b>1,827</b>	<b>1,491</b>	<b>1,660</b>
FINANCIAL NET	<b>4,396</b>	<b>5,087</b>	<b>1,640</b>

\* Of the total amount, SEK -105 m. in 1997, SEK 34 m. in 1996, SEK 304 in 1995 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.



#### NOTE 4 INCOME TAXES FOR THE YEAR

CONSOLIDATED	1997	1996	1995
Income tax paid	-6,551	-4,671	-3,017
Income tax deferred	796	1,272	676
Tax on profit for the year	-5,755	-3,399	-2,341

As explained under Notes to the financial statements (1), 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 assets attributable to unutilized loss carryforwards, if the likelihood that they will be used is deemed to be greater than 50 percent. At December 31, the Company had total unutilized loss carryforwards of SEK 298 m. The final years in which these loss carryforwards can be utilized are shown in the table beside. The Parent Company had no unutilized loss carryforwards.

Year of expiration	Amount
1998	16
1999	-
2000	4
2001	135
2002	8
2003 or later	135
	298

#### NOTE 5 INCOME PER SHARE

CONSOLIDATED	1997	1996	1995
Net income	11,941	7,110	5,439
Interest expenses on convertible debentures, net of income taxes	55	59	62
Net income after full conversion	11,996	7,169	5,501
Average number of shares outstanding after full conversion and stock issue including stock dividend element	987.2	985.7	943.4
Income per share	12.15	7.27	5.83

#### NOTE 6 INTANGIBLE ASSETS

CONSOLIDATED	Licenses, trademarks and similar rights	Patents and purchased research and development	Goodwill	Total	PARENT COMPANY	Patents, licenses, trademarks and similar rights
ACCUMULATED ACQUISITIONS					ACCUMULATED ACQUISITIONS	
Opening balance	222	555	1,704	2,481	Opening balance	346
Purchases	133	16	10	159	Purchases	111
Sales/disposals	-7	-97	5	-99	Sales/disposals	-
Translation difference for the year	15	5	-	20		
Closing balance	363	479	1,719	2,561	Closing balance	457
ACCUMULATED DEPRECIATION					ACCUMULATED DEPRECIATION	
Opening balance	-186	-367	-1,009	-1,562	Opening balance	-192
Depreciation for the year	-110	-61	-165	-336	Depreciation for the year	-88
Sales/disposals	6	96	-4	98	Sales/disposals	-
Translation difference for the year	-11	-2	-	-13		
Closing balance	-301	-334	-1,178	-1,813	Closing balance	-280
Total	62	145	541	748	Total	177

**NOTE 7 TANGIBLE ASSETS**

	Land and buildings	Machinery	Other equipment	Construction in progress and advance payments	Total
<b>CONSOLIDATED</b>					
<b>ACCUMULATED ACQUISITIONS</b>					
Opening balance	5,893	12,470	15,815	1,731	35,909
Purchases	464	2,146	2,506	2,079	7,195
Sales/disposals	-351	-1,788	-1,263	-29	-3,431
Reclassifications	1,322	8	1,486	-2,816	-
Translation difference for the year	144	98	755	32	1,029
Closing balance	7,472	12,934	19,299	997	40,702
<b>ACCUMULATED DEPRECIATION</b>					
Opening balance	-1,685	-6,504	-10,392	-	-18,581
Depreciation for the year	-227	-2,175	-3,002	-	-5,404
Sales/disposals	89	1,113	1,428	-	2,630
Translation difference for the year	-47	-46	-486	-	-579
Closing balance	-1,870	-7,612	-12,452	-	-21,934
<b>ACCUMULATED REVALUATIONS, NET</b>					
Opening balance	426	-	-	-	426
Revaluations for the year	34	-	8	-	42
Depreciation for the year on revaluations	-16	-	-2	-	-18
Sales/disposals	9	-	-1	-	8
Translation difference for the year	-1	-	-	-	-1
Closing balance	452	-	5	-	457
<b>Total</b>	<b>6,054</b>	<b>5,322</b>	<b>6,852</b>	<b>997</b>	<b>19,225</b>
<b>PARENT COMPANY</b>					
<b>ACCUMULATED ACQUISITIONS</b>					
Opening balance	1,265	1,703	1,858	690	5,516
Purchases	-	29	224	369	622
Sales/disposals	-32	-579	-463	-21	-1,095
Reclassifications	737	13	92	-842	-
Closing balance	1,970	1,166	1,711	196	5,043
<b>ACCUMULATED DEPRECIATION</b>					
Opening balance	-391	-859	-1,160	-	-2,410
Depreciation for the year	-40	-251	-282	-	-573
Sales/disposals	14	310	342	-	666
Closing balance	-417	-800	-1,100	-	-2,317
<b>ACCUMULATED REVALUATIONS, NET</b>					
Opening balance	167	-	-	-	167
Depreciation for the year on revaluations	-4	-	-	-	-4
Sales/disposals	-2	-	-	-	-2
Closing balance	161	-	-	-	161
<b>Total</b>	<b>1,714</b>	<b>366</b>	<b>611</b>	<b>196</b>	<b>2,887</b>

## NOTE 8 FINANCIAL ASSETS

Equity in associated companies	
Opening balance	2,631
Share in earnings	480
Taxes	-246
Translation difference for the year	-3
Dividends	-142
Write-downs	-
Acquisitions	167
Sales	-244
Closing balance	2,643

The Company's major investments in associated companies are accounted for using the equity method. Goodwill, net, constitutes SEK 101 m. (271) of the investments. Details of such investments are given in Note 9.

Intercompany profits concerning inventory in associated companies purchased from consolidated subsidiaries have been eliminated in the consolidated financial statements.

Dividends received from companies accounted for under the equity method were SEK 142 m. in 1997, SEK 93 m. in 1996 and SEK 231 m. in 1995.

Undistributed earnings of associated companies included in consolidated restricted equity are reported as "Equity proportion reserve".

PARENT COMPANY	Subsidiaries	Associated companies	Other investments
INVESTMENTS			
Opening balance	14,002	1,228	39
Acquisitions and stock issues	193	81	4
Shareholders' contribution	17	-	-
Revaluations for the year	-	-	2
Sales	-	-284	-
Closing balance	14,212	1,025	45

	Other investments	Long-term customer financing	Other long-term receivables
<b>CONSOLIDATED</b>			
ACCUMULATED ACQUISITIONS			
Opening balance	1,134	2,926	2,227
Purchases/credits granted	732	2,914	2,384
Sales/repayments	-576	-3,277	-1,272
Translation difference for the year	145	392	94
Closing balance	1,435	2,955	3,433
ACCUMULATED REVALUATIONS			
Opening balance	17	-	-
Revaluations for the year	18	-	-
Sales/repayments	-	-	-
Translation difference for the year	1	-	-
Closing balance	36	-	-
ACCUMULATED WRITE-DOWNS <sup>1</sup>			
Opening balance	-9	-5	-19
Write-downs for the year	-27	-950	-49
Sales/repayments	-	-	-
Translation difference for the year	-1	-	-
Closing balance	-37	-955	-68
Total	1,434	2,000	3,365 <sup>2</sup>

<sup>1</sup> Write-downs are included in Selling expenses due to the close relation to operations.

<sup>2</sup> Of which deferred tax assets SEK 913 m. (SEK 1,275 m. 1996).

PARENT COMPANY	Long-term customer financing	Other long-term receivables
ACCUMULATED ACQUISITIONS		
Opening balance	58	64
Purchases/credits granted	70	100
Sales/repayments	-	-63
Translation difference for the year	1	-
Closing balance	129	101
ACCUMULATED REVALUATIONS		
Opening balance	-	-
Revaluations for the year	-	-
Sales/repayments	-	-
Closing balance	-	-
ACCUMULATED WRITE-DOWNS <sup>1</sup>		
Opening balance	-	-
Write-downs for the year	-	-
Sales/repayments	-5	-
Closing balance	-5	-
Total	124	101

<sup>1</sup> Write-downs are included in Selling expenses due to the close relation to operations.

## NOTE 9 INVESTMENTS

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

### SHARES DIRECTLY OWNED BY THE PARENT COMPANY

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value	Carrying value
<b>Subsidiaries</b>						
III	Ericsson Utvecklings AB	556137-8646	Sweden	100	10	17
I	Ericsson Business Networks AB	556090-3212	Sweden	100	360	335
I	Ericsson Components AB	556041-9425	Sweden	100	58	60
I	Ericsson Microwave Systems AB	556028-1627	Sweden	100	30	151
I	Ericsson Radio Systems AB	556056-6258	Sweden	100	50	636
I	Ericsson Telecom AB	556251-3258	Sweden	100	-	-
I	Ericsson Hewlett-Packard Telecommunications AB	556381-7609	Sweden	60	97	108
I	Ericsson Mobile Communications AB	556251-3266	Sweden	100	361	676
I	Ericsson Radio Access AB	556250-2046	Sweden	100	20	41
I	LM Ericsson Data AB	556250-9454	Sweden	100	-	18
II	SRA Communication AB	556018-0191	Sweden	100	47	145
II	AB Aulis	556030-9899	Sweden	100	14	6
II	Ericsson Cables Holding AB	556044-9489	Sweden	100	1,875	2,389
II	LM Ericsson Holding AB	556381-7666	Sweden	100	105	1,122
IV	Ericsson Treasury Services AB	556329-5673	Sweden	100	-	2
	Other		Sweden	-	-	773
I	Ericsson Austria AG		Austria	80	48	662
I	LM Ericsson A/S		Denmark	100	90	216
I	Oy LM Ericsson Ab		Finland	100	80	195
II	Ericsson France S.A.		France	100	105	132
IV	Ericsson Treasury Ireland Ltd.		Ireland	100	81	508
II	Ericsson S.p.A.		Italy	72	18,421	105
I	Ericsson A/S		Norway	100	156	194
I	Ericsson Corporatio AO		Russia	100	950	4
I	Ericsson AG		Switzerland	100	-	-
II	Swedish Ericsson Company Ltd.		United Kingdom	100	74	757
I	Ericsson GmbH		Germany	100	39	341
	Other		Europe (excluding Sweden)	-	-	123
II	Ericsson Holding II Inc.		United States	75	-	2,655
I	Ericsson Inc.		United States	20 <sup>1</sup>	-	362
I	Cia Ericsson S.A.C.I.		Argentina	100	5	10
I	Teleindustria Ericsson S.A.		Mexico	100	n.p.v.	572
	Other		United States, Latin America	-	-	174
II	Teleric Pty Ltd.		Australia	100	20	99
I	Beijing Ericsson Mobile Communication Co. Ltd.		China	25 <sup>2</sup>	3	22
I	Ericsson Ltd.		China	100	2	2
I	Ericsson Communication Private Ltd.		India	100	525	105
I	Ericsson Telecommunications Sdn. Bhd.		Malaysia	70	2	4
I	Ericsson Telecommunications Pte. Ltd.		Singapore	100	-	1
I	Ericsson Taiwan Ltd.		Taiwan	80	80	19
I	Ericsson (Thailand) Ltd.		Thailand	49 <sup>3</sup>	15	4
	Other		Other countries	-	-	467
					<b>Total</b>	<b>14,212</b>
<b>Associated Companies</b>						
I	MET S.A.		France	20 <sup>4</sup>	20	53
I	Ericsson Nikola Tesla		Croatia	49	65	330
I	Perwira Ericsson Sdn. Bhd.		Malaysia	40	2	5
IV	AB LM Ericsson Finans	556008-8550	Sweden	90 <sup>5</sup>	29	41
IV	Ericsson Project Finance AB	556058-5936	Sweden	91 <sup>6</sup>	425	510
	Other			-	-	86
					<b>Total</b>	<b>1,025</b>

## SHARES OWNED BY SUBSIDIARIES

Type	Company	Reg. No.	Domicile	Percentage of ownership
<b>Subsidiaries</b>				
I	Ericsson Cables AB	556000-0365	Sweden	100
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 S.A.		Spain	100
I	Ericsson Infocom Espana S.A.		Spain	100
I	Ericsson Radio S.A.		Spain	100
I	Ericsson Ltd.		United Kingdom	100
I	Ericsson OMC Ltd.		United Kingdom	100
I	Ericsson Communications Inc.		Canada	100
I	Ericsson Inc.		USA	80
I	Ericsson Telekomunikasyon A.S.		Turkey	99
I	Ericsson Telecomunicações S.A.		Brazil	51
I	Ericsson Telecom S.A. de C.V.		Mexico	100
I	Ericsson Toshiba Tsushin System K.K.		Japan	60
I	Ericsson Australia Pty. Ltd.		Australia	100

### Key to type of company

I Manufacturing and distributing companies	<sup>1</sup> Through subsidiary holdings, total holdings amount to 80% of Ericsson Inc.
II Holding companies	<sup>2</sup> Through subsidiary holdings, total holdings amount to 49% of Beijing Ericsson Mobile Communications Co. Ltd., but the voting power is in excess of 50%.
III Development companies	<sup>3</sup> Through subsidiary holdings, total holdings amount to 100% of Ericsson (Thailand) Ltd.
IV Finance companies	<sup>4</sup> Through subsidiary holdings, total holdings in MET amount to 50%.
	<sup>5</sup> Voting power is 40%.
	<sup>6</sup> Voting power is 49%.

Two subsidiaries are publicly traded on local stock exchanges, Ericsson S.p.A. in Milan, Italy, and Ericsson Telecomunicações S.A. in São Paulo, Brazil. Ericsson's share of the market value of Ericsson S.p.A. and Ericsson Telecomunicações S.A. on December 31, 1997, was SEK 6,309 m. and SEK 4,956 m. respectively.

## NOTE 10 INVENTORIES

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Raw material, components and consumables	10,444	9,156	735	818
Manufacturing work in process	3,527	3,299	138	242
Finished products and goods for resale	4,871	2,933	100	131
Contract work in process	8,335	7,638	863	322
Less advances from customers	-3,563	-3,407	-65	-53
Inventories, net	23,614	19,619	1,771	1,460

## NOTE 11 ACCOUNTS RECEIVABLE - TRADE

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Notes and accounts receivable	45,758	35,131	2,456	2,036
Receivables from associated companies	393	253	199	132
	46,151	35,384	2,655	2,168

Allowance for doubtful accounts amounting to SEK 1,445 m. (1,340) and SEK 359 m. (330) in the Parent Company which has reduced the amounts shown above, includes amounts for estimated losses based on commercial risk evaluations. The allowance does not include provisions for potential losses of a political nature.

## NOTE 12 RECEIVABLES AND PAYABLES - SUBSIDIARIES

	PARENT COMPANY	
	1997	1996
LONG-TERM RECEIVABLES*		
Financial receivables	5,699	4,189
CURRENT RECEIVABLES		
Commercial receivables	1,826	1,695
Financial receivables	11,470	8,045
	13,296	9,740
LONG-TERM LIABILITIES*		
Financial liabilities	1,910	1,707
CURRENT LIABILITIES		
Commercial liabilities	1,786	635
Financial liabilities	17,464	10,451
	19,250	11,086

\* Including non-interest bearing receivables and liabilities, net, amounting to SEK 5,094 m. (4,462). Interest-free transactions involving current receivables and liabilities may also arise at times.

## NOTE 13 OTHER RECEIVABLES

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Prepaid expenses	1,222	1,305	135	116
Accrued revenues	1,412	830	577	524
Advance payments to suppliers	331	455	4	2
Deferred tax assets	3,062	1,742	-	-
Other	13,106	6,182	7,883	2,674
	19,133	10,514	8,599	3,316

## NOTE 14 STOCKHOLDERS' EQUITY

### CAPITAL STOCK

Capital stock at December 31, 1997 consisted of the following:

	Number of shares outstanding	Aggregate par value
A shares (par value SEK 2.50)	82,027,330	205
B shares (par value SEK 2.50)	892,468,729	2,231
	974,496,059	2,436

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 1/1000th of one vote per share.

### RESERVES NOT AVAILABLE FOR DISTRIBUTION

In accordance with statutory requirements in Sweden and certain other countries in which the Company is operating, restricted reserves, not available for distribution, are reported.

### CHANGES IN STOCKHOLDERS' EQUITY

	Capital stock	Equity proportion reserve	Other restricted reserves	Restricted equity	Non-restricted equity	Total
<b>CONSOLIDATED</b>						
January 1, 1997	2,403	1,166	23,019	26,588	13,868	40,456
Conversion of debentures	33	-	928	961	-	961
Capital discount	-	-	816	816	-	816
Dividends paid	-	-	-	-	-2,404	-2,404
Revaluation of fixed assets	-	-	42	42	-	42
Transfer between non-restricted and restricted reserves	-	189	2,200	2,389	-2,389	-
Changes in cumulative translation adjustments	-	-	812	812	-	812
Net income 1997	-	-	-	-	11,941	11,941
December 31, 1997	2,436	1,355	27,817	31,608	21,016	52,624

Of retained earnings, SEK 91 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,

According to the Swedish Annual Accounts Act, tangible and financial assets may be revalued, provided they have a reliable and lasting value significantly greater than book value. Revaluation amounts must either be used for stock issue/stock split or be appropriated to a revaluation reserve.

Changes in cumulative translation adjustments include net gain/loss (-) from hedging of investments in foreign subsidiaries, SEK -62 m. (SEK 26 m. in 1996) and SEK -30 m. (SEK -19 m. in 1996) from sold companies.

Currency gains/losses resulting from translation of financial statements of integrated companies are included in the following items in the consolidated income statement:

	1997	1996
Cost of sales	100	-1
Financial income	-111	-7
Taxes	-6	-2
	-17	-10

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	Share premium reserve <sup>1</sup>	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Other retained earnings	Non-restricted equity	Total
<b>PARENT COMPANY</b>									
January 1, 1997	2,403	-	75	12,116	14,594	100	9,809	9,909	24,503
Conversion of debentures	33	928	-	-	961	-	-	-	961
Capital discount	-	686	-	-	686	-	-	-	686
Dividends paid	-	-	-	-	-	-	-2,404	-2,404	-2,404
Net income 1997	-	-	-	-	-	-	4,758	4,758	4,758
December 31, 1997	2,436	1,614	75	12,116	16,241	100	12,163	12,263	28,504

<sup>1</sup> Prior years' share premium is included in Statutory reserve.

## NOTE 15 UNTAXED RESERVES

	Jan. 1	Alloca- tions/with- drawals(-)	Dec. 31
<b>PARENT COMPANY 1997</b>			
ACCUMULATED DEPRECIATION IN EXCESS OF PLAN			
Intangible assets	15	4	19
Tangible assets	1,020	-341	679
Total accumulated depreciation in excess of plan	1,035	-337	698
OTHER UNTAXED RESERVES			
Tax equalization reserve	491	-110	381
Reserve for doubtful receivables	903	270	1,173
Income deferral reserve	520	344	864
Total other untaxed reserves	1,914	504	2,418
<b>TOTAL UNTAXED RESERVES</b>	<b>2,949</b>	<b>167</b>	<b>3,116</b>

Changes in other untaxed reserves in the Parent Company in 1996 consisted of the following: withdrawal of tax equalization reserve, SEK 103 m. (169); withdrawal of reserve for doubtful receivables, SEK 1 m. (-173) and allocation to income deferral reserve SEK 216 m. (166).

## NOTE 16 PROVISIONS

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Pensions and similar commitments	7,201	6,256	2,618	2,533
Taxes	2,344	967	-	-
Other provisions	11,550	10,715	742	170
	<b>21,095</b>	<b>17,938</b>	<b>3,360</b>	<b>2,703</b>

The pension liabilities include the Parent Company's and other Swedish companies' obligations in the amount of SEK 5,214 m. (4,773) in accordance with an agreement with the Pension Registration Institute (PRI).

The Parent Company's pension liabilities include an obligation in the amount of SEK 2,472 m. (2,400) in accordance with its agreement with PRI.

Other provisions include amounts for warranty commitments, risks regarding customer financing, restructuring and changes in technology and markets.

## NOTE 17 LONG-TERM LIABILITIES

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Notes and bond loans (maturing 1999-2002)	2,476	500	2,476	500
Convertible debentures (maturing 2000)	810	1,772	719	1,493
(maturing 2003)	5,224	-	5,224	-
Liabilities to financial institutions	2,169	2,219	399	635
Liabilities to subsidiaries	-	-	1,910	1,707
Liabilities to associated companies	40	48	-	-
Other	510	1,687	42	61
	<b>11,229</b>	<b>6,226</b>	<b>10,770</b>	<b>4,396</b>

Consolidated long-term liabilities maturing five years or more after the balance sheet date:

Convertible debentures	5,224
Liabilities to financial institutions	391
Other	181
	<b>5,796</b>

The Parent Company has two convertible debenture loans outstanding. One, issued in 1993, 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 1997 debentures in the amount of SEK 961.4 m. were converted to 13,333,854 B shares.

Upon conversion of all outstanding debentures, there would be a further increase of 11,239,893 in the number of shares.

During the period January 1 to February 6, 1998, additional debentures may be converted to B shares carrying right to dividend for 1997.

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 Statutory reserve as addition to capital in the Parent Company only. This capital discount is charged to income as interest expense under the duration of the loan.

A new convertible debenture loan in the amount of SEK 6,000 m. was issued during 1997. Of the total amount, convertible debentures amounting to SEK 4,875 m. were sold to Ericsson employees, and debentures amounting to SEK 1,125 were sold to the wholly owned subsidiary AB Aulis. The debentures held by AB Aulis are intended for future offerings at market price to new employees. The debentures, which carry an interest defined as STIBOR <sup>1</sup> less 1.5 percent, are convertible to B shares from November 19, 1999, up to and including May 30, 2003, at a conversion price of SEK 472 per share.

A capital discount amounting to SEK 816 m. has been calculated, considering a market interest rate of 6.87 percent. The capital discount has been credited to the Statutory reserve as an addition to capital in the consolidated financial statements as well as in the Parent Company (Share premium reserve) in accordance with the Swedish Financial Accounting Standards Council's recommendation No. 3. The capital discount is charged to income as interest expense under the duration of the loan.

<sup>1</sup> Stockholm Inter Bank Offered Rate

## NOTE 18 LIABILITIES TO FINANCIAL INSTITUTIONS AND UNUSED LINES OF CREDIT

Liabilities to financial institutions consist of bank overdrafts, bank loans and other short-term financial loans. Unused portions of short-term lines of credit for the Company amounted to SEK 4,861 m. In addition, the Parent Company had unused long-term lines of credit amounting to SEK 1,580 m.

**NOTE 19 OTHER CURRENT LIABILITIES**

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Liabilities to associated companies	182	248	22	43
Accrued expenses	16,132	12,395	1,343	1,178
Prepaid revenues	990	905	3	8
Other	9,273	4,933	3,508	259
	26,577	18,481	4,876	1,488

**NOTE 20 ASSETS PLEDGED AS COLLATERAL**

CONSOLIDATED	Liabilities to financial institutions	Advances from customers	Total	
			1997	1996
Real estate mortgages	384	37	421	414
Chattel mortgages	96	160	256	300
Bank deposits	338	3	341	432
Other	-	-	-	57
	818	200	1,018	1,203
<b>PARENT COMPANY</b>				
Real estate mortgages	-	-	-	1
Chattel mortgages	-	160	160	160
Bank deposits	323	-	323	432
Other	46	-	46	57
	369	160	529	650

At December 31, 1997, 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 21 CONTINGENT LIABILITIES**

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Guarantees for customer financing	5,888	4,061	3,086	2,418
Other contingent liabilities	1,417	2,379	4,706	4,631
	7,305	6,440	7,792	7,049

Of the guarantees assumed by the Parent Company, SEK 4,046 m. in 1997 and SEK 3,821 in 1996 were related to subsidiaries.

**NOTE 22 STATEMENT OF CASH FLOWS**

Interest paid in 1997 was SEK 1,497 m., and income taxes paid were SEK 3,250.

Non-cash transaction under "Cash flow from operating activities" not reported separately is current year increase in pension liabilities of SEK 945 m. (SEK 431 m. in 1996 and SEK 309 m. in 1995).

**NON-CASH ITEMS IN "FINANCING ACTIVITIES"**

In 1997, conversions of debentures were made for SEK 961 m. (1996 SEK 256 m., 1995 SEK 123 m.).

**NOTE 23 LEASING**

**LEASING OBLIGATIONS**

Equipment under Financial leases, recorded as tangible assets, consists of:

FINANCIAL LEASES	1997	1996
<b>ACCUMULATED ACQUISITIONS</b>		
Land and buildings	310	315
Machinery	48	52
Other equipment	38	48
	396	415
<b>ACCUMULATED DEPRECIATION</b>		
Land and buildings	44	37
Machinery	38	39
Other equipment	22	20
	104	96
Net value	292	319

At December 31, 1997, future payment obligations for leases were distributed as follows:

	Financial leases	Operating leases
1998	51	1,469
1999	44	1,164
2000	39	940
2001	33	763
2002	33	694
2003 and later	181	1,530
	381	6,560

Expenses for the year for leasing of assets were SEK 1,659 m. (SEK 1,385 m. in 1996 and SEK 801 m. in 1995).

**LEASING INCOME**

Some consolidated companies lease equipment, mainly telephone exchanges, to customers. These leasing contracts vary in length from 1 to 12 years.

The acquisition value of assets leased to others under Operating leases amounted to SEK 473 m. at December 31, 1997 (December 31, 1996: SEK 494 m.). Accumulated depreciation amounted to SEK 390 m. and net investments to SEK 83 m. at December 31, 1997 (December 31, 1996: SEK 392 m. and SEK 102 m., respectively).

Net investment in Sales-type leases and Financial leases amounted to SEK 155 m. at December 31, 1997 (December 31, 1996: SEK 187 m.).

Future payments receivable for leased equipment are distributed as follows:

	Sales-type and Financial leases	Operating leases
1998	32	54
1999	23	38
2000	16	33
2001	5	34
2002	1	24
2003 and later	127	6
	204	189
Less: interest	49	-
Net investment	155	189



**NOTE 24 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 tangible assets 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 Group has adopted an amortization period for capitalized software of three years. Capitalization amounting to SEK 5,232 m. (SEK 4,282 m. in 1996) has increased income and amortization amounting to SEK 3,934 m. (SEK 3,341 m. in 1996) was charged against income for the period when calculating income in accordance with U.S. accounting principles.

**(C) 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.

**(D) CAPITALIZATION OF INTEREST  
EXPENSES**

In accordance with Swedish accounting practice, the Company has expensed interest costs incurred in connection with the financing of expenditures for construction of tangible assets. Such costs are to be capitalized in accordance with U.S. GAAP, and depreciated as the assets concerned.

**(E) CAPITAL DISCOUNT ON CONVERTIBLE  
DEBENTURES**

According to Swedish accounting principles, the 1997/2003 convertible debenture loan and its nominal interest payments are valued at present value, based on the market interest rate at the time of the issue. The difference to the nominal amount, the capital discount, is credited directly to equity. According to U.S. GAAP, convertible debenture loans shall be reported as liabilities at nominal value. When calculating income and equity according to U.S. GAAP, the effects of the capital discount are reversed.

**(F) OTHER**

*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.

*Sale-leaseback of property*

In 1987, group companies sold properties which were leased to subsidiaries under contracts expiring in 1997.

Under U.S. GAAP, the sales during 1987 are considered financing arrangements and the gains are deferred and the proceeds are therefore treated as a liability. In accordance with Swedish accounting practice at the time, no deferral of profit had to be made if the sale price did not exceed the market value and if leasing costs did not exceed normal market leasing rates.

During 1995 and 1997, Ericsson waived its options to repurchase and canceled the rental contract on the properties. Consequently, the income portion of the sales proceeds were recognized in income for the periods in accordance with U.S. GAAP.

*Hedge accounting*

Ericsson has currency forward exchange contracts and options regarding firm commitments as well as budgeted cash flows regarding sales and purchases. According to Swedish accounting practice both kinds are considered hedges and are not valued at market. According to U.S. GAAP, contracts and options not related to firm commitments must be valued at market.

*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 consolidated applying the equity accounting method. Under U.S. GAAP, the company holding shares should accrue for withholding taxes on possible dividends.

*Business combination adjustments*

When applying Swedish accounting practice, the Company shows negative goodwill as a deferred credit which is released to income over on average 5-10 years (see also Notes to the financial statements, Accounting Principles (B) and Note 6). 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.

### (G) DEFERRED INCOME TAXES

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

#### SUMMARY

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

	1997	1996	1995
ITEMS INCREASING REPORTED NET INCOME			
Depreciation on revaluation of assets	22	24	23
Capitalization of software	1,298	942	1,242
Capital discount on convertible debentures	13	-	-
	1,333	966	1,265
ITEMS DECREASING REPORTED INCOME			
Pensions	72	-158	-182
Capitalization of interest expenses, net after depreciation	10	-24	-15
Other	207	-97	-122
Deferred income taxes	137	379	376
	426	100	57
Net increase in net income	907	866	1,208
Net income as reported in the consolidated income statements	11,941	7,110	5,439
Approximate net income in accordance with U.S. GAAP	12,848	7,976	6,647
Reported income per share	12.15	7.27	5.83
Approximate income per share in accordance with U.S. GAAP	13.06	8.15	7.11

#### ADJUSTMENT OF EQUITY

	1997	1996	1995
INCREASES			
Capitalization of software	7,398	6,100	5,158
Pensions	674	746	588
Capitalization of interest, net after cumulative depreciation	339	349	325
	8,411	7,195	6,071
REDUCTIONS			
Revaluation of assets	425	403	414
Capital discount on convertible debentures	803	-	-
Other	305	97	194
Deferred income taxes	2,138	2,230	1,848
	3,671	2,730	2,456
Adjustment of stockholders' equity, net	4,740	4,465	3,615
Reported Stockholders' equity	52,624	40,456	34,263
Approximate equity according to U.S. GAAP	57,364	44,921	37,878

#### ADJUSTMENT OF CERTAIN BALANCE SHEET ITEMS ACCORDING TO US GAAP

SEK m.	As per reported balance sheet		As per US GAAP	
	Dec 31 1997	Dec 31 1996	Dec 31 1997	Dec 31 1996
Intangible assets	748	919	8,146	7,019
Tangible assets	19,225	17,754	19,048	17,607
Other long-term receivables	3,365	2,208	3,414	2,108
Other receivables	19,133	10,514	20,176	11,412
Minority interest in equity	4,395	3,410	4,427	3,440
Provisions	21,095	17,938	23,606	20,171
Convertible debentures	6,034	1,772	6,837	1,772
Other long-term liabilities	510	1,687	510	1,711
Other current liabilities	26,577	18,481	26,804	18,481

Provisions 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 12 months. Applying this definition would mean following adjustments of reported cash:

CONSOLIDATED, SEK m.	1997	1996	1995	1994
Short-term cash investments, cash and bank, as reported	29,127	19,060	15,385	11,892
Adjustment for items with maturity of 4-12 months	-15,004	-8,396	-7,902	-5,166
Cash and cash equivalents as per US GAAP	14,123	10,664	7,483	6,726

#### NOTE 25 TAX ASSESSMENT VALUES (SWEDEN)

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Land and land improvements	408	369	254	215
Buildings	2,479	2,169	1,567	1,142

#### NOTE 26 SPECIAL INFORMATION REGARDING THE PARENT COMPANY

Sales of the Parent Company were SEK 16,217 m. (SEK 15,404 m.), of which exports accounted for 77 (69) percent. Consolidated companies were customers for 60 (70) percent of the Parent Company's sales, while 58 (52) 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 100 employees for the purchase of shares in LM Ericsson's Share Savings 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 cars.

**NOTE 27 AVERAGE NUMBER OF EMPLOYEES AND REMUNERATION IN 1997 AND 1996**

**AVERAGE NUMBER OF EMPLOYEES**

CONSOLIDATED	1997			1996		
	Men	Women	Total	Men	Women	Total
Sweden	27,843	12,510	40,353	27,940	11,674	39,614
Europe (excl. Sweden)	20,628	5,770	26,398	18,380	5,497	23,877
USA and Canada	6,067	3,112	9,179	5,547	2,817	8,364
Latin America	5,677	1,756	7,433	5,253	1,540	6,793
Africa	451	160	611	436	159	595
The Middle East	584	145	729	356	353	709
Asia	5,670	2,406	8,076	4,433	2,227	6,660
Oceania	1,935	864	2,799	1,895	884	2,779
	<b>68,855</b>	<b>26,723</b>	<b>95,578</b>	64,240	25,151	89,391
Of which EU	<b>46,098</b>	<b>17,515</b>	<b>63,613</b>	44,409	16,551	60,960

PARENT COMPANY	1997			1996		
	Men	Women	Total	Men	Women	Total
Sweden	5,352	2,623	7,975	6,906	3,406	10,312
Europe (excl. Sweden)	-	-	-	8	2	10
USA and Canada	-	-	-	-	-	-
Latin America	-	-	-	-	-	-
Africa	258	36	294	230	33	263
The Middle East	135	24	159	29	9	38
Asia	-	-	-	94	3	97
Oceania	-	-	-	-	-	-
	<b>5,745</b>	<b>2,683</b>	<b>8,428</b>	7,267	3,453	10,720
Of which EU	<b>5,352</b>	<b>2,623</b>	<b>7,975</b>	6,906	3,406	10,312

**WAGES AND SALARIES AND SECURITY EXPENSES**

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Wages and salaries	28,159	23,612	2,661	2,795
Security expenses	9,409	7,906	1,208	1,310
Of which pension costs	1,374	1,165	435	473

**WAGES AND SALARIES PER GEOGRAPHICAL AREA**

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
Sweden	12,165	10,977	2,589	2,737
Europe (excl. Sweden)	8,203	6,830	-	1
USA and Canada	4,120	3,001	-	-
Latin America	1,313	923	-	-
Africa	86	68	47	34
The Middle East	103	81	25	6
Asia	1,258	953	-	17
Oceania	911	779	-	-
	<b>28,159</b>	<b>23,612</b>	<b>2,661</b>	<b>2,795</b>
Of which EU	<b>19,595</b>	<b>17,151</b>	<b>2,589</b>	<b>2,737</b>
Board of Directors, President and Corporate Executive Vice Presidents (of which bonus and similar)			27 (5,5)	22 (4,7)

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

**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 President who also serves as Chief Executive Officer amounted to SEK 11,806,342 during the year, of which SEK 8,626,342 was salary, company car benefit and other, and SEK 3,180,000 was the bonus earned for 1996. Provisions have also been made for bonus earned 1997 and for long term bonus earned during 1995-1997 amounting to an aggregate of SEK 6,400,000.

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

Severance pay is not paid out if an employee resigns on own accord. The same applies if employment is terminated as a result of flagrant disregard of responsibilities. Notice given by the employee when such significant structural changes or other events occur which in a determining manner affect the content of work or the condition for respective positions is equated with notice of termination served by the company. If an employee is less than 50 years of age upon termination of employment, severance pay amounting to a maximum of 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. Subject to certain conditions, 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 has been signed for the company's President and Senior Executive Vice President.

Costs relating to pensions to the company President and Executive Vice Presidents amount to SEK 17.6 m.

**PUBLICATIONS FOR INVESTORS**

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

Telefonaktiebolaget LM Ericsson  
S-126 25 Stockholm, Sweden.

## AUDIT REPORT

*To the general meeting of the shareholders of  
Telefonaktiebolaget LM Ericsson (publ)  
Registration Number 556016-0680*

We have audited the annual report, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the Managing Director of Telefonaktiebolaget LM Ericsson (publ) for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the annual report and the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual report and the consolidated financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the

liability if any to the Company of any board member or the President or whether they have in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion the annual report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the results of the operations and financial position of the Parent Company and the Group, and consequently we recommend

*that* the income statements and the balance sheets of the Parent Company and the Group be adopted, and

*that* the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report.

In our opinion, the members of the Board of Directors and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

*that* the members of the Board of Directors and the President be discharged from liability for the financial year.

*Stockholm, January 29, 1998*

Carl-Eric Bohlin  
*Authorized*  
Public Accountant  
Price Waterhouse

Olof Herolf  
*Authorized*  
Public Accountant  
Price Waterhouse

Thomas Thiel  
*Authorized*  
Public Accountant

## TEN-YEAR SUMMARY

SEK m.	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>RESULTS FOR THE YEAR</b>										
Net sales	<b>167,740</b>	124,266	98,780	82,554	62,954	47,020	45,793	45,702	39,549	31,297
Operating income 3)	<b>18,757</b>	10,758	8,164	6,553	3,530	1,754	2,282	5,694	4,557	2,678
Financial net	<b>48</b>	412	58	-386	8	-204	-189	-163	-431	-553
Income before taxes 3)	<b>17,218</b>	10,152	7,615	5,610	3,108	1,241	1,595	4,855	3,715	1,840
<b>YEAR-END POSITION</b>										
Total assets 3)	<b>147,440</b>	112,152	90,832	72,999	67,490	56,637	50,080	47,167	40,856	34,625
Working capital	<b>53,095</b>	36,180	29,394	20,899	20,869	20,063	17,497	16,965	14,975	12,944
Tangible assets	<b>19,225</b>	17,754	15,521	13,678	12,363	11,093	10,477	9,058	7,776	6,679
Stockholders' equity 1) 3)	<b>52,624</b>	40,456	34,263	23,302	21,305	17,720	17,050	16,753	13,996	10,909
- after full conversion 1) 3)	<b>59,490</b>	42,269	36,353	25,519	23,512	18,349	17,690	17,398	14,721	12,450
Interest-bearing provisions and liabilities	<b>23,146</b>	17,545	15,554	16,522	16,868	16,321	12,913	9,366	8,769	9,035
<b>OTHER INFORMATION</b>										
Income per share, SEK 3) 5) 6)	<b>12.15</b>	7.27	5.83	4.30	3.07	0.56	1.04	3.42	2.46	1.34
- in accordance with U.S. GAAP, 2) 4) 5)	<b>13.06</b>	8.15	7.11	5.29	3.72	1.51	1.81	3.95	2.54	1.55
Adjusted stockholders' equity per share after full conversion, SEK 1) 2) 3) 5)	<b>60</b>	43	40	29	26	21	20	20	17	14
Cash dividends per share 2) 5)	<b>3.50</b> *	2.50	1.75	1.38	1.13	0.88	0.88	0.88	0.70	0.53
Shares outstanding - average (in thousands) 2) 5)	<b>969,371</b>	959,542	884,692	868,765	858,136	824,264	823,496	821,488	800,540	763,336
Additions to tangible assets	<b>7,237</b>	7,188	6,457	5,137	3,805	3,847	3,583	3,448	2,672	1,739
Depreciation	<b>5,422</b>	4,216	3,614	3,004	2,651	2,193	1,863	1,572	1,294	971
Research and development - expenses	<b>20,906</b>	17,467	15,093	13,407	10,924	7,377	7,054	4,901	4,329	3,529
- as percent of net sales	<b>12.5</b>	14.1	15.3	16.2	17.4	15.7	15.4	10.7	10.9	11.3
<b>RATIOS</b>										
Return on equity, percent 1) 3)	<b>25.7</b>	19.0	18.9	17.7	14.5	2.8	5.3	20.4	17.5	11.5
Return on capital employed, percent 1) 3)	<b>29.9</b>	22.4	20.7	18.2	12.9	9.6	12.0	25.9	23.7	16.0
Equity ratio, percent 1) 3)	<b>38.7</b>	39.1	39.6	34.4	34.5	34.5	38.1	39.3	37.8	33.9
Debt-equity ratio 1) 3)	<b>0.4</b>	0.4	0.4	0.7	0.7	0.8	0.7	0.5	0.6	0.8
Current ratio	<b>1.7</b>	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.8	1.9
<b>STATISTICAL DATA, YEAR-END</b>										
Backlog of orders	<b>77,499</b>	63,401	48,401	45,671	45,296	38,050	28,777	30,415	29,426	26,876
Number of employees										
- Worldwide	<b>100,774</b>	93,949	84,513	76,144	69,597	66,232	71,247	70,238	69,229	65,138
- Sweden	<b>45,360</b>	43,896	42,022	36,984	31,796	29,979	31,244	30,817	32,226	32,094

\* For 1997, proposed by the Board of Directors.

1) 1988-1989 adjusted for change in accounting principles.

2) 1988-1989 adjusted for 5-for-1 stock split.

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

4) From 1991 adjustment is made for 1993 adoption of FAS106,

Employers' Accounting for Postretirement Benefits Other Than Pensions and FAS109, Accounting for Income Taxes.

5) 1988-1994 adjusted for stock issue and 4-for-1 stock split.

6) 1988-1994 adjusted for stock dividend element of the stock issue in 1995.

Definitions of terms used above are given on page 52.

## **TEN-YEAR SUMMARY**

*Definitions of terms used on page 51.*

### **WORKING CAPITAL**

Current assets less current non interest-bearing provisions and liabilities.

### **ADJUSTED INCOME PER SHARE**

See Accounting Principles (N) under Notes to the financial statements and Note 5.

### **RETURN ON EQUITY**

Defined as net income 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 provisions and liabilities.

### **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 total interest-bearing provisions and liabilities divided by the total of stockholders' equity and minority interest in equity of consolidated subsidiaries.

### **CURRENT RATIO**

Current assets divided by the sum of current provisions and liabilities.

## FINANCIAL EXPOSURE

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 operations 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 demand on awareness by all parties involved in the management of such risks. Ericsson has a policy established by the Board of Directors for handling of financial risks. Awareness and management of these risks reduced the effects of the currency crisis in Asia on Ericsson's balance sheet and income statement during the year.

Ericsson is prepared to negotiate business transactions with customers in all convertible currencies, which has created exposure to more than 40 currencies, of which USD is the largest, accounting for about 37 percent of total net exposure. Ericsson's currency exposure is concentrated primarily in large production companies, most of which are Swedish, and the exposure is managed centrally by the company's internal bank, Ericsson Treasury Services. Companies in Sweden 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 1.

**TABLE 1. CASH FLOW, NET TO AND FROM SWEDEN, TRANSLATED TO SEK BILLION**

Specification of currencies with net flows exceeding SEK 500 m.

	1997	1996
USD-related currencies, of which		
USD U.S. dollar	14.7	10.8
AUD Australian dollar	2.4	2.1
HKD Hong Kong dollar	3.8	1.8
MYR Malaysian ringgit	1.4	1.4
Other USD-related currencies	1.1	0.3
	23.4	16.4
Other currencies, of which		
CHF Swiss franc	1.2	0.5
DEM German mark	3.0	-0.2
DKK Danish krone	1.3	0.5
ESP Spanish peseta	3.7	3.1
FRF French franc	0.8	0.1
GBP British pound	0.6	-0.6
ITL Italian lira	2.3	1.0
JPY Japanese yen	1.6	1.3
NLG Dutch guilder	0.6	1.2
Other currencies	1.2	0.2
	16.5	7.1
Total	39.9	23.5

Note: The table is based on statistical information on flows to and from Ericsson companies in Sweden, which comprise an estimated 90 percent of total currency flows.

## CURRENCY AND INTEREST RATE RISKS

Ericsson has rules and policies governing its management of currency and interest rate risks. The rules apply to all Ericsson units. A summary of the principles applied and various types of exposure is given below.

The risk mandate established for Ericsson Treasury Services is fixed at SEK 150 million, defined as a change of 5 percent in all open currency positions and 1 percentage point change in interest rates.

## FINANCIAL EXPOSURE

Financial exposure comprises advantages and disadvantages, for Ericsson relative to competitors, 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 55 percent of sales in export from Sweden 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 import and export activities, purchases and sales in foreign currencies are hedged in all cases involving binding contracts with customers and suppliers. Currencies should be hedged for the anticipated future cash flows. In addition, estimated sales and purchases are hedged for periods up to 12 months, based on assessments of stability in volumes, pricing and other factors for Ericsson's business areas. Some framework agreements and bids outstanding are also hedged, preferably with currency options.

Exposure arising from borrowing is limited, since most loans by foreign subsidiaries are quoted in local currencies.

The subsidiaries currency balances are monitored to secure minimum transaction exposure in Ericsson companies.

#### TRANSLATION EXPOSURE

Ericsson's equity in foreign subsidiaries is hedged only to a minor degree and within limits established by Corporate Management. During 1997, the limit was 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, amounting to SEK 1.6 billion.

The currency balances of foreign subsidiaries are monitored through reports.

**TABLE 2. STOCKHOLDER'S EQUITY IN CURRENT COMPANIES USING EXCHANGE RATES AT BEGINNING OF 1997 (INCL. ASSOCIATED COMPANIES AND EXCL. COMPANIES WITH FINANCIAL ACTIVITIES), SEK BILLION**

ATS	Austrian schilling	0.7
AUD	Australian dollar	1.1
BEF	Belgian franc	0.1
CAD	Canadian dollar	0.7
CHF	Swiss franc	0.3
CNY	Chinese renminbi	0.4
DEM	German mark	0.6
DKK	Danish krone	0.3
ESP	Spanish peseta	1.6
FIM	Finnish markka	0.4
FRF	French franc	0.2
GBP	British pound	0.1
IEP	Irish punt	0.7
ITL	Italian lira	3.2
JPY	Japanese yen	0.1
MYR	Malaysian ringgit	0.1
NLG	Dutch guilder	2.0
NOK	Norwegian krone	0.4
NZD	New Zealand dollar	0.1
USD	U.S. dollar	4.3

#### 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 1997, the aim was to balance the fixed interest period on interest-bearing assets and liabilities and that it should be short term. Liquidity is managed principally by Ericsson Treasury Services. The distribution of interest rates at year-end 1997 is shown in Table 3.

**TABLE 3. DISTRIBUTION OF FIXED AND FLOATING INTEREST RATES, SEK BILLION**

INTEREST-BEARING LIABILITIES	1997	1996
Short-term loans	5.0	6.5
Pension liability	7.2	6.2
Long-term, fixed-interest loans	2.5	2.2
Long-term, floating-interest loans	8.4	2.6
Total	23.1	17.5

#### 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 a 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 – plus confirmed long-term lines of credit. Payment readiness was strengthened in 1997 through positive cash flow from operations and the issue of a convertible debenture loan totaling SEK 6 billion. Ericsson's payment readiness at year-end 1997 was 15 percent; see Table 4.



**TABLE 4. PAYMENT READINESS  
SEK BILLION**

	1997	1996
Cash, bank deposits and short-term investments	29.1	19.1
Confirmed long-term lines of credit	1.6	1.4
Short-term borrowing	-4.2	-4.3
Short-term portion of long-term debt	-0.7	-2.2
Payment readiness	25.8	14.0
Percent of net sales	15	11

To ensure payment readiness in the long-term perspective, most of Ericsson's borrowing shall be long-term and/or covered by long-term lines of credits. Long-term borrowing should have an evenly distributed maturity structure, and extremely long terms should be avoided to maintain flexibility. In addition to the convertible debenture loan raised in 1997, Ericsson's interest-bearing pension liability accounts for a substantial part of 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 1997, the interest rate used to calculate financial costs of the pension liability was 3.7 percent.

With its present capital structure and credit ratings, 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.

The company's long-term borrowing needs have been secured with a Euro Medium Term Note program totaling USD 800 million, of which USD 250 million has been issued.

Short-term borrowing requirements are secured through commercial paper programs in Sweden, the Euro-market and the U.S. Total value of the programs is SEK 4.2 billion. They are supported by confirmed long-term credit lines amounting to SEK 1.6 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, but no significant losses were reported in 1997. Total credit risks involved in customer financing amounted to SEK 10.6 billion, of which SEK 4.7 billion pertained to Ericsson's own balance sheet, with the remainder included among contingent liabilities.

Ericsson's objective is to sell as much of the risk as may be appropriate, with due consideration to the terms offered. The largest potential buyers of such credits are banks and credit institutions such as the Export Credits Guarantee Board of Sweden.

AB LM Ericsson Finans (EFS) and Ericsson Project Finance AB (EFP) are financing companies that shall strive to create refinancing with limited recourse and, accordingly, lift risks from Ericsson's balance sheet. At year-end 1997, the companies had refinanced long-term customer credits amounting to a combined total of SEK 5.2 billion, of which SEK 3.4 billion was paid out with their own risk amounting to SEK 0.5 billion. EFS and EFP are associated companies and are not consolidated.

## ERICSSON SHARE DATA

### THE SHARE CAPITAL

The share capital of the Parent Company, Telefonaktiebolaget LM Ericsson, amounted at December 31, 1997, to SEK 2,436,240,148 represented by 974,496,059 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 892,468,729 B shares, carrying one thousandth of a vote.

During 1997 the number of shares increased by 13,333,854 through conversion of debentures. During the period January 1 to February 6, 1998, additional debentures may be converted to B shares carrying right to dividend for 1997.

### EMPLOYEE OWNERSHIP OF ERICSSON SHARES

Ericsson's General Savings Fund was started in 1984. The General Savings Fund, which has 1,313 participants, has invested in Ericsson shares. At year-end 1997, the holding in this fund amounted to 540,500 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 Düsseldorf, Frankfurt am Main, Hamburg, London, Paris and the "Swiss Exchange" 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 1997. The turnover was distributed as follows (approximate percentages): 40 percent on the Stockholm Stock Exchange, 31 percent via NASDAQ, 28 percent on the London Stock Exchange and 1 percent on other exchanges.

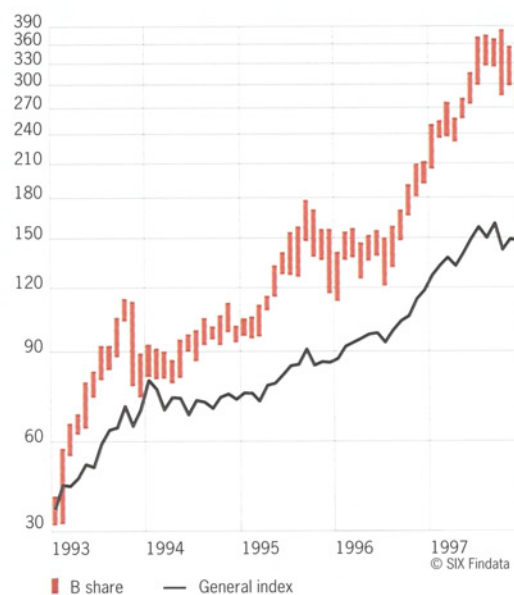
### SHAREHOLDERS

Approximately 90 percent of Ericsson's shares are owned by Swedish and international institutional investors. At year-end 1997, about 50 percent of the shares were held by shareholders outside Sweden, represented by (approximate percentages): 34 in the U.S., 6 in the U.K. and 10 in other countries.

### DEVELOPMENT OF MARKET VALUE

The market value for Ericsson shares was, December 31, 1997, SEK 292,000 m. During 1997 the value of Ericsson shares (A and B shares) increased by 44 percent. General Index increased by 24 percent during the year.

### TRADING ON THE STOCKHOLM STOCK EXCHANGE



### SHARE DATA

	1997	1996	1995 <sup>1)</sup>	1994 <sup>1)</sup>	1993 <sup>1)</sup>
P/E ratio, "B" shares <sup>2)</sup>	24.6	29.2	22.3	22.6	25.8
Dividend	3.50 *	2.50	1.75	1.38	1.13
Share prices, December 31, Stockholm Stock Exchange (SEK)					
"A"	314.5	218	138	105	102.5
"B"	298.5	212	130	102.5	85.3
"B" High for year	384	212	178.4	115.4	117.3
"B" Low for year	205	113	95.6	83.5	43

<sup>1)</sup> After 4-for-1 stock split

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

\* For 1997, 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
1997	Conversions	13,333,854	33,334,635
1997	December 31	974,496,059	2,436,240,148

**DISTRIBUTION OF SHARES, YEAR-END 1997**

Shareholders' holding	Number of shareholders	%	Number of shares	%	Number of shares per shareholder
1 – 500	188,736	78.9	21,406,872	2.2	113
501 – 5,000	45,681	19.1	68,653,741	7.1	1,502
5,001 – 20,000	3,534	1.5	32,629,925	3.3	9,233
20,001 –	1,278	0.5	851,805,521	87.4	666,514
	239,229	100.00	974,496,059	100.00	4,073

**THE LARGEST SHAREHOLDERS, RANKED BY VOTING RIGHTS, WERE AS FOLLOWS AT DECEMBER 31, 1997**

	Number of shares	Voting rights percent
AB Industrivärden	22,330,000	26.4
Investor AB	29,324,500	22.2
Knut och Alice Wallenbergs stiftelse	11,666,512	14.1
Svenska Handelsbankens Pensionsstiftelse	5,320,000	5.6
Livförsäkrings AB Skandia	14,891,909	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	1,450,000	1.7
Oktogonen, Stiftelsen	1,760,000	1.6
Svenska Handelsbankens personalstiftelse	1,230,000	1.5
Fjärde AP-Fonden	37,631,509	1.4
Trygg Hansa Försäkring	18,351,400	1.3
Svenska Handelsbankens aktiefonder	8,849,951	1.0

# The millennium problem is viewed seriously

*The year-2000 problem affects Ericsson's customers as well as its internal operations. Accordingly, it has been assigned high priority by executive management.*

□ **Electronic equipment controlled by processors is in danger of serious malfunction at the time of the approaching millennium shift. This well-known problem is keeping experts busy worldwide and worrying many people, a concern which is rising in pace with a realization of how much in modern society is dependent on computer technology. As a producer of electronic equipment, Ericsson is highly affected by this so-called "year-2000 problem." Therefore, comprehensive efforts are under way to survey the extent of the problem, determine which measures are necessary and take action.**

The anticipated functional disturbances in electronic equipment in conjunction with the year-2000 problem affect Ericsson in a number of ways. The expected problems are a threat to Ericsson's customers, since the products they have purchased from Ericsson are most likely processor-dependent. Naturally, these problems also affect Ericsson's internal operations. The millennium problem has thus been given highest priori-

ty by executive management. Since early 1997, intense and comprehensive efforts have been under way to determine exactly how and where Ericsson is affected. The project is led by a group at top-level management, with Håkan Jansson, Ericsson's Senior Vice President, Corporate Technology, at the forefront.

## Four key areas

"We have divided the millennium dilemma into four areas representing the various lines of attack we are following in our action plans," says Håkan Jansson.

He considers all of these areas to be as important:

### In brief

- The year-2000 problem is assigned high priority within Ericsson.
- Most of the work with the year-2000 issues is expected to be completed during 1998.

**Business support systems:** This includes all of the computerized systems used for supporting Ericsson's operations. To date, most of the systems have been evaluated and decisions on upgrades or other measures have been taken. The remainder will have been evaluated before the end of the second quarter in 1998.

**Ericsson's products:** Nearly all of Ericsson's products are affected by the millennium problem. The products manufactured today are either designed with the millennium shift in mind, or upgrade packages will have been developed in advance of the millennium shift. The installed base of systems and products will be tested and evaluated in 1998. Based on this inventory, Ericsson's various units will in cooperation with the customers assess to what degree upgrading or exchange to more modern equipment is suitable.

**Production:** Process-controlled production equipment is used in all areas of Ericsson's production operations. Most of the affected machinery and equipment has been evaluated. The remainder will be completed during 1998.



NETWORK MANAGEMENT AND OPERATION CENTER, RICHARDSON, THE U.S.



SYDNEY, AUSTRALIA

*Building Infrastructure:* Ericsson's central property company has complete responsibility for evaluation of all of Ericsson's properties and their various support systems. A review has already been completed for the Swedish operations. Ericsson's foreign properties will be reviewed during 1998.

### Information issue

In a company as large as Ericsson, there will always be units that are further ahead in a particular area. This is why heavy emphasis is placed on information regarding the millennium problem. Information on smart solutions are exchanged between companies on Ericsson's internal intranet. A network of people responsible for this information has been established.

"The local responsibility for identifying, evaluating and solving year-2000 problems lies with local company presidents," explains Håkan Jansson.

### Concern taken seriously

It is only natural that the millennium dilemma raises concerns among many of Ericsson's customers. Ericsson takes the market's concerns seriously and is striving in cooperation with customers to develop solutions to expected problems in each specific case. Through active participation in various national and international industry forums on the issue, Ericsson gains more information about the millennium problem and concurrently shares its experience and insights.

"We want to allow our customers to share the expertise we are accumulating through our own work on the millennium issue," Håkan Jansson assures. □



ROBOT ASSEMBLY LINE FOR SURFACE MOUNTED COMPONENTS, BROADMEADOWS, AUSTRALIA

## A new organization takes form

*That 1998 is the year when most of the EU countries are deregulating their fixed telecommunications is just one of many examples of the type of dynamic changes now prevailing in the industry in which Ericsson is active.*

□ **A new business area organization within Ericsson became effective on January 1, 1997. The number of business areas was reduced from five to three. The internal structures of these three business areas were finally determined during the year. The new organization can be viewed as a step in the massive transformation the company has undergone in recent years.**

This change has been implemented with the aim of better aligning Ericsson to the conditions currently prevailing in the telecommunications market. That 1998 is the year when most of the EU countries are deregulating their fixed telecommunications is just one of many examples of the type of dynamic changes now prevailing in the industry in which Ericsson is active.

The three business areas, Mobile Systems, Infocom Systems and Mobile Phones and Termi-

nals, are centrally responsible for Ericsson's products within each area. On the market, the local companies deal directly with the customer. The new organization means that the local market responsibility is further emphasized. Concurrently, the link between the local companies and corporate management is strengthened through the appointment of so-called Corporate Officers for each of the companies, whose task is to support the local operations and protect its interests within Ericsson.

### **Radio access transferred to Mobile Systems**

The business area with the highest sales is Mobile Systems. In addition to the business units for mobile systems for analog and digital standards, this business area includes business units with responsibility for private radio systems as well as radio messaging. The Mobile Systems Business

Area also incorporates microwave link solutions. As of 1998, Ericsson's solutions for radio access will be included in the business area. During 1997, this was part of a combined offering of access solutions in the Business Area Infocom Systems.

The business area is managed by Kurt Hellström. It had six business units in 1997: Mobile Systems for GSM, NMT and TACS standards; Mobile Systems for D-AMPS/AMPS standards; for the Japanese standard PDC; Radio Messaging; Private Radio Systems and Microwave Communications.

## Infocom Systems reorganized

The art of adapting to rapid changes in the market is highly valuable in a dynamic world. Consequently, Ericsson's process of change is under way constantly. This work is most notable in the new Infocom Systems business area, where the past year was characterized by a multitude of initiatives aimed at enhancing the efficiency of operations. The business area's weak profitability resulted in the pace of planned restructuring measures being accelerated. The restructuring began in 1995 and has so far reduced the number of employees by 10,000.

In December a number of new measures were announced which combined are expected to result in a cost reduction in the range of SEK 2 billion in a couple of years. All costs for the on-going restructuring have already been charged in 1997 or earlier. The technical development of the AXE system, with a sharp reduction in the size of the product and a number of technical simplifications, is another important reason that further efforts can now be made in increasing the efficiency of the production system.

A number of production operations have been outsourced to partners. The guiding principle for the business area is to retain only those operations which are of major strategic significance or which cannot be carried out more efficiently by external partners. Through global cooperation agreements with two American companies – SCI and Solectron – Infocom Systems has found significantly more cost-efficient alternatives for the key circuit board production. These agreements affect production units in Norrköping, Madrid and São Paulo among others. Production of printed circuits in Norrköping is being transferred at the end of the year to the American company Viacom Systems. In a similar fashion, a number of other operations have been transferred to other companies, with which long-term cooperation agreements have been signed. In most cases, the affected personnel could be transferred to the new company.

This comprehensive restructuring of the business area will continue in 1998. Some 10,000 jobs are being affected by continued concentration and reorganization of production and administration. Competence and resources are now being concentrated to a limited number of locations in the world, to which the total responsibility for customer deliveries is being transferred. As part of the general globalization and decentralization of Infocom Systems' operations, these centers are being placed in Australia, France, Mexico, Spain and Sweden and each is being assigned responsibility for a certain geographical region. This new organization will result in a major cut in costs for Ericsson, while the customer will benefit from faster and more reliable deliveries.

The Infocom Systems business area has four business units: Public Networks, Business Networks, Transport Networks and Data Networks. The business area is managed by Anders Igel.

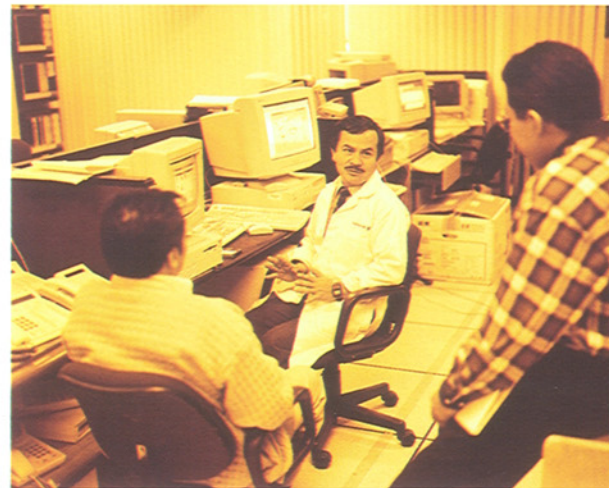
## Regional organization for Mobile Phones and Terminals

All operations involved directly with the end-user are combined within Ericsson's new Business Area Mobile Phones and Terminals. In addition to mobile telephones and accessories, cordless telephone for home use, personal pagers and terminals for mobile data communications are included in the business area's offering.

The business area has a highly decentralized organization. The head office is in Kista outside Stockholm but most of the management functions are based in other locations. Research and development is controlled from Raleigh, North Carolina in the U.S. and Lund in Sweden. The marketing and sales organization is divided into three regional offices, in Lund, Raleigh and Singapore.

The business area, which is managed by Johan Siberg, has three business units; one for GSM and European standards, one for American and Japanese (PDC) standards and one for data and satellite terminals. □

*The art of adapting to rapid changes in the market is highly valuable in a dynamic world. Consequently, Ericsson's process of change is under way constantly.*



CUSTOMER SERVICE CENTER,  
MEXICO CITY, MEXICO

# Continued growth for mobile systems

Mobile telephony continues to be a very expansive area of telecommunications. It is estimated that growth in 1997 amounted to 48 percent. This would mean that the number of mobile telephones increased by 65 million during the year. The greatest growth is taking place in digital systems, which are growing by approximately six million new subscribers each month. Of the digital standards, GSM shows the strongest gain, but the growth in D-AMPS systems was also substantial during the year, as was growth in the Japanese systems based on the PDC standard. During 1997, notably in the United States, a number of networks were started that employ IS-95 technology – a standard Ericsson has chosen not to deliver. However, this standard is definitely the least widely adopted of the digital standards. The digital standards that Ericsson is supporting show the greatest growth throughout the world.

At year-end 1997, according to preliminary figures available when this Annual Report went to press, there were a total of 91 million subscribers in analog mobile telecommunications systems and 110 million in digital systems.

The greatest growth during the year was again recorded in Asia, where China and Japan are two very rapidly growing markets; but the financial problems that characterized this part of the world during the autumn are expected to slow the rate of growth somewhat.

Latin America is a market that is making strong progress. Here, the D-AMPS standard is dominant, but the first GSM system in this part of the world – a system that Ericsson delivered to a customer in Chile – was started during the year. Growth in North America was hampered by lingering uncertainties with respect to the allotment of frequencies for the new PCS (Personal Communication Systems) in the U.S.

The market in Europe in 1997 continued to be characterized by further growth. Spain and Italy

were countries in which particularly high growth was noted.

## Important customer base

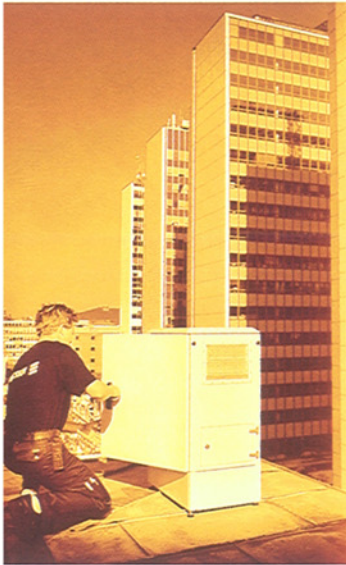
Ericsson – with approximately 40 percent of the world market, calculated in terms of the number of subscribers connected to its systems – is still clearly the leading supplier of mobile telecommunications systems, Lucent Technologies, Motorola, Nokia and Siemens are the strongest competitors. The past year was not marked as much by new large transactions as by steady expansion of systems delivered earlier. Ericsson's strong customer base in the mobile sector is a substantial asset, Upgrades, system build-outs and similar business now account for nearly 70 percent of the Business Area Mobile Systems' business. Nine of the ten largest global operators of mobile systems have Ericsson as a partner.

Growth with existing customers constitutes one of Ericsson's most important commercial strategies for

the Business Area Mobile Systems today. Major efforts are therefore being made to find new methods for closer cooperation with customers in order to increase their competitiveness. Deregulation and privatization of the telecom market worldwide are the industry's most important growth factor and the number of new operators is growing sharply. In addition to creating a market for equipment and traditional service, this expanding market also generates a demand for various forms of skilled operating support, assistance which Ericsson can also supply based on its years of experience.

## The third generation

During 1997 Ericsson and four other suppliers were retained by NTT DoCoMo, the Japanese



Ericsson's radio base stations are becoming increasingly more compact and simpler to install.



A fixed cellular network uses GSM technology to connect subscribers to the fixed-wire network.

Net sales by geographic area, percent



### Business Area Mobile Systems in brief

SEK m. and percentage of Ericsson totals	1997		1996	
Order bookings, external	75,483	42%	60,551	44%
Net sales, external	70,337	42%	57,511	46%
Net sales, internal	1,363	-	549	-
Number of employees	37,800	38%	36,317	39%



company, to develop a pilot system for broadband mobile telephony based on so-called WCDMA (Wideband CDMA) technology. Another similar assignment was also received from Japan Telecom later in the year. These two contracts were strong confirmation that ten years of research in mobile multimedia is now beginning to yield results and that Ericsson has assumed a leading position in this field.

WCDMA is a technology that makes it possible to substantially broaden the areas of use of mobile telephony. Internet access and mobile multimedia are examples of applications in which very high data transfer capacity is required in the mobile network.

The European Telecommunications Standards Institute (ETSI) has now taken its important decision on the future standard for the next generation of mobile telephone systems. ETSI has decided to implement a standard based essentially on the WCDMA technology advocated by Ericsson. This confirms once again that Ericsson is on the leading edge in developing technology for future mobile telephone systems.

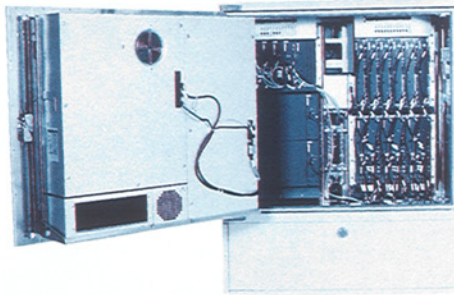
## Old and new

In the shadow of the digital systems, sales of analog mobile telephone systems in 1997 remained favorable.

The market for satellite-based mobile telephony is a new market segment. There is great interest in the systems that are now being built up. A number of international consortia are currently developing systems in which radio traffic will be handled via satellites close to the earth. Ericsson is supplying exchanges and control equipment to a number of these satellite operators. There are many indications that this portion of the mobile telecommunications market will grow strongly in future years.

## Caution with respect to financing

Supplier financing is an important competitive factor in a deregulated market with many new operators. This has become a natural element in today's mobile system transactions. Ericsson has traditionally always been conservative where financial risks were involved and in a number of



Despite the compact format, today's radio base stations are very service and maintenance friendly.

cases has abstained from transactions rather than assume large risks.

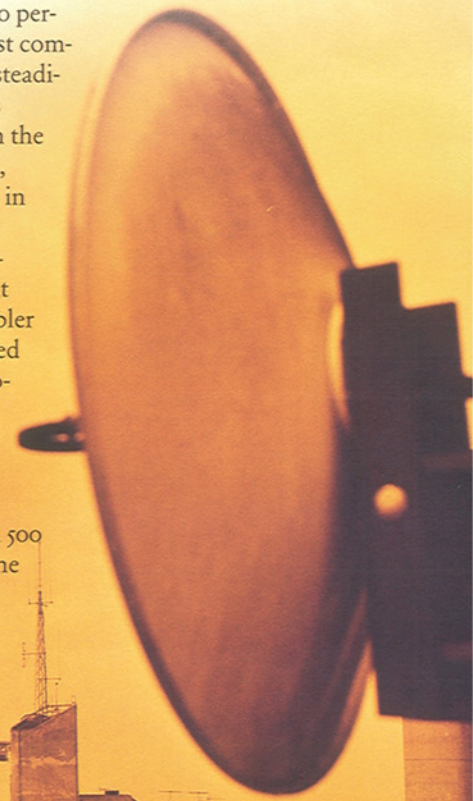
Ericsson has also been successful in selling its financing commitments. In 1997, for example, it sold a large financing commitment assumed against Omnipoint in the U.S. to Citibank. □

## Still largest in microwave links

During 1997 Ericsson defended its dominant position in the market for microwave links. MINI-LINK is a highly successful product family which now holds a worldwide market share of 30 percent, more than double that of the nearest competitor. Sales of MINI-LINK have grown steadily by 40 percent annually, as in 1997. It is being used frequently in connection with the expansion of mobile telephone networks, which explains the strong growth in sales in recent years.

The efficiency in production of MINI-LINK has been greatly enhanced in recent years. The new generation features a simpler design and has been adapted to automated manufacturing and a large portion of production has been outsourced to sub-suppliers and cooperation partners. The production plant in Borås, Sweden, where the number of employees has increased during the past four years from 500 to 1,100, now focuses its production on the microwave units in the MINI-LINK, the strategically most important parts of the product and those which are the most technically advanced. □

Brazil has long been an important market for Ericsson's MINI-LINK microwave links.



## AXE technology applied in new areas

In the range of products offered by Ericsson to public telecom operators and companies, the AXE and Consono MD110 systems are the most important products in Ericsson's Infocom Systems business area. AXE and Consono are both based on the same fundamental technology, the successful AXE system. AXE, with close to 132 million lines of equipment installed or on order in 125 countries, is the world's best-selling telephone system. The Consono MD110 system – with more than 1.8 million lines installed during the year – is one of the world's leading systems for large business exchanges. AXE is also the switching platform for the Ericsson's mobile telephone systems.

### AXE for multimedia communications

The AXE system is being modernized continuously. During 1997 Ericsson introduced a completely new mechanical design for AXE equipment that sharply reduces the size of the system and the power required.

All new technology that Ericsson can foresee today can be integrated in the AXE system. One example is IP-based data traffic. A number of solutions for using AXE in Internet applications were presented during 1997.

The "Internet Access Server" is an adaptation of the AXE exchange to facilitate data communications via the Internet. It currently supports access via an ISDN (Integrated Services Data Network) or ordinary telephone line and it also provides access by means of an ADSL (Asymmetrical

Digital Subscriber Line), a technology that increases bandwidth in a conventional copper line. Work is also under way to further develop AXE for broadband traffic with the aid of ATM (Asynchronous Transfer Mode) technology.

### Strong growth in data communications

Growth in the market for data communications and communication services based on the Internet protocol is now exceeding 30 percent annually. Accordingly, Ericsson is focusing intensely on this area, for example voice and multimedia communication over the Internet.

Ericsson has developed an ATM exchange that will be introduced in spring 1998. During 1997 Ericsson joined a number of other leading suppliers in becoming part-owners of Juniper, an American company that is developing a technology for very advanced routers, a type of switch used in data networks. When Juniper's so-called "Giga-router" is ready to be marketed, Ericsson – as a result of this program – will be able to include the new exchange in the line of products offered in the very fast-growing datacom market.

Ericsson has also developed the Virtual Private Intranet solution, in which the operator can offer its customers an IP-based multimedia solution in a secure intranet environment. An initial application is telemedicine.

Ericsson has a long tradition in data communications and has delivered packet/frame relay networks to more than 300 customers, mainly in Europe. Through pertinent company acquisitions and cooperation, Ericsson will successively strengthen its position in this area.

### Good year for business communications and BusinessPhones

Consono – Ericsson's family of solutions for business communications – experienced a good year in 1997. The market shares of all products included in the Consono solution increased. Sales rose globally by more than 30 percent, to three million installed lines during the year. The Consono MD110 and BusinessPhone, Ericsson's slightly smaller business exchange, are increasingly being selected as part of an integrated voice and data network.

Ericsson's DECT system for cordless business communications, maintained its leading market position. New products for the U.S. market were launched during the year.



The new generation of AXE switches is extremely compact. Some components have been reduced by as much as 90 percent in size.

Personnel at the new and futuristic Guggenheim Museum in Bilbao, Spain, communicate with a DECT system from Ericsson.



The Consono MD110 is currently installed in more than 100 countries and is the most internationally distributed system in its segment.

## Flexible access products

Communication between the local exchange and the subscriber takes place in the so-called access network. High demands are imposed on the equipment that Ericsson and other suppliers provide for the access network. It must be able to handle a flexible network expansion and support the introduction of new and profitable telecommunications services.

Ericsson's product portfolio for access networks includes systems and products based on fixed-wire technology for copper or fiber, or on radio technology.

## Transport network products

One fourth of all investments in telecommunications equipment today are made to expand transport networks.

Today, SDH (Synchronous Digital Hierarchy) technology dominates the new investments. Ericsson has a competitive product portfolio for SDH. In addition to its own products, it includes a number of highly advanced SDH products made by Marconi.

DWDM (Dense Wavelength Division Multiplex), a new technology for signaling in fiber optical networks, achieved its commercial breakthrough in 1997; it is a system that substantially increases the capacity of fiber optical telecommunications networks. Ericsson received its first strategically important order in this field during the year.

## Strong increase for energy systems

Ericsson is developing and marketing energy systems for all types of telecommunications networks. The product line includes power products and systems, climate systems and control and

monitoring systems for energy equipment. Sales of energy systems rose 20 percent in 1997.

Ericsson has been highly successful during the year with so-called DC/DC transformers, power modules that are mounted directly on printed circuits used in telecommunications equipment, computers and other products. Ericsson produced more of these modules than any other company in the world in 1997.

Several systems for remote supervision of energy equipment in telecom networks. Ericsson Energy Master, were installed and started up during the year.

A new development center for energy systems for the key American market was established in Dallas during the year. Shanghai Ericsson Simtec Electronics Ltd. began operations in Shanghai in 1997. The company produces equipment for energy systems and microelectronics.

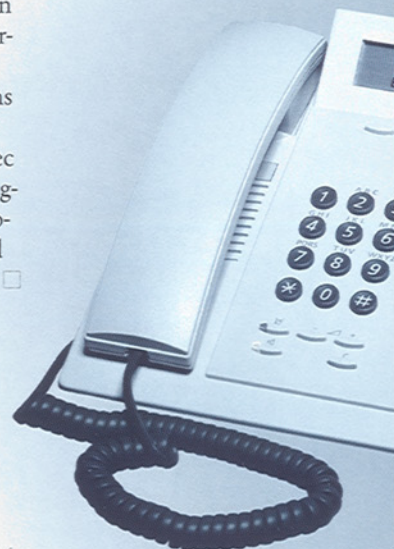


MacroDens is the world's most sold power module, for use in PC's and other applications.

## Cable operations post higher sales

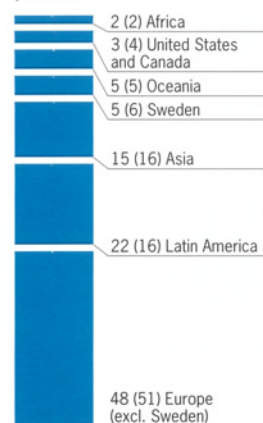
Ericsson's line of telecommunications cable comprises both copper and fiber optical cable, so-called optocable. Traditional copper cable still accounts a majority of sales, but sales of optocable are increasing most rapidly. During 1997, Ericsson won several important contracts for optical marine cable and for optocable which is laid along roads, railways and as high-voltage lines.

Sales of network materials – consisting, in Ericsson's case, of a number of products that are used to connect fiber cable to telecommunications systems – increased during 1997. This also applied to Ericsson's fiber welders, advanced tools used to weld together the microscopic optical fibers in a cable.



Dialog is a family of advanced digital system telephones for Ericsson's PBS.

Net sales by geographic area, percent



### Business Area Infocom Systems in brief

SEK m. and percentage of Ericsson totals	1997		1996	
Order bookings, external	51,342	29%	46,829	34%
Net sales, external	47,900	29%	38,384	31%
Net sales, internal	1,304	-	1,557	-
Number of employees	37,658	37%	38,699	41%

# Sharp rise for mobile telephones

The mobile telephone market continued its sharp expansion. Sales of mobile telephones are expanding parallel with the expansion of mobile systems. An increasing number of mobile telephone subscribers are switching more often to newer models. In 1997 about 100 million mobile telephones were sold. There is every indication that sales will continue to increase at a rapid pace.

Ericsson has achieved a position of world leadership in the market for digital mobile telephones. Since digital systems are the ones that are now expanding most rapidly, this is the most attractive segment of the mobile telephone market. The Company's sales of mobile telephones doubled during the year, amounting to a total of SEK 42 billion, an increase of 87 percent compared with 1996.

Since growth in the market is estimated to have amounted to approximately 50 percent, a large portion of Ericsson's growth in sales is attributable to the fact that the company increased its share of the market substantially, due in part to major marketing successes in the United States and China. In addition, Ericsson further strengthened its market positions in Europe.

A large number of new products were launched during 1997. One reason for the diversity is that Ericsson is now concentrating increasingly on producing different telephones for different customer segments. This is also clearly reflected in the increasingly stronger investment in marketing and brand name promotion. Notable innovations during the year included the first dual-band telephone for 900/1800 MHz which, in addition to handling calls on both frequencies, is equipped for cordless infrared communication with personal computers. The MC12, a mobile data communications system in the form of a

mobile terminal and a small, separate hand-held computer, was introduced during the autumn. In the U.S., Ericsson launched the first mobile telephone that can handle both digital and analog AMPS systems

in three different frequency bands: 800, 850 and 1900 MHz.

A focused effort to profile the Ericsson brand name within an increasingly broader customer base was successful during 1997. The Ericsson brand is now well-known on the market and is perceived as a leader in terms of quality and innovation.



MC12 is a small portable device for mobile data communications.

Ericsson's largest production facility for mobile telephones is in Kumla, Sweden. During the year the company inaugurated another addition to the rapidly expanding plant there. Telephones are also produced in Linköping, Sweden, Lynchburg, Virginia, in the U.S.; in Bilbao in Spain; in Carlton in Great Britain; and in Beijing, China. Production for the increasingly important

Latin American market was begun on the outskirts of São Paulo, Brazil in March 1997. Production for the important Asian market was also begun in Kuala Lumpur, Malaysia.

A new development center was inaugurated in Lund, Sweden, during the year. It shares responsibility for the development of mobile telephones with the center in Raleigh, North Carolina, in the U.S., that was expanded in 1996. Units for the development of mobile telephones are also located in Germany and Japan. □

## Microelectronics is increasingly important

Effective telecom solutions demand cutting-edge microelectronic technology. For this reason Ericsson's operations in this field encompass research and development, construction design and circuit manufacture. The Company is world-leading in access circuits for copper and fiberoptic networks. An important range of products are Ericsson's line circuits which manage all incoming and outgoing traffic in telephone switches.

A number of strategically important integrated circuits for radio frequencies (RF) have been developed for Ericsson's mobile telephone systems. These circuits, which are used in both radio base stations and mobile telephones, are highly advanced. Ericsson's latest VLSI-plant maintains

China has become a large market for Ericsson's digital mobile telephones.

extremely good quality performance. Up to 98 percent of the circuits produced are fault-free.

As a result of the strong growth in mobile telephone operations, the volume of RF circuits produced has increased threefold. For the third generation of mobile telephony, Ericsson has developed its largest integrated circuit to date, a WCDMA circuit with no fewer than three million transistors. □

## Defense electronics in the forefront of technology

Ericsson's operations in the defense electronics area comprise land-based, marine and airborne radar and communications systems. These operations are focused on a sector of the market for defense technology that is still increasing despite a declining market as a whole. Ericsson is in a segment that is expected to be even more important in the future. Ericsson's products are well fitted for peace building and international mission etc. Internationally, the defense electronics industry is characterized by major restructuring.

Some 500 "Giraffe" units, Ericsson's major radar product over the years, have been sold to customers in 26 countries throughout the world. Ericsson's next generation of tracking radar is developed for the Swedish "Bamse" air-defense system. It is built for two applications: as signal-tracking radar and as fire-control radar.

During 1997 Ericsson began deliveries to the Norwegian authorities of "Arthur," an artillery-location radar that the company developed for the Swedish Defense Materiel Administration and the Norway's Military Supply Command.

The deliveries of Erieye, an airborne surveillance radar, to the Swedish Air Force continued during the year. A contract was signed with Brazilian authorities for six Erieye units to be used for surveillance over the Amazon region. The main purpose is to track illegal drug traffic.

The work on a new generation of radar for the JAS 39 Gripen multirole military aircraft continued during the year. This is a highly advanced radar whose development will yield many new solutions that can be used in Ericsson's commercial development program. The Swedish Defense Ministry's order for series three of the JAS represents an order value to Ericsson of SEK 2.5 billion for ongoing deliveries through 2006. □

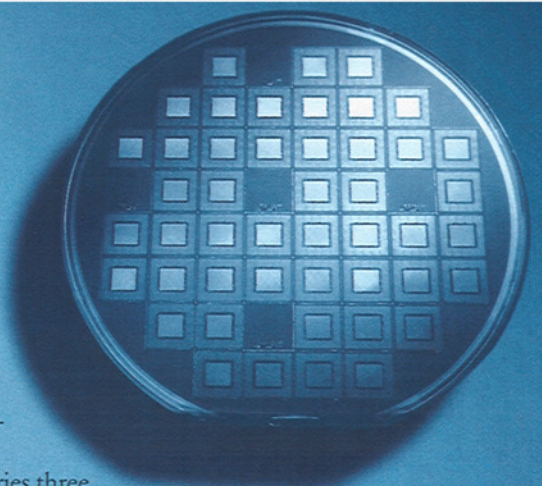
## A future market

Investments in new equipment is an area in which Ericsson and other telecom suppliers traditionally focus their efforts. Operation, maintenance and administration of a telenet and telecom services accounts for more than 80 percent of a typical operator's expenses.

Selling customer services is a prioritized area for Ericsson. The Company has a very strong platform for its increasingly expanding service sales. During 1997, this type of sales amounted to more than SEK 7 billion. Italy, Australia, Brazil, Mexico, Great Britain and Germany are countries in which Ericsson has been successful in this area.

During 1997, extensive and global marketing campaigns have been carried out to promote Ericsson's services. An overall business area concept for these operations has also been developed.

The services offered by Ericsson cover all aspects of a telecom operators business, from business planning, through network planning, installation, operating support and network improvements to invoicing subscribers. Customized training of the operators' personnel is also an important component of Ericsson's service offering. □

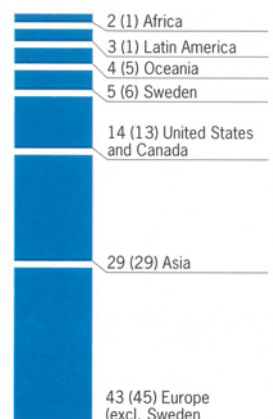


Ericsson's largest printed circuit to date contains three million transistors.

The artillery-location radar Arthur was developed in cooperation with the Swedish and Norwegian defence forces. A contract was also signed with the Danish Army during 1997.



Net sales by geographic area, percent



### Business Area Mobile Phones and Terminals in brief

SEK m. and percentage of Ericsson totals	1997		1996	
Order bookings, external	42,399	24%	24,113	17%
Net sales, external	41,742	25%	21,899	18%
Net sales, internal	550	-	759	-
Number of employees	12,320	12%	7,965	8%

Board of Directors

**Björn Svedberg** (1)  
(1937\*) Chairman. Honorary Doctor of Technology. Member of the Boards of ABB, Incentive, Volvo and STORA. Member since 1977. Shares held: B 39,798. Convertible debentures 1993/2000: 150,000.\*\*

**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 and SCA. Member of SAS Assembly of Representatives. Member since 1991. Shares held: B 8 800. Convertible debentures 1993/2000: 20,000.\*\*

**Lars Ramqvist** (3)  
(1938\*) President and Chief Executive Officer. Doctor of Philosophy. Member of the Boards of Astra, SCA, Federation of Swedish Industries, Swedish Employers' Confederation and Association of Swedish Engineering Industries. Member since 1990. Shares held: B 3,766. Convertible debentures 1997/2003: 145,347.\*\*\*

**Bo Berggren** (4)  
(1936\*) Honorary Doctor of Technology. Chairman of the Boards of STORA, Astra, Federation of Swedish Industries, SAS and SAS Sverige AB. Deputy Chairman of Investor. Member of the Boards of Danisco A/S, Robert Bosch and the Royal Institute of Technology. Member since 1994. Shares held: B 6,000.

**Göran Engström** (5)  
(1948\*) Employee representative. Member since 1994. Shares held: B 860. Convertible debentures 1993/2000: 6,250.\*\* 1997/2003: 99,120.\*\*\*

**Jan Hedlund** (6)  
(1946\*) Employee representative. Member since 1994. Convertible debentures 1997/2003: 75,520.\*\*\*

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

**Sverker Martin-Löf** (8)  
(1943\*) President and CEO of SCA. Chairman of the Swedish Forest Industries' Association. Member of the Boards of AGA, 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 Pohjola Insurance Company Ltd. Member since 1996. Shares held: B 500.

**Clas Reuterskiöld** (10)  
(1939\*) President and CEO of Industrivärden. Chairman of PLM. Member of the Boards of AGA, Handelsbanken, SCA and Sandvik. Member since 1994. Shares held: B 4,400.

**Peter Sutherland** (11)  
(1946\*) Honorary Doctor. Chairman of the Boards of Goldman Sachs International, British Petroleum and the Overseas Development Council. Member of the Boards of Investor, ABB Asea Brown Boveri, ABB, LM Ericsson Holdings Ltd. 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 Årgrup** (13)  
(1930\*) Chairman of the Board of AGA. Member of the Boards of Handelsbanken, Sandvik and Tetra Laval. Member since 1983. Shares held: B 3,000.

Board of Directors  
Deputy Members

**Christer Binning** (14)  
(1946\*) Employee representative. Member since 1994. Convertible debentures 1993/2000: 750.\*\* 1997/2003: 145,347.\*\*\*

**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 and NCC. Member since 1986. Shares held: B 21,391. Convertible debentures 1997/2003: 145,347.\*\*\*

**Christer Åkerlind** (17)  
(1950\*) Employee representative. Member since 1994. Shares held: B 64. Convertible debentures 1997/2003: 145,347.\*\*\*

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 Audit and Security.

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

**Johan Fant**  
Senior Vice President, Corporate Finance Control.

**Bengt Forssberg**  
Senior Vice President, Corporate Markets.

**Lennart Grabe**  
Senior Vice President, Corporate Business Development.

**Håkan Jansson**  
Senior Vice President, Corporate Technology.





**Bo Landin**

Senior Vice President,  
Corporate Office, Asia Pacific.

**Britt Reigo**

Senior Vice President,  
Corporate Human Resources and  
Organization.

**Rolf Skoglund**

Senior Vice President,  
Corporate Information Systems  
and Technology

**Lars A Stålberg**

Senior Vice President,  
Corporate Relations.

**Karl-Henrik Sundström**

Senior Vice President,  
Corporate Treasury.

**Business Areas**

**Kurt Hellström**

Executive Vice President, Mobile  
Systems. President, Ericsson Radio  
Systems AB.

**Anders Igel**

Executive Vice President,  
Infocom Systems. President,  
Ericsson Telecom AB and Ericsson  
Business Networks AB.

**Johan Siberg**

Senior Vice President, Mobile Phones  
and Terminals. President, Ericsson  
Mobile Communications 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.  
\*\* Conversion rate: SEK 72.10  
\*\*\* Conversion rate: SEK 472

*Parent Company,  
subsidiaries, associated  
companies, regional  
and technical offices*

#### Algeria

- Telefonaktiebolaget LM Ericsson Bureaux Techniques d'Algérie
- SITEL – Société Industrielle Algérienne de Télécommunications

#### Argentina

- Compañía Ericsson S.A.C.I.

#### Australia

- Ericsson Australia Pty. Ltd.
- Ericsson Data Australia Pty. Ltd.
- Ericsson Defence Systems Pty. Ltd.

#### Austria

- Ericsson Austria AG

#### Bahrain

- Ericsson Radio Systems AB Bahrain Branch

#### Belgium

- Ericsson Business Communications NV/SA
- Ericsson European Affairs Office

#### Bolivia

- Ericsson de Bolivia Telecomunicaciones S.A.

#### Bosnia-Herzegovina

- Ericsson d.o.o.

#### Brazil

- Ericsson Telecomunicações S.A.

#### Bulgaria

- Ericsson Telecommunications Bulgaria EOOD

#### Canada

- Ericsson Communications Inc.

#### Chile

- Compañía Ericsson de Chile S.A.

#### China, Peoples Republic of

- Ericsson (China) Company Ltd.
- Beijing Ericsson Mobile Communication Co. Ltd.
- Beijing Ericsson Communication Systems Co. Ltd.
- Dalian Ericsson Communication Co. Ltd.
- Guangdong Ericsson Engineering Co. Ltd.
- Guangzhou Ericsson Communication Co. Ltd.
- Nanjing Ericsson Communications Company Ltd.
- Shanghai Ericsson Simtec Electronics Co. Ltd.

#### Colombia

- Ericsson de Colombia S.A.

#### Costa Rica

- Ericsson de Costa Rica S.A.

#### Croatia

- Ericsson Nikola Tesla d.d.

#### Czech Republic

- Ericsson spol.s.r.o.

#### Denmark

- LM Ericsson A/S
- LM Ericsson International A/S
- Cabelco ApS
- Ericsson DiAx A/S Telecommunications A/S
- TERMA Elektronik AS

#### Ecuador

- Ericsson de Ecuador C.A.

#### Egypt

- Telefonaktiebolaget LM Ericsson Egypt Branch

#### El Salvador

- Ericsson de El Salvador S.A. de C.V.

#### Estonia

- Ericsson Eesti AS

#### Ethiopia

- Telefon AB LM Ericsson Branch Office Ethiopia

#### Federal Republic of Yugoslavia

- LM Ericsson International AB Representative Office Belgrade

#### Finland

- Oy LM Ericsson Ab
- Viikinkaapeli Oy

#### France

- Ericsson Radio S.A.
- MATRA Ericsson Telecommunications S.A.
- Ericsson Hewlett-Packard Telecommunications
- S.A. Ericsson

#### Germany

- Ericsson GmbH
- Ericsson Eurolab Deutschland GmbH

#### Ghana

- Ericsson Radio Systems Ghana

#### Greece

- Ericsson Hellas Telecommunications Equipment S.A.

#### Guatemala

- Ericsson de Guatemala S.A.

#### Hong Kong

- Ericsson Communications (Hong Kong) Ltd.

#### Hungary

- Ericsson Kft

#### India

- Ericsson Communication Pvt. Ltd.
- Ericsson Telecommunications Pvt Ltd.
- Birla Ericsson Optical Ltd.
- Ericsson India Ltd.

#### Indonesia

- PT Ericsson Indonesia
- Erindo Utama PT

#### Iran

- Telefonaktiebolaget LM Ericsson Iran Branch

#### Ireland

- LM Ericsson Holdings Ltd.
- LM Ericsson Ltd.
- Ericsson Business Communications Ltd.
- Ericsson Systems Expertise Ltd.

#### Israel

- LM Ericsson Israel Ltd

#### Italy

- Ericsson S.p.A.
- Ericsson Telecomunicazioni S.p.A.

#### Japan

- Nippon Ericsson KK
- Ericsson Toshiba Telecommunication Systems K.K.

#### Kazakhstan

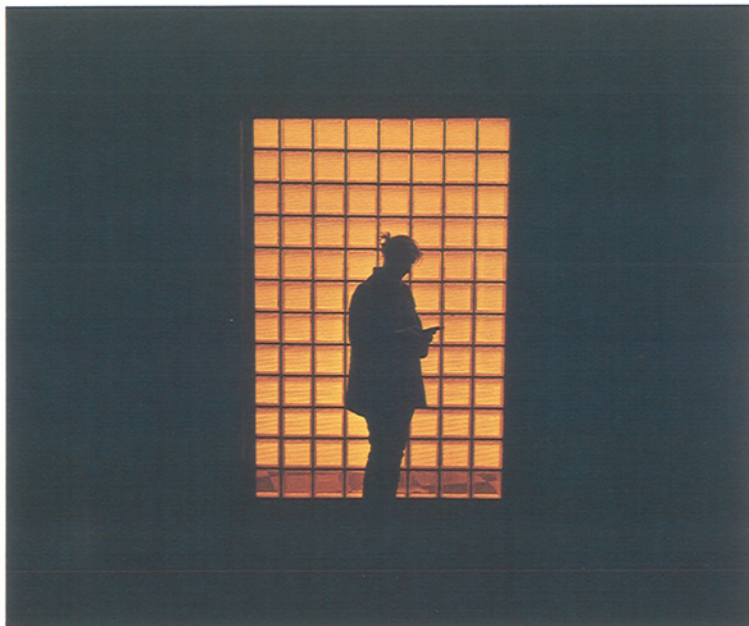
- LM Ericsson International AB Representative Office

#### Kenya

- Ericsson GT Telecom Ltd. EGK

#### Korea, Republic of

- Ericsson Korea Ltd.





- Kuwait**
- Kuwait Ericsson Telephone Equipment & Services
- Latvia**
- LM Ericsson International AB Representative Office
- Lebanon**
- Ericsson Lebanon S.A.R.L
- Libya**
- Telefonaktiebolaget LM Ericsson Libya Branch
- Lithuania**
- UAB Ericsson Lietuva
- Malaysia**
- Ericsson Telecommunications Sdn Bhd
  - Perwira Ericsson Sdn Bhd
  - Opcom Cables Sdn Bhd
- Mexico**
- Teleindustria Ericsson S.A.
  - Ericsson Radio Systems S.A.
  - Empresa Tecnológica Ericsson S.A. de C.V.
- Morocco**
- Ericsson Maroc S.A.R.L
- Netherlands**
- Ericsson Telecommunicatie B.V.
  - Ericsson Business Mobile Networks B.V.
  - Ericsson Data Services Nederlands B.V.
  - Ericsson Radio Systems B.V.
- Netherlands Antilles**
- Telefonaktiebolaget LM Ericsson Technical Office
- New Zealand**
- Ericsson Communications Ltd.
- Nigeria**
- LM Ericsson (Nigeria) Ltd.
- Norway**
- Ericsson A/S
  - Ericsson Radar A/S
  - Kongsberg Ericsson Communications ANS
  - Forslid A/S
- Oman**
- Telefonaktiebolaget LM Ericsson Technical Office Oman
- Pakistan**
- Ericsson Pakistan Ltd.
- Panama**
- Ericsson de Panama S.A.
- Peru**
- Compañía Ericsson S.A.
- Philippines**
- Ericsson Telecommunications Inc.
  - Philnet Ericsson Inc.
- Poland**
- Ericsson Sp.z.o.o.
- Portugal**
- Ericsson de Portugal Lda
- Puerto Rico**
- Ericsson Caribbean
- Romania**
- Ericsson Telecommunications Romania S.R.L
- Russia**
- Ericsson Corporatia AO
  - LM Ericsson International Representative Office
  - Ericsson Training Center
- Saudi Arabia**
- Saudi Ericsson Comm. Co. Ltd.
- Singapore**
- Ericsson Telecommunications Pte. Ltd.
- Slovakia**
- Ericsson Slovakia spol.s.r.o.
- South Africa**
- Ericsson South Africa Pty. Ltd.
  - Automatic Systems Manufacturing (Pty.) Ltd.
- Slovenia**
- Ericsson d.o.o.
- Spain**
- Ericsson S.A.
  - Ericsson Radio S.A.
  - Ericsson Mobile Systems S.A.
  - Ericsson Redes S.A.
  - Ericsson Data Spain S.A.
- Sri Lanka**
- Ericsson Telecommunications Lanka (Pvt.) Ltd.
- Sweden**
- Telefonaktiebolaget LM Ericsson
  - Ericsson Telecom AB
  - Ericsson Radio Systems AB
  - Ericsson Business Networks AB
  - Ericsson Components AB
  - Ericsson Microwave Systems AB
  - Ericsson Utvecklings AB
  - ELLEMTEL Utvecklings AB
  - AB LM Ericsson Finans
  - AU System Invest AB
  - Ericsson Software Technology AB
  - Ericsson Anslutnings-system AB
  - Ericsson Cables AB
  - Ericsson Data Norrköping AB
  - Ericsson Emergency Control Systems AB
  - Ericsson Hewlett-Packard Telecommunications AB
  - Ericsson Infotech AB
  - Ericsson Mobile Communications AB
  - Ericsson Network Construction AB
  - Ericsson Radio Access AB
  - Ericsson Radio Messaging AB
  - Ericsson Electronic Distr. AB
  - Ericsson Treasury Services AB
  - Erifocas AB
  - Ericsson Erisoft AB
  - Ericsson Mobile Data Design
  - Forslid & Co. AB
  - Industrigruppen JAS AB
  - Ericsson Saab Avionics AB
  - LM Ericsson Data AB
  - LM Ericsson Fastigheter AB
  - Scancables AB
- Switzerland**
- Ericsson AG
- Syria**
- Telefonaktiebolaget LM Ericsson Syria Branch
- Taiwan**
- Ericsson Taiwan Ltd.
- Thailand**
- Ericsson (Thailand) Ltd.
  - Ericsson Telephone Corporation Far East AB
- Tunisia**
- Telefonaktiebolaget LM Ericsson Bureaux Techniques de Tunisie
  - Ericsson Tunisie S.A.
  - STITELE S.p.A
- Turkey**
- Ericsson Telekomünikasyon A.S.
  - Ericsson-Cukurova Telekom A.S.
- Ukraine**
- LM Ericsson International AB Representative Office
- United Arab Emirates**
- Telefonaktiebolaget LM Ericsson Technical Office UAE
- United Kingdom**
- Ericsson Ltd.
  - Ericsson Intracom Ltd.
  - Ericsson Compondex Ltd.
  - Ericsson OMC Ltd.
  - Ericsson Data UK
- Uruguay**
- Compañía Ericsson Uruguay, S.A.
- United States**
- Ericsson Inc.
  - Ericsson Messaging Systems Inc.
- Uzbekistan**
- LM Ericsson International AB Representative Office
- Venezuela**
- Compañía Anónima Ericsson
- Vietnam**
- LM Ericsson International AB Representative Office
- Zimbabwe**
- LM Ericsson International AB Representative Office

## GLOSSARY TRADEMARKS

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

### **ADSL**

Asymmetrical Digital Subscriber Line. A method to increase transmission speed in a copper cable. ADSL facilitates the division of capacity into a channel with higher speed to the subscriber, for example for video transmission, and a channel with significantly lower speed in the other direction.

### **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.

### **PDC**

Personal Digital Cellular is a 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.

### **TDMA**

Time Division Multiple Access is a technology for digital transmission of, for example, radio signals between a mobile telephone and radio base stations. In TDMA, the frequency band is split into a number of channels which in turn are stacked into short time units in such a manner that several calls can share one channel without any disturbance.

### **WCDMA**

Wideband Coded Division Multiple Access is a technique for wideband digital radio communications of, for example, multimedia, video and other capacity-demanding applications. WCDMA is the technology which Ericsson is developing for the Japanese market and which is also proposed as the base for a future European standard for the next generation of mobile telephones.

### **Trademarks**

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

AXE®  
BusinessPhone™  
Consono®  
EriEye®  
Freeset®  
MacroDens®  
MD110®  
MiniLink™

## UNCERTAINTIES IN THE FUTURE

### *“Safe Harbour” Statement under the U.S. Private Securities*

Some statements in the 1997 Annual Report are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among the other factors that may affect actual results are product demand, the effect of economic conditions, exchange-rate and interest-rate movements, the impact of competitive

products and pricing, product development, commercialization and technological difficulties, political risks in the countries in which the Company has operations or sales, supply constraints, and the results of customer financing efforts.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Victoria Hall, Stockholm Fair, Stockholm, at 5 p.m. Monday, March 30, 1998.

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 March 20, 1998.

Shareholders, whose shares are registered in the name of an agent, must temporarily be entered in the share register not later than March 20, 1998, 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 March 25, 1998 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 2, 1998 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 April 9, 1998.

### **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.

DECT

01101

ADSL

D-AMPS

001 00

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### IT ALL STARTED IN 1876

Ericsson is a world-leading supplier of telecommunications equipment.

The company's history dates back to 1876 when the founder, Lars Magnus Ericsson, opened a repair shop for telegraph equipment. Realizing that there was a need for improvements in the telephone instruments available at that time, he started his own production. Ericsson's first major product to be launched internationally, in 1892, was a desk instrument with a separate hand-held microphone. Since then, the company has been one of the world's leading manufacturers of advanced telephone equipment, with a very high percentage of its sales outside Sweden.

As early as the late 1890s, Ericsson had operations worldwide – including countries such as China, Russia and Mexico. The company's executive management already realized that the Swedish domestic market would never be large enough to fulfill Ericsson's business objectives. This foresight explains why Ericsson today has a very strong international base, with operations in more than 130 countries. This global presence enables the company to acquire unique knowledge about market conditions in all parts of the world. Based on this knowledge and on the company's high level of technical expertise, Ericsson develops telecommunications solutions for customers worldwide.

CONNECTION