



1998 in brief

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- Sven-Christer Nilsson was named Ericsson's new Chief Executive Officer, succeeding Lars Ramqvist, and assumed the post at the Annual General Meeting on March 30. Lars Ramqvist became the new Chairman, succeeding Björn Svedberg.
- A new structure for Ericsson was approved in September and a new organization became effective on January 1, 1999. The Business Areas were replaced by three Business Segments, and four Market Areas were established.
- The Company adopted a new strategy in which wireless communication and Internet-based technology will position Ericsson in a leadership role in the next decade.
- The European standardization body ETSI agreed that the WCDMA technology developed by Ericsson and others will apply to the next generation of mobile telephone systems. The Company delivered experimental WCDMA systems to several leading Asian and European operators.
- China became Ericsson's largest single market.
- Bluetooth, a radio chip developed by Ericsson, was presented in May by Ericsson, IBM, Intel, Nokia and Toshiba. Bluetooth permits wireless transmission of data between mobile telephones, portable computers and other electronic equipment.
- Ericsson, Motorola, Nokia and Britain's Psion formed the Symbian company to develop and market the EPOC operating system for use in future mobile communications equipment.
- Ericsson acquired Advanced Computer Communications (ACC), an American company that is a leader in remote access, a technology used for linkups with the Internet.

Uncertain factors in the future

"Safe Harbor" statement required by the U.S. Private Securities Litigation Reform Act of 1995:

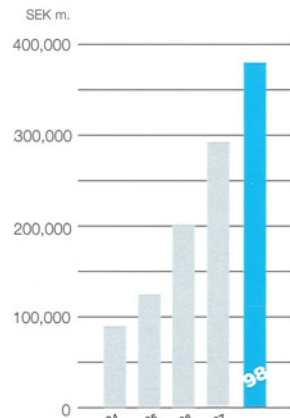
Certain statements in the 1998 Annual Report deal with the future. Actual developments may differ materially from those stated. In addition to the factors discussed, actual developments may be affected by such factors as demand for products, effects of economic conditions, exchange rates and interest rate movements, the impact of competitive products and pricing, product development, commercialization and technological difficulties, political risks in the countries in which Ericsson has operations or sales, and the result of customer financing efforts.

Ericsson's Mission

Ericsson's mission is to understand its customers' opportunities and needs, and to provide communication solutions better than any competitor.

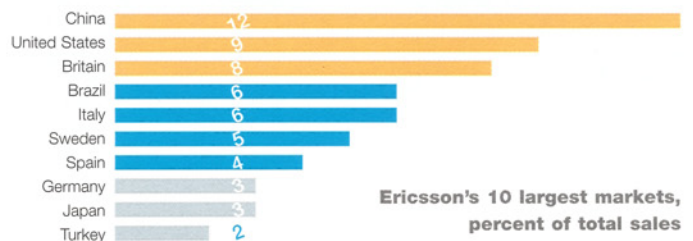
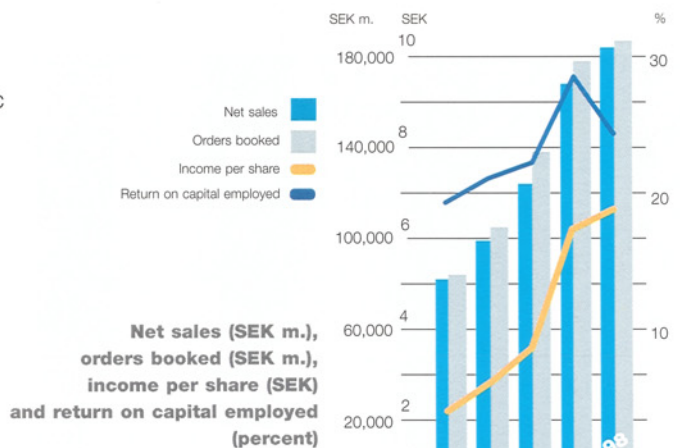
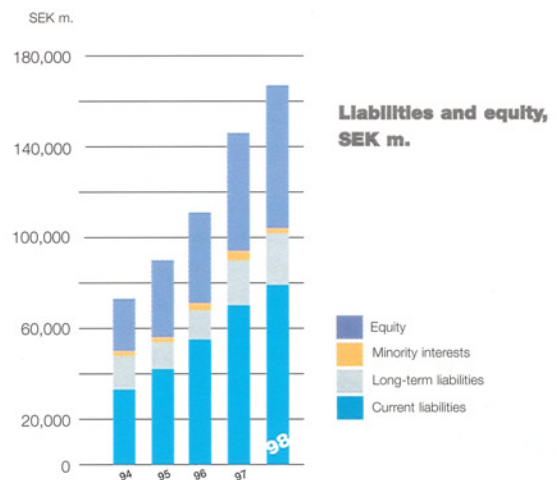
In doing so, Ericsson shall generate a competitive economic return for its shareholders.

Market capitalization 1994-1998, SEK m.



	1998 SEK m.	1997 SEK m.	Percent change
Net sales	184,438	167,740	10
Income before taxes	18,210	17,218	6
Income per share, SEK	6.66	6.08	10
Dividend per share, SEK	2.00*	1.75	14
Number of employees, December 31	103,667	100,774	3
Orders booked	187,415	179,770	4

* For 1998, proposed by the Board of Directors



Entering the New Telecoms World

Ericsson is a world leader in mobile telephony. It is the largest supplier of mobile systems, with about 30 percent of the world market, calculated in U.S. dollars. Ericsson is also one of the largest on the market in digital mobile phones and public switches.

In addition, Ericsson is the most globally active company in the telecom industry, with operations in 140 countries in which Ericsson in many cases has been conducting business for more than a century. Its position is now being strengthened as Ericsson plays a leading role in the development of standards for third-generation mobile systems.

Ericsson stands on a solid foundation, technically, financially and in market terms, as comprehensive changes occur in the years immediately ahead. But development is proceeding at a rapid pace. It is demanding and the competition is intense.

This is the background to Ericsson's adoption of a renewed strategy in October 1998 to position the company in the New Telecoms World.

Convergence – everything growing together

In the past, there were relatively few players in the telecommunications industry, and their roles were clearly defined. Manufacturers such as Ericsson sold their products primarily to large monopolistic/oligopolistic operators with which suppliers had long and well-established relations.

Convergence is now in progress, a fusion of industries, technologies and services.

Voice and data are merging into a single multimedia industry. Fixed and mobile telephony are uniting as one.

Technology is advancing through increased digitization and the Internet. Dynamic development of the Internet and intranets is a driving force behind the accelerated convergence of services and products.

A large number of new global operators in both fixed and mobile telephony have also emerged in the wake of telecom deregulation in all parts of the world.

The driving forces behind today's rapid development are telecom operators. They strive to create economies of scale and to offer a variety of services to consumers – companies and private individuals. Operators compete with greater convenience, reliability, mobility, services and with lower charges.

When the operators start making major investments in third-generation mobile networks sometime around the year 2002, according to estimates by Ericsson, rates will decline to levels in closer parity with fixed telephony charges.

Players in the computer and datacom industry, such as Microsoft and Cisco, are penetrating traditional domains of

the telecom industry. This results in a change in the competitive situation, which affects several affiliated industries.

The market, customers and products are becoming "glocal", a concept defined as global in many areas, but local in design and content.

A consolidation of the number of operators is another discernible trend. Within the next five to 10 years, some 10 or 15 operators will dominate the world market along with about 100 regional operators. This trend will create a stronger need for global standards to serve as the basis for product development. Ericsson maintains close contact today with most of the major operators that are expected to lead the process of consolidation as well as many of the new regional operators.

Traffic moves to the Internet

A steadily growing portion of information will be distributed via the Internet. As early as the year 2000, Internet data traffic in access networks is expected to surpass voice traffic over telecom networks.

Internet Protocol (IP) is a language computers use to communicate with each other on the Internet. Virtually all Ericsson products are affected by IP. Telecom companies are convinced that this technology will be a major force behind convergence.

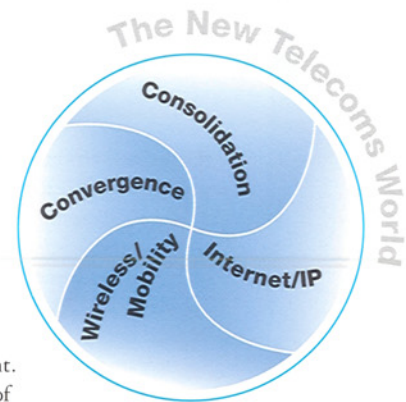
Telecom operators will invest in growth and, over the long term, transfer their traffic to the Internet. The development is reminiscent of the conversion by operators from analog to digital telephony. This was completed in about 15 years. Today's development might be completed in half that time.

Substantial savings may be realized when all information is transmitted via the same network, spearheaded by data, followed by voice and, finally, video.

Internet technology was developed in the world of data. It needs to be improved and refined before it can penetrate the telecom world, a factor that provides considerable opportunities for Ericsson and other players with telecom skills and expertise.

The computer industry still has significant problems in terms of reliability and delay in the network. Operational disturbances are still commonplace in computer systems, and waiting times on the Internet are often long.

The greatest future business potential lies in building new telecom and datacom applications. Ericsson's strong



position in both wireline and mobile communications offers an advantage over many competitors.

Ericsson is one of the world's leading suppliers of mobile data systems, a position that provides a platform for development in mobile datacom.

Ericsson's acquisition strategy in the datacom market focuses on complementing existing skills and critical product or component areas through acquisitions or strategic alliances. This means concentrating on small and medium-sized companies with spearhead technologies.

The Company already commands comprehensive know-how in datacom and IP-related services and technologies, and it has launched a number of new Internet-based products.

Ericsson is leading the charge to promote telephony via the Internet. The company believes that development toward telephony over IP will begin with long-distance calls and continue toward access networks. By the year 2005, a large percentage of data and telecom traffic may well be transmitted via IP.

Ericsson has already made significant progress in developing products designed for IP-telephony, or Voice over IP (VoIP). Some of the products are now being used commercially by Delta Three, an American operator. As one of today's leaders in IP-telephony, Delta Three has developed a network used initially for international calls between Israel, the U.S. and Britain. Some national operators have also established IP-telephony operations.

Wireless communications increasing sharply

Wireless data communications, a small market today, is expected to take off by 2000 to 2002.

Information will be transmitted immediately, in real time, "always on". The capability to send larger amounts

of information will increase sharply as development moves closer toward the wireless office.

In the beginning of 1998, the European Telecommunications Standards Institute (ETSI) selected the WCDMA technology developed by Ericsson and other companies as standard for the third generation of mobile telephony. In December, five standardization organizations in Asia, Europe and the U.S. agreed to adopt the same radio standard, which will help support further development of GSM networks.

A majority of operators with digital networks support WCDMA. In view of ongoing trends toward acceptance of the WCDMA standard, Ericsson has developed a packet-switched technology called GPRS to enhance the potential of today's GSM networks. Scheduled for market launch in 1999, GPRS is a service that supports wireless, high-speed (115 kilobits per second) transmission of e-mail and other data communications over GSM networks.

The next development phase is called Edge, a technology that combines GSM and TDMA (the digital technology which is dominant in North America, Latin America and other regions). Created primarily to accommodate multimedia services, Edge will increase transmission speeds to 384 kilobits per second.

In 1999, bids will start to be accepted on new licenses for third-generation mobile systems. Operators who are not awarded licenses for the next generation of mobile telephony will run the risk of waiting many years before the next opportunity arises for a new mobile license. This situation increases their motivation to enter the market from the beginning.

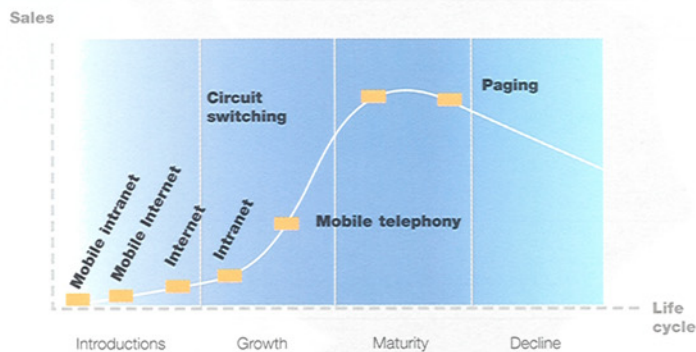
Third-generation mobile communications will be placed in commercial operation as early as 2001, with Japan as the most probable initial market.

Datacom and IP-telephony are major forces behind the development of third-generation systems. Ericsson projects that nearly 200 million Internet users will be connected to wireless systems by 2003. In the following year, one billion people are expected to have mobile telephones, the same number of people who now have wired telephones and fixed or mobile access to the Internet.

Wireless telenet traffic is expected to increase more rapidly than the number of users, from 500 billion minutes in 1998 to more than 2,500 billion in 2003.

Wireless IP will provide many advantages for the consumer. Today, it may take five minutes to download an Internet page; wireless IP might perform the same procedure in five seconds. As minutes are turned into seconds, waiting times will be eliminated and users will be on-line constantly.

Current status of major communication areas



Wanted Position

Today's dynamic development provides the background to Ericsson's long-term growth objective to increase sales by more than 20 percent per year, a rate that exceeds market growth. The growth objective extends over a period of three to five years.

Total market value in the New Telecoms World is estimated in the range of USD 215-230 billion (1997). Estimated market value includes networks, equipment and related telecom services as well as datacom networks. However, it does not include the traditional IT activities of computer companies.

Ericsson's growth will be determined by its ability to defend and advance its positions in different markets. The goals that Ericsson is striving to achieve within three to five years, and anticipated annual growth in the market during the same period, are presented below.

Business Segment Network Operators and Service Providers

(parts of the former Business Areas Mobile Systems and Infocom Systems):

- Maintain market position as No. 1 in mobile telephony. Annual market growth is estimated at 15 percent.
- Establish position as No. 1 in wireless data transmission. Projected annual market growth is extremely high. This objective should be viewed in a somewhat longer perspective, when key growth sectors such as mobile data develop.
- Defend present position as one of the market's three largest companies in wireline voice telephony. Projected growth in this mature market sector is expected to total about 7 percent annually.
- Establish niche position among top three market leaders in wireline data based on premium real-time transmission. Anticipated market growth: 20 to 25 percent.

Business Segment Consumer Products

(formerly Business Area Mobile Phones and Terminals):

- Strengthen market position and strive to become one of the two leaders in wireless voice. Projected world market growth is about 10 percent.
- Establish Ericsson as one of the two leaders in wireless data transmission, a sector with projected annual growth of nearly 30 percent.
- Establish niche position among the three largest players in wireline data based on premium real-time transmission. Anticipated annual market growth is very high.

Business Segment Enterprise Solutions

(sections of the former Business Areas Mobile Systems and Infocom Systems):

- Defend a leading position in wireless voice telephony, a sector with projected annual growth in excess of 10 percent, and establish a position as one of the two largest companies in the office segment.
- Establish Ericsson as one of the market's three leaders in wireless data, a sector with projected annual growth of about 30 percent.
- Defend position as one of the market's five leading companies in wireline voice, a sector with projected growth of only 3 to 5 percent annually.

Wanted Position

		Network Operators and Service Providers	
		Wireless	Wireline
Voice		No.1 Maintain	Top 3 Maintain
Data*		No.1 Establish	Niche Top 3 (Carrier-class/Real-time IP) Establish
Consumer Products			
Voice		Top 2 Improve	**
Data*		Top 2 Establish	Niche Top 3 (Carrier-class/Real-time IP) Establish
Enterprise Solutions			
Voice		Top 2 in Office Maintain	Top 5 Maintain
Data*		Top 3 Establish	**

* Data includes real-time IP, e.g. VoIP

** Not addressed

Competition

Ericsson has a clearly strong position among suppliers of mobile systems. Based on sales, the company is at least twice as large as any of its closest competitors, which include Lucent, Motorola, NEC, Nokia and Nortel.

Ericsson also has a strong position in the market for public switches, a sector in which its major competitors are Alcatel, Lucent, Nortel and Siemens. In the market for mobile data networks, which will have a significant impact on wireless Internet development, Ericsson is also a leader.

The company's position in the market for traditional fixed data transmission and transport network products is relatively weak, however.

Cisco is a major competitor in the highly expansive market for carrier-class data communications. In past years, Cisco focused on datacom for the enterprise sector. In parallel with the veritable explosion of Internet services, Cisco ventured into the public market, concentrating mainly on operators, and entered into both competition and cooperation with telecom suppliers.

Ericsson is one of the mobile telephone sector's three leading players, in competition with Nokia and Motorola. The company has distinctive strength factors in the form of volume production, global distribution and a strong brand.

In the enterprise network market, Ericsson ranks among the five largest suppliers of traditional business switches. Its major competitors are Alcatel, Lucent, Nortel and Siemens.

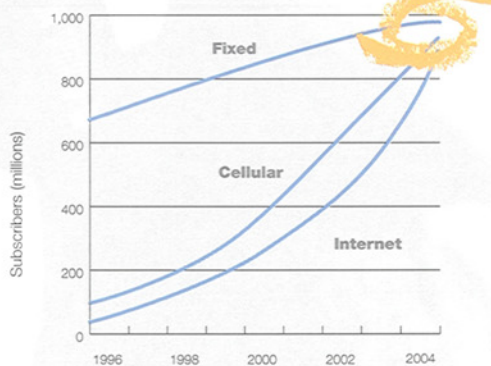
Cisco, Lucent and Nortel all focus strongly on the North American market. European-based Alcatel and Siemens are also highly dependent on their domestic markets.

Ericsson is the industry's most international company. This is a strength factor in cooperation with operators with global expansion plans.

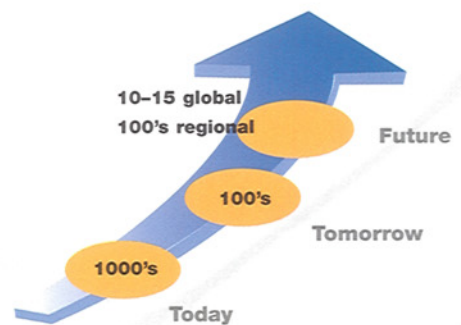
Ericsson's 20 largest global customers

Customers in alphabetical order	
AirTouch	SBC
AT&T	SingTel
BellSouth	Sonera
BT	Swisscom
Cable & Wireless	Telecom Italia
Deutsche Telecom	Tele Danmark
France Télécom	Telefónica
KPN Telecom	Telia
Mannesmann	Telstra
MediaOne	Vodafone

Number of subscribers (forecast)



Consolidation of operators



Ericsson share data 1998

On April 28 Ericsson effected a one-for-one bonus issue of shares that increased the share capital to SEK 4,875,485,750 (2,437,742,875), represented by 1,950,194,300 shares. The par value of each share is SEK 2.50. As of December 31, 1998, the shares were divided into 164,054,660 Series A shares, each carrying one vote, and 1,787,297,730 Series B shares, each carrying one-thousandth of a vote. A trading lot consists of 100 shares, unchanged from earlier years. During 1998 the number of shares was increased by 2,360,272 through conversions of convertible debentures. Between January 1, 1999, and February 5, 1999, additional debentures were convertible to shares, with rights to the dividend for 1998.

Stock exchange trading

Ericsson's Series A and Series B shares are traded on the Stockholm Stock Exchange, and the Series B shares are also traded on the exchanges in Düsseldorf, Frankfurt, Hamburg, London and Paris, and on the "Swiss Exchange" in Switzerland. Ericsson shares are also traded in the United States in the form of American Depositary Receipts (ADRs) through the NASDAQ system, under the symbol ERICY. Each ADR represents one Series B share.

American Depositary Debentures (ADDs) are also traded on the NASDAQ system under the symbol ERICZ. Each ADD represents one convertible debenture related to the 1993/2000 convertible debenture loan.

Ericsson shares have been traded in euros in Frankfurt and Paris since January 1, 1999.

Nearly five billion shares were traded in 1998. Of this number, about 39 (40) percent were traded on the Stockholm Stock Exchange, 30 (31) percent via the NASDAQ exchange and 30 (28) percent on the London Stock Exchange. Trading on other exchanges amounted to about 1 percent of the total, unchanged from the previous year.

Share price trend

The price of Ericsson's Series B share rose 29 percent in 1998. The Affärsvärlden General Index rose 10.2 percent during the year. As of December 30, 1998, the price paid for the Series A share was SEK 209.50, and the price for the Series B share was SEK 193, amounting to a total market value of SEK 379,231 m.

The price of Ericsson shares rose sharply until the middle of July, but then declined during the autumn. The price recovered but fell again in December following a profit warning.

The highest price quoted for the Series B share during the year was SEK 268 (July 21) and the lowest was SEK 118.50 (October 8).

Beta value

Beta value may be said to reflect the relative risk in a share. It shows how the average price of a share has developed historically, relative to a market index. A stock with a low beta shows small fluctuations in price, while one with a high beta shows major fluctuations. Based on calculations using monthly yield data for the past five years, Ericsson's beta value is 1.18*. The corresponding average figure for Ericsson's competitors is 1.14*. A high beta value means higher risk. Ericsson is making efforts to reduce its beta value, in part through a more open information policy.

*Source: PricewaterhouseCoopers

Change in capital stock

		Number of shares	Capital stock
1995	January 1	217,229,118	2,172,291,180
1995	Split	4:1 651,687,354	-
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
1998	Bonus issue	1:1 975,097,150	2,437,742,875
1998	Conversions	1,759,181	4,397,952
1998	December 31	1,951,352,390	4,878,380,975

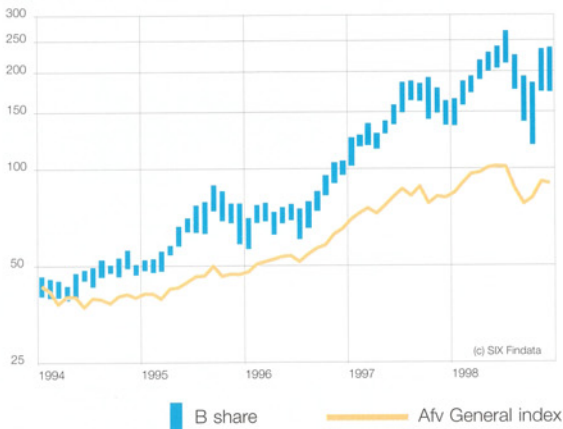
Largest shareholders, by voting rights, December 31, 1998

	Number of shares (A and B)	Votes %	Capital %
AB Industrivärden	44,660,000	26.4	2.3
Investor AB	64,019,000	22.2	3.3
Wallenberg-stiftelser	27,293,024	16.5	1.4
Svenska Handelsbankens pensionsstiftelse	10,640,000	5.6	0.5
Skandia	25,975,630	5.0	1.3
Svenska Handelsbankens pensionskassa	7,920,000	4.8	0.4
Wallanders och Hedelius' stiftelse	3,960,000	2.4	0.2
SEB-stiftelsen	3,100,000	1.7	0.2
Oktogonen, Stiftelsen	3,520,000	1.6	0.2
Svenska Handelsbankens personalstiftelse	2,460,000	1.5	0.1
Fjärde AP-fonden	76,698,018	1.4	3.9
Trygg-Hansa Försäkring	32,410,826	1.3	1.6
Foreign ownership	970,069,312	2.0	49.7

Shareholders

In all, about 90 percent of Ericsson's shares are owned by Swedish and international institutions. At the end of 1998, about 50 (50) percent of the shareholders were outside Sweden, with 30 (34) percent in the U.S., 6 (6) percent in Britain, and 14 (10) percent in other countries.

Share trend 1994–1998



Distribution of shares

Size of holding	Number of shareholders	%	Number of shares	%
1 – 500	226,838	72.5	31,934,258	1.6
501 – 5,000	74,939	23.9	120,456,630	6.2
5,001 – 20,000	8,671	2.8	78,784,265	4.1
20,001 –	2,452	0.8	1,720,177,237	88.1
	312,900	100.00	1,951,352,390	100.0

Share data

	1998 ⁴⁾	1997 ⁴⁾	1996 ⁴⁾	1995 ^{1) 4)}	1994 ^{1) 4)}
Income per share	6.66	6.08	3.64	2.92	2.15
P/E ratio, B share ²⁾	29	25	29	22	22
Dividend	2.00 ³⁾	1.75	1.25	0.88	0.69
Direct return %	1.0	1.2	1.2	1.3	1.3
Stockholm Stock Exchange					
A at December 30	209.5	157	109	69	52.5
B at December 30	193	149	106	65	51
B high for year	268	192	106	89	58
B low for year	118.5	102.5	56.5	48	42

Employee ownership

The Ericsson Savings Fund (Ericssons Allemansfond) was started in 1984. The Fund, which has 1,254 participants, invests in Ericsson's shares. At the end of 1998 the Fund held 1,048,500 shares.

A convertible debenture loan amounting to SEK 6,000 m. was issued in 1997 with preferential rights to Ericsson's employees.

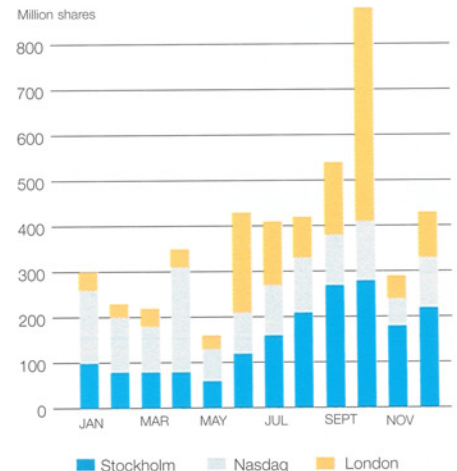
Employees who joined Ericsson after October 10, 1997, were given an opportunity to purchase convertible debentures issued by AB Aulis, an Ericsson company.

A stock option program was introduced in 1998 for 500 key persons, who were allotted seven-year Ericsson call options. The size of the allotment depends on the Company's earnings per share and the individual's salary and bonus categories.

Dividend policy

The intention of the board is that the size of the dividend should reflect long-term earnings development rather than variations over the years that are a result of fluctuations in the business cycle.

Share turnover 1998



Sources: SIX Findata, London Stock Exchange, Nasdaq Stock Market

¹⁾ After 4:1 split.

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

³⁾ For 1998, proposed by the Board of Directors.

⁴⁾ After 1:1 bonus issue.

Financial objectives

An overall objective for Ericsson is to create competitive value growth for its shareholders. This covers the collective development of Ericsson shares and dividends to Ericsson shareholders, which are reinvested in Ericsson shares. Competitive value growth means that return on the Ericsson share is among the best in a comparable group of competitors.

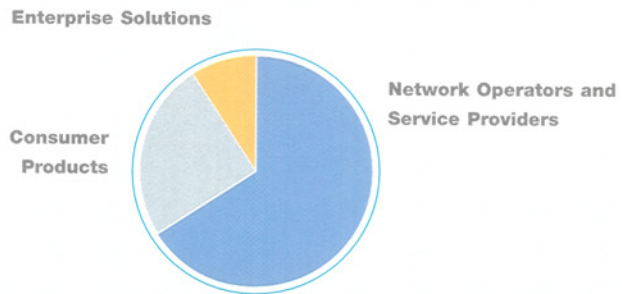
Growth target

It is the company's objective to grow more rapidly than the market, which involves long-term growth of at least 20 percent annually. This growth objective covers three to five years, since the company estimates that certain growth markets, particularly mobile data communications, will not gain pace until into the next century. The growth objective will be achieved by maintaining or improving positions in certain specific segments. In the Business Segments Network-Operators and Service Providers and Consumer Products, growth will exceed 20 percent. In the Business Segment Enterprise Solutions, growth of 10 to 15 percent is expected, while it is estimated that other company units (Defense Systems, Components and Cables) will grow by 10 percent annually.

Cash flow and capital turnover

Ericsson strives to have positive cash flow before strategic acquisitions. Growth of at least 20 percent with a positive cash flow requires a yield on capital employed of 20 to 25 percent for Ericsson as a whole. Consequently, there is a need for average operating margins of 10 percent or more and an average capital turnover rate of two or better. However, the return requirement may vary for different segments. A lower operating margin can be offset by a higher rate of capital turnover. All of the various units - Business Units, Product Units and Market Units - have a distinct profit responsibility. This means that each unit, apart from responsibility for profit, also bears responsibility for their share of capital employed.

Net sales in 1998 by Business Segment



Long-term growth targets

	Sales growth, %
Network Operators and Service Providers	>20
Consumer Products	>20
Enterprise Solutions	10-15
Other	10
Ericsson	>20

Ericsson's long-term objective is to grow faster than the market. For 1999, Ericsson foresees sales growth at least in line with market growth.

The market for mobile systems continues to increase based on the strong subscriber growth. Ericsson's achievements in this market provide a very good basis for a continued substantial contribution from mobile systems to Ericsson's development in 1999. Ericsson intends to strengthen its position as the leading supplier through important investments in development of the next generation system technologies. Further investments will also be made in new mobile phones.

Ericsson will continue to invest in new IP- and telecom/datacom technologies in order to meet growing market demand in these areas. The dynamics of these markets require close monitoring of the development of customer demand.

Financial uncertainty

1999 is expected to be a year with limited expansion in the global economy. Markets in Asia and Latin America require attention due to the financial uncertainty. The effects of the January 1999 Brazilian currency devaluation are limited in the near-term.

All in all, for Ericsson the income for the first six months of 1999 is expected to be lower than for the first six months of 1998. This is due to the financial uncertainty in a number of markets, the cost of research and development of new technologies and products, the fact that the launch of new mobile phones will impact earnings mostly in the second half, and the initial costs for restructuring, which are not expected to be offset by positive effects until later in the year.

The millennium program

Ericsson is dealing with the millennium issue through a Corporate Millennium Program. The program includes contingency plans. The purpose is to minimize possible disturbances for customers and in our own operations. The preparations, including system audits and tests and modifications of computer programs, vendor review programs and installation of additional back-up power equipment, are scheduled to be in place by mid-1999.

Treasury management and financial risks

During 1998, foreign-exchange and interest-rate turbulence in emerging markets was accentuated at the same time as the industrialized world saw key interest rates fall to historically low levels. However, risk premiums increased sharply during the last half of the year, also in the industrialized world. Ericsson's financial net assets declined from SEK 6 billion to SEK -9 billion, mainly as a result of several strategic investments. These included the acquisition of minority interests in MET Ericsson S.A. (France) and Ericsson Telecomunicações S.A. (Brazil), the purchase of General Electric's holding of shares in a formerly jointly owned holding company in the United States, and the purchase of Advanced Computer Communications Inc. (U.S.) and real estate in London. Financing of Ericsson customers increased 142 percent compared with 1997. Customer financing today constitutes a substantial part of Ericsson's financial portfolio. Utilization of USD 300 m. within the framework of Ericsson's Medium Term Note Program totaling USD 800 m. contributed to the financing.

In preparation for the introduction of the euro within the European Monetary Union, Ericsson conducted a pilot project in its Dutch subsidiary as a model for implementing the euro within Ericsson.

Since Ericsson is active in many countries, changes in exchange rates affect its consolidated income statement and balance sheet in many ways. Because of the complex structure and the nature of the Group's operations, as well as its rapid growth, it is difficult to determine the effects of changes in exchange rates with a high degree of precision.

Expansion and penetration of new markets create new liquidity and credit risks. Ericsson has a policy for managing financial risks established by the Board of Directors. Awareness and management of these risks reduced the impact of the financial crises in Asia and Latin America on Ericsson's balance sheet and income statement during the year.

Organization

Responsibility for managing the financial risks that arise in the Group's operations rests with the individual Ericsson companies. Risks are normally hedged, in the manner described below, through Ericsson's internal bank, Ericsson Treasury Services. The major part of the risks that the internal bank assumes in this way are hedged in the financial market, but the bank also has the right to take positions in the financial market within the frame-

work of the policy established by the Board of Directors. Ericsson Treasury Services thus handles the greater part of the Company's financial operations in the market. Ericsson Treasury Services operates via treasury centers in Stockholm and, effective in 1999, in Singapore and Dallas. Treasury centers were opened in the latter two locations to ensure the presence of financial expertise in the respective time zones.

Financial instruments

Ericsson's management of financial instruments is based on the need to finance business operations, manage liquidity and hedge the financial exposure arising as a result of business operations. Ericsson Treasury Services' risk mandate to take foreign-exchange and interest-rate positions in the financial market amounts to SEK 200 m., calculated based on a 5 percent change in each open foreign exchange position and a change of one percentage point in interest rates. Ericsson's financial instruments derive exclusively from the money market and foreign exchange market. Ericsson hedges against financial risks by balancing assets and liabilities with respect to currencies and fixed-interest-rate periods and by hedging open positions by means of derivative instruments.

Ericsson's financial instruments:

A) Primary instruments

- Interest-bearing assets and liabilities
- Non-interest-bearing current receivables and liabilities in foreign currencies
- Investment in shares in foreign currencies in subsidiaries and associated companies
- Other investments in foreign currencies

B) Derivative instruments

- Foreign exchange forward contracts
- Currency options
- Currency swaps
- Forward rate agreements (FRA)
- Interest-rate swaps
- Interest-rate futures

Use of derivative instruments has generally limited the volatility of the impact on earnings that is generated by foreign-exchange and interest-rate fluctuations. The instruments have thus had their intended hedging effect and have bridged the time gap between price movements and such countermeasures as revised selling and purchasing prices.

Financial risks

Ericsson has established rules and policies governing the manner in which foreign-exchange and interest-rate risks are to be managed. These rules apply to all units within the organization. A summary of the various types of exposure, and of the principles applied, appears below.

Currency risks

Financial exposure

The financial exposure consists of the advantages or disadvantages, relative to Ericsson's competitors, that arise for Ericsson as a result of foreign-exchange and other financial changes in countries where the Company is active. With its widely dispersed international activities, Ericsson has certain opportunities to relocate operations from one country to another. With approximately 60 percent of its sales consisting of exports from Sweden and only 5 percent of its sales in Sweden, Ericsson is relatively heavily dependent on the development of exchange rates for the Swedish currency, as well as on economic conditions in Sweden.

Transaction exposure

Transaction exposure arises when Ericsson companies do business in currencies other than the Swedish krona. The foreign exchange exposure is concentrated mainly in the large production companies, notably the Swedish units, since the foreign companies are invoiced in their local currencies. Commercial net cash flow of Ericsson's Swedish companies in various currencies are shown in Table 1. The U.S. dollar, the most important foreign currency for Ericsson, accounts for about 34 percent of the total flow in foreign currencies. Based on the currency flow, a lasting change of 10 percent in the dollar exchange rate relative to the Swedish krona has an impact in the range of SEK 2 billion on Ericsson's consolidated earnings.

Currency forwards are used to hedge payment flows in connection with purchases and sales. In many cases the hedging is effected in two steps, from the original currency to U.S. dollars or German marks, and then from these currencies to Swedish kronor. Table 2 shows Ericsson's currency forwards positions as of December 31, assuming that hedging has occurred directly from original currencies to kronor. Currency forwards that hedge exposure to currencies other than Swedish kronor are not significant.

1 Net flows of currencies to and from Sweden, translated to billions of Swedish kronor

Specification of currencies with flows exceeding SEK 0.6 billion

	1998	1997
USD-related currencies, of which		
USD US dollar	13.4	14.7
AUD Australian dollar	1.6	2.4
HKD Hong Kong dollar	3.3	3.8
MYR Malaysian ringgit	0.5	1.4
Other USD-related currencies	1.5	1.1
	20.3	23.4
Other currencies, of which		
CHF Swiss franc	1.1	1.2
DEM German mark	5.3	3.0
DKK Danish krone	1.3	1.3
ESP Spanish peseta	2.2	3.7
FRF French franc	0.2	0.8
GBP British pound	2.0	0.6
ITL Italian lire	3.7	2.3
JPY Japanese yen	1.6	1.6
NLG Dutch guilder	0.4	0.8
Other currencies	1.2	1.2
	19.0	16.5
Total	39.3	39.9

Note: The table is based on statistical data pertaining to flows to and from Ericsson's Swedish companies. These flows are estimated to amount to approximately 90 percent of Ericsson's total currency flows

2 Currency forwards balances as of December 31, 1998, pertaining to accounts receivable, amounts payable and other commitments, SEK billions.

Currency	Sell	Buy
AUD	0.4	1.3
DEM	2.1	4.8
DKK	0.7	1.4
ESP	0.5	7.5
FRF	1.2	3.3
GBP	2.9	6.6
HKD	0.1	2.1
ITL	1.5	2.9
JPY	1.9	3.1
MYR	0.2	0.0
NLG	1.5	1.8
USD	22.4	49.7
Other currencies	4.5	9.3
Total	39.9	93.8

Exposure that arises in connection with borrowing is limited since borrowing by subsidiaries is mainly in local currencies. The currency forwards balances of subsidiaries are monitored continuously to ensure that the companies' exposure is minimized.

Translation exposure

Monetary nets in foreign subsidiaries are hedged only to a limited degree, within a framework established by the Company's management. During 1998 this framework amounted to a maximum of 20 percent of the holdings shown in Table 3. Selective hedging has been employed, depending on estimates of how foreign exchange rates will develop. In addition, monetary nets in foreign companies with financial activities are hedged 100 percent. These holdings amount to SEK 2.5 billion.

Devaluation risks

The financial turbulence, primarily of Latin American and Asian currencies, was high during the year but the effect on Ericsson has been limited. The effects on Ericsson's income statement and balance sheet of a possible devaluation arise as a combination of transaction and translation exposure over the short term, and financial exposure over the long term. The combined risk is monitored continuously and is limited since the risks of devaluation are taken into account in connection with the hedging of monetary nets in foreign currencies, and by monitoring the foreign exchange balances of foreign companies.

Interest-rate risks

Ericsson's interest-rate risks are managed centrally. Interest-rate risks arise primarily as a consequence of the Group's borrowing and the investment of Ericsson's surplus liquidity. The focus during the year was on short-term and balanced interest-rate periods for interest-bearing assets and liabilities. Liquidity is managed mainly by Ericsson Treasury Services. The distribution of fixed and floating interest rates at year-end 1998 is shown in Table 4.

Credit risks in connection with customer financing

Credit risks arise primarily in connection with financing that is arranged for customers. The amount of credit granted continued to increase; no major losses occurred during the year. Total credit risks amounted to SEK 14.5 billion, of which SEK 9.8 billion is shown in the consolidated balance sheet and the remainder as contingent liabilities. The objective is to sell a reasonable percentage of the risks, taking into account the terms offered. The largest targets for such transfers of risk are banks and

Government guarantee institutions such as the Export Credit Council in Sweden.

Credit and counterparty risks in financial operations

Credit risks arise when Ericsson invests liquidity in external parties, and in the management of derivative instruments, notably currency management and debt management.

3 Monetary nets in some foreign companies, SEK billions

ATS	Austrian schilling	0.6
AUD	Australian dollar	1.0
BEF	Belgian franc	0.1
BRL	Brazilian real	4.6
CAD	Canadian dollar	0.1
CHF	Swiss franc	0.3
CNY	Chinese renminbi	0.6
DEM	German mark	0.6
DKK	Danish krone	0.7
FIM	Finnish markka	0.4
FRF	French franc	0.4
GBP	British pound	2.2
IEP	Irish pound	0.9
ITL	Italian lira	3.4
JPY	Japanese yen	0.3
MYR	Malaysian ringgit	0.5
NLG	Dutch guilder	1.9
NOK	Norwegian krone	0.5
NZD	New Zealand dollar	0.1
USD	U.S. dollar	2.5

Monetary nets in foreign companies, translated with the current method, by functional currency, as of January 1999 (including associated companies and excluding companies with financial operations). SEK billions.

4 Distribution of fixed and floating interest rates, SEK billions

Interest-bearing liabilities	1998	1997
Short-term loans	6.6	5.0
Pension liabilities	8.1	7.2
Long-term loans, fixed rate	2.3	2.5
Long-term loans, floating rate	10.5	8.4
Total	27.5	23.1

5 Net risk in interest-rate derivatives, SEK millions

Type of instrument	
Forward rate agreements (FRA)	27
Interest-rate swap contracts	8
Interest-rate futures	13
Total net risk in interest-rate derivatives	33

Net risk in interest-rate derivatives expressed as the effect of a change of one percentage point in interest rates as of December 31, 1998, SEK millions.

To limit its credit risks, Ericsson's policy is to invest surplus liquidity mainly in Swedish Government paper, as well as in commercial paper and corporate bonds with ratings of A1/P1 or higher. Ericsson Treasury Services has set "counterparty limits" for each issuer and counterparty. The exposure in derivative instruments is valued at market daily and is expressed as a liability to, or receivable from, each counterparty. Netting contracts – so-called ISDA contracts – are in force for most of the counterparties, which substantially reduces counterparty risk. Counterparty limits are reviewed continuously. No credit losses were incurred during the year.

Payment readiness

Ericsson's long-term objective is to have a payment readiness amounting to between 7 and 10 percent of sales in order to cope with rapid changes in liquidity requirements. Payment readiness is defined as net liquidity – liquid funds less short-term borrowing, plus long-term unutilized credit commitments. Payment readiness weakened during the year, primarily as a result of a number of large strategic investments. As of December 31, 1998, payment readiness was equal to 7 percent of sales. See Table 6.

Financing

To ensure its long-term payment readiness, Ericsson's policy is that the greater part of its borrowing should be long-term or its needs should be covered through long-term credit commitments. Long-term borrowing should have an evenly distributed maturity structure, and very long maturities should be avoided in order to obtain flexibility. Apart from convertible debenture loans and borrowing within the framework of the Medium Term Note Program, a substantial part of the long-term borrowing consists of the interest-bearing pension liability which Ericsson, under terms of the special Swedish system, can utilize as operating capital. The liability is long-term, with an option to amortize at any time, and carrying a rate of interest that is set once a year. The interest rate used to calculate the cost of this liability in 1998 was 4.9 percent.

With its present capital structure and credit ratings – A1/P1 for short-term borrowing and A+/A1 for long-term borrowing, by Standard & Poor's and Moody's, respectively – Ericsson has substantial borrowing capacity.

Ericsson's long-term borrowing needs are being met with a Euro Medium Term Note Program in the amount of USD 800 m., of which USD 550 m. had been utilized as of December 31, 1998.

Short-term borrowing is assured through commercial paper programs totaling approximately SEK 4.3 billion in Sweden, Europe and the United States, plus confirmed long-term credit commitments amounting to SEK 1.6 billion.

Financial investments

In addition to customer financing, Ericsson's financial investments consist primarily of its internal bank's placements of surplus funds. See Table 7.

Cash management

In 1999, in connection with the introduction of the euro, Ericsson will implement a euro cash pool in one bank for use by all companies in EMU countries and in Britain and Sweden. The centralized cash management is estimated to yield savings of up to 80 percent of the total transaction costs.

	Payment readiness, SEK billions	
	1998	1997
Cash, bank deposits and short-term investments	18.2	29.1
Confirmed long-term credit lines	1.6	1.6
Short-term borrowing	-5.4	-4.2
Short-term portion of long-term debt	-1.1	-0.7
Payment readiness	13.3	25.8
Percent of sales	7	15

Ericsson Treasury Service's investments, December 31, 1998, SEK billions	
Treasury bills	0.1
Treasury bonds	2.2
Mortgage commercial papers	0.2
Mortgage bonds	0.2
Commercial paper	1.4
Corporate bonds	1.6
Cash, bank deposits	4.3
Total	10.0

The Millennium Issue: one of our highest priorities

In 1997, Ericsson decided to initiate the Corporate Millennium Program. Prior to that date, a number of local initiatives had been taken in various Ericsson units.

The Corporate Millennium Program is monitored and supported by a Millennium Program Office established at the corporate level. This function is headed by a Vice President and Millennium Controller, who reports directly to the CEO.

The Corporate Millennium Program is divided into a number of areas to facilitate initiation and coordination of activities. This program is the means by which Ericsson intends to realize its objective of successfully pursuing its business operations across the millennium shift.

Local work is monitored and analyzed with the objective of identifying and resolving possible problems. Each operative entity within Ericsson has a local millennium program and a millennium controller. Within each such program, there are several projects supervised by the local controller.

The ordinary internal audits of operations, which are conducted regularly at Ericsson units, have been expanded to include the review of issues related to the millennium shift. Such audits are conducted by both internal and external parties.

Projects

The millennium projects now in progress throughout Ericsson are organized in the following phases: inventory, assessment, remediation, testing and implementation. The projects are focused on the four key areas described below.

Products and installed base

Ericsson's objective is to keep customers informed and to offer customers an opportunity to test and verify their systems as year-2000 compliant. Time plans and deadlines for measures are established together with the customer.

In order to ensure that products from external vendors are compliant, Ericsson has established a program for vendors. In cooperation with vendors, Ericsson follows a five step approach, which includes requirements for year 2000 compliant products, continuity of operations, audits and evaluation of contracts.

Business support systems

Ericsson's objective with respect to internal systems used in its operations is to minimize possible disruptions. The company has therefore begun testing at various levels in the systems. This work is progressing satisfactorily. Necessary measures for the most important systems for operational support will be completed not later than mid-1999.

Production and distribution

The objective in this area is to minimize the effects on customers of possible disruptions in the supply chain caused by the millennium shift. The time frame for all projects currently in progress extends to mid-1999.

At Ericsson production units, preparations and testing of contingency plans for the millennium shift have been initiated.

Building infrastructure

With respect to buildings and infrastructure, Ericsson's goal is to minimize the effect of possible disruption on personnel and internal operations. A competence center has been established to support all projects within the organization. This competence center will continue its operations after the turn of the century.

Embedded systems are an area of considerable scope. For this reason, close collaboration with suppliers is necessary during the testing phase. Ericsson is working intensively with other companies to speed up results in this area. The scheduled completion date is mid-1999.

Costs

Ericsson estimates that the cost for millennium-related programs throughout the organization will total some SEK 2,900 m. for the years from 1997 up to and including 1999. As of December 31, 1998, these expenses amounted to about SEK 900 m.

Risks

Various risk scenarios are being evaluated. Potential risks include a key supplier being affected. The risk for Ericsson is considerable if power supplies to one of the company's more important production plants or data centers is affected by a longer interruption. Such an event could lead to extensive disruptions of operations.

Continuity of operations

Planning for the continuity of operations is a normal part of the Ericsson management's responsibility. The millennium shift, however, could entail special problems, since several possible disruptions could occur simultaneously.

Contingency plans are being reviewed, evaluated and tested in view of the possible risks associated with the turn of the century. One aspect that is receiving special attention is the availability of reserve power (UPS) for mission-critical systems.

Ericsson organizes for the 21st century

In September 1998, Ericsson decided to adopt a new organization for the company. The new organization, which became effective on January 1, 1999, involves major changes. The three Business Areas are being replaced by Business Segments based on customer categories, and four Market Areas have been established. Links between customers and corporate management are shortened. Management responsibility and decision-making powers are being decentralized and linked with clearly defined control and guidelines from Ericsson's new corporate management.

Concurrently, a new business strategy was established, whereby wireless communications and Internet-based technologies will position Ericsson with a leading role in the 21st century.

Ericsson's new organization is built on four cornerstones:

- Rapid development and product supply characterized by entrepreneurship. Ericsson will be the first company on the market with leading new products and will deliver complete, high-quality solutions at specified delivery times.
- Strong coordination with customers in terms of product and marketing organizations. Ericsson will contribute to making existing and new customers more successful.
- Shared objectives and clearly defined strategic directions. Decisions will be made faster and will contribute actively to the course of future development in the telecom industry.
- Skillful employees. The company will attract, develop and retain skilled employees.

Ericsson has achieved significant success in the 1990s. Highly skilled employees, increased globalization and local presence as well as technical leadership in many areas have led to extremely rapid growth in terms of sales, customer base and the product portfolio.

Development places new demands

The rate of development in telecommunications has increased sharply during recent years, placing completely new demands on telecom companies. Industries, technologies and services are converging. The ability to provide the best technological solutions is no longer adequate in today's marketplace.

Against this background, Ericsson enters the New Telecoms World with fewer units and hierarchical levels, stronger customer orientation, greater speed and sharper focus on the future.

Many fundamental concepts have been taken from the former Mobile Systems Business Area organization.

New Market Areas

In accordance with Ericsson's new organization, the head office will remain in Stockholm, but Market Area functions will be moved closer to the customers. Activities in the Market Areas will be managed from four new corporate offices. Certain other staff functions in Stockholm may be moved to the Market Areas.

- Market Area Europe, Middle East and Africa will operate from an office in London, where Ericsson's President and CEO will also have an office in addition to the office in Stockholm
- Market Area North America will operate from an office in Richardson, Texas.
- Market Area Asia Pacific will establish an office in Hong Kong.
- Market Area Latin America will establish an office in Miami.

The role of Market Area managers will concentrate on strengthening the marketing organization to provide better service to customers and to provide customers with direct contact with representatives of corporate management.

A number of Market Units are included in every region.

New Business Segments, year 1998 (proforma) SEK bn

	Orders booked	Net sales	Operating margin	Operating margin, %	Number of employees
Network Operators and Service Providers	127.6	123.2	16.5	13	68,645
Consumer Products	44.9	45.2	3.2	7	14,193
Enterprise Solutions	15.8	16.1	0.1	1	10,486
Other operations	13.0	13.7	-0.5	-4	10,343
Less: intersegment sales	-13.9	-13.8			
Total	187.4	184.4	19.3	10	103,667

New Business Segments

The former Business Areas have been changed and restructured to form three Business Segments based on various groups of customers:

- *Business Segment Network Operators and Service Providers* (parts of the former Business Areas Mobile Systems and Infocom Systems) develops and markets system solutions, large wired exchanges, data and telecom networks, mobile telephone systems and service to customers that provide public telecom services in all parts of the world.
- *Business Segment Consumer Products* (formerly the Business Area Mobile Phones and Terminals) concentrates on production and sales of mobile telephones to private consumers via distributors.
- *Business Segment Enterprise Solutions* (parts of the former Business Areas Mobile Systems and Infocom Systems) supplies complete telecom solutions for enterprise customers.

The new Business Segments will enable Ericsson to focus more sharply on meeting customer requirements and ensure that development continues to place greater concentration on customer needs.

Every Business Segment includes a large number of Business Units and Product Units.

New Corporate Functions

The new corporate management staff has reduced the number of Corporate Functions from 11 to 8, distributed as follows:

- *Finance*: central controller function, financial reporting, accounting, taxes, central finance management and customer financing, mergers and acquisitions, partnerships and alliances.
- *Technology*: coordination of corporate technological development, technology alliances and joint ventures, standards and regulations.
- *Supply and Information Technology*: IS/IT, production strategy, relations with key suppliers.
- *Marketing and Strategic Business Development*: global marketing and brand name development, strategic business development, competition surveillance, marketing coordination.
- *Human Resources and Organization*: organization, culture and operations development, skills and leadership, rewards and performance assessment, recruiting, relations with trade unions, foreign service/contracts, internal environmental issues.
- *Corporate Communication*: media relations, investor relations, internal communications, community relations.
- In addition to these corporate staffs, which are included in corporate executive management, *Legal Affairs* and *Audit and Security* remain as separate corporate staff functions.

Other operations

Other operations – Defense Systems, Cables and Components – remain as independent units.

The new organization was implemented on January 1, 1999.

Business Segments and Business Units

Network Operators and Service Providers

GSM Systems
TDMA Systems
PDC Systems
WCDMA
Datacom and IP Services
Wireline Systems
Transmission Solutions
Professional Services
New and Special Business Operations

Consumer Products

Mobile Phones

Enterprise Solutions

Enterprise Systems
Wireless Office Solutions
Business Consulting

Ericsson's new Corporate Executive Team

President and CEO: Sven-Christer Nilsson
Senior Executive Vice President and CFO: Carl Wilhelm Ros
Network Operators and Service Providers: Mats Dahlin
Consumer Products: Johan Siberg
Enterprise Solutions: Haijo Pietersma
Europe, Middle East and Africa: Jan Wäreby
North America: Bo Dimert
Asia Pacific: Kurt Hellström
Latin America: Bengt Forsberg
Technology: Jan Uddenfeldt
Supply and Information Technology: Björn Boström
Marketing and Strategic Business Development: Torbjörn Nilsson
Human Resources and Organization: Britt Reigo
Corporate Communications: Lars A Stålberg

Ericsson's new organization

Business Segments

Network Operators and Service Providers
Consumer Products
Enterprise Solutions

Corporate Executive Team

Market Areas

Europe, Middle East and Africa
North America
Asia Pacific
Latin America

Corporate Functions

Finance **Technology** **Supply and Information Technology** **Marketing and Strategic Business Development** **Human Resources and Organization** **Corporate Communications** **Legal Affairs** **Audit and Security**

Defence Systems

Cables

Components

Market Area Europe, Middle East and Africa

Strengthened position through new mobile contracts

Net sales in Market Area Europe, Middle East and Africa increased by a full 17 percent in 1998, to SEK 97,400 m. (83,300), and accounted for slightly more than half of Ericsson's invoicing. The company has operations in about 100 of the 120 countries in the market area.

The emphasis is on Western Europe, which accounts for 41 percent of Ericsson's net sales. The dominant markets are Britain, Italy, Sweden, Spain and Germany. Ericsson is the leader in mobile systems in Western Europe, with a market share of about 45 percent. The Company's strong position is illustrated by the fact that it captured about half of all new contracts for mobile systems in Western Europe during the year.

The growth in the number of subscribers in the Market Area met expectations, rising from 66 million in 1997 to about 106 million in 1998.

The markets in Europe are characterized by the high degree of penetration of mobile telephones, by deregulation, notably in the field of wireline telephony, by increased use of data systems and the Internet, and by the entrance of new operators in both the wireline and mobile telephone sectors.

Britain

Britain is Ericsson's largest market in the market area, and the third-largest for the Company as a whole. Net sales in 1998 amounted to SEK 13,900 m. (13,300), an increase of 5 percent. Ericsson has well-developed cooperation with such leading operators as BT, Cable & Wireless and Vodafone. The growth in mobile telephone infrastructure was very strong in 1998. Many new operators entered the field of wireline telephony.

In January 1999, Ericsson received a large and strategically important order from BT, which is replacing its entire circuit-linked transit network with a network built to handle Internet Protocol (IP) and data. The order, valued at about SEK 3,400 m., is a breakthrough for Ericsson's ATM technology and an important reference contract for the Company and its entry into the New Telecoms World.

The order, won in heavy competition, covers development of BT's wireline AXE network, in which packet-switched ATM technology and IP is being integrated to facilitate a large number of services. The new network will also support the rapidly growing Internet traffic.

Ericsson has also been successful in its contacts with new wireline operators and has taken an increased share of that market.

Italy

Net sales increased by 9 percent during the year, to SEK 11,500 m. (10,500).

The number of mobile telephone subscribers grew strongly. A large part of the increase was attributable to Telecom Italia Mobile.

During the year Ericsson signed a three-year contract with Wind, Italy's third operator in the mobile sector. Under terms of the contract Ericsson will be the principal supplier of both wireline and mobile networks. Ericsson will also provide a system for intelligent networks that will make it possible for Wind to offer its customers coordinated wireline and mobile services, including a common voice mail box.

Telecom Italia Mobile also ordered an experimental system using WCDMA technology in 1998.

Sweden

Sweden, with a market penetration rate of about 50 percent, has one of the highest mobile-telephone densities in the world. Ericsson is the dominant supplier of both mobile and wireline networks. Ericsson's share of the market for mobile systems in Sweden is about 30 percent. Net sales declined to SEK 8,500 (9,300) during the year. Taking into account that Ericsson Saab Avionics AB was not fully consolidated in 1998, sales were largely unchanged for comparable units.

Ericsson received an important contract from Telia covering delivery and installation, over a two-year period, of ADSL equipment – products that boost capacity in a telephone network and prepare it to handle data traffic. With the new ADSL products, private individuals and people who work in remote locations can be connected much faster than with analog modems.

Ericsson also received its first contract for IP telephony from a Swedish operator, Tele2. Ericsson's Phone Doubler enables subscribers to receive calls and "surf" the Internet at the same time.

Rest of Western Europe

During the year Ericsson signed contracts with Retevisión Móvil, Spain's third mobile telephone operator. As a result, the Company is supplying all three GSM operators





in the Spanish market. It has been the principal supplier to Telefónica and Airtel (Airtouch) for some time.

Ericsson also received an order from Telefónica covering expansion of capacity in that company's network. Telefónica has ordered equipment that is based on WDM technology. This technology represents an important step toward increased utilization of bandwidths by increasing the number of wavelengths through new laser technology. BT, Sonera and Telefónica have selected this technology and will test it in the field.

Ericsson received an order from Telfort, a Dutch company, covering delivery and installation of both a wireline network and a national GSM 1800 network for Holland's third GSM system. Ericsson thereby became a supplier to all three operators in Holland.

Ericsson received an order for AXE equipment from Belgacom,

the Belgian operator. The order is the first for AXE in Belgium. In addition, Ericsson obtained an order for a GSM network from KPN Orange Belgium, the country's third operator.

Central and Eastern Europe

Ericsson has operations in 25 of the 28 countries in Central and Eastern Europe. Net sales in this area, which had doubled the year before, increased by about 45 percent in 1998. The area accounts for some 8 percent of Ericsson's total net sales.

The serious financial situation in Russia has had a limited impact on Ericsson's income. Russian business constitutes only a little more than 1 percent of the Company's total net sales.

The Turkish market increased in importance for Ericsson in 1998. Turkey became Ericsson's tenth largest market during the year. The Company received an order from Türkcell, Turkey's largest operator, to construct a GSM network. Ericsson sold its 15 percent holding in Türkcell during the year.

Middle East and Africa

Ericsson is active in all countries in the Middle East. The largest markets are Israel, United Arab Emirates, Lebanon and Saudi Arabia. Net sales rose 36 percent during the year.

Ericsson received an order from Syrian Telecommunications Establishment, the operator in Syria, covering the delivery of primarily AXE equipment over for the wireline network. Ericsson received its first Middle Eastern order for intelligent networks (IN) in the United Arab Emirates.

Ericsson is active in some 20 of the 55 countries in Africa. Sales in this area rose 58 percent during the year. South Africa and Egypt are the largest markets.

In Egypt, Ericsson obtained a strategically important contract from Telecom Egypt, the government operator, covering expansion of the country's wireline network with AXE equipment. The Company also received a contract from Misrfone, Egypt's second mobile telephone operator, to supply a national GSM network.

The five largest markets in Europe, Middle East and Africa (SEK m.)

Britain	13,864
Italy	11,484
Sweden	8,509
Spain	6,993
Germany	5,883

Wireless enters new growth phase

Market Area North America, which consists of the United States and Canada, had net sales of SEK 18,600 m. (19,000), or 10 percent of Ericsson's net sales, during 1998, down 2 percent from 1997.

Sales of mobile systems and mobile phones accounted for 87 percent of the market area's revenue in 1998.

Market Area North America reorganized in 1998 to become even more customer-focused. Ericsson's largest customers in the U.S. are AirTouch, AT&T Wireless, BellSouth, MCI WorldCom, Omnipoint, Powertel, SBC and Triton. In Canada, Microcell and Rogers Cantel are major customers.

In North America the goal is to capitalize on Ericsson's strong position in wireless as well as its growing presence in datacom and Internet Protocol (IP)-based services and solutions to establish a market leadership position in the coming wireless Internet market.

Mobile telephones

Ericsson maintained a strong share of the North American market for TDMA and GSM mobile phones in 1998. Conditions in the U.S. market are highly favorable for continued rapid growth. The penetration rate of 23 percent in the U.S. is significantly lower than rates in Europe. Similarly, the average usage in minutes is also lower than in Europe, due to such factors as flat-rate billing for local wireline calls, the receiving party paying for wireless calls and high charges outside the proprietary network.

To combat these shortcomings, U.S. operators launched several new initiatives to spur wireless subscriber and usage growth. One significant new trend noted during the year was the launch of aggressive pricing packages that bundle new digital phones with reduced fees and rates for wireless calls. AT&T Wireless, which spearheaded this trend, accounted for Ericsson's largest North American order in 1998 – a contract of more than one million mobile phones.

Ericsson acquired the remaining 20 percent of the shares in Ericsson-GE Mobile Communications from General Electric. This company was formed in 1989 to manufacture and distribute mobile phones in the U.S. and Canada.

Mobile systems

During 1998, capital spending in the mobile telephony industry declined slightly following the initial build-out in the previous years. Ericsson implemented a program to adapt its costs to the lower growth rate. However, growth in the wireless market took off in midyear, thanks to new innovative pricing plans. Ericsson was able to capitalize on the explosive growth in the industry, and fourth quarter orders in 1998 for mobile systems were 21 percent higher than in the previous fourth quarter.

TDMA, formerly known as D-AMPS, is the predominant digital standard in the U.S. in terms of the number of connected subscribers.

Ericsson has a 39 percent share of the TDMA market, while Lucent is considered to have a slightly larger share and Nortel a lower share.

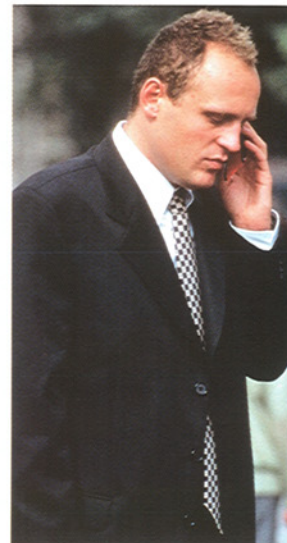
Ericsson dominates the market for GSM systems, with a 52 percent share. In the U.S., Ericsson's strongest positions in the GSM market are on the East and West Coasts.

In 1998 certain operators began to focus on prepaid cards. Although this practice benefits the use of GSM systems, with their SIM cards, it also exerts increased pressure on prices of the actual phones.

Datacom and IP

Since the U.S. is the world leader in the Internet sector, the Ericsson Business Unit for Datacom and IP services, within the Network Operators and Service Providers Business Segment, was relocated to Boston during the year. This was an important step for Ericsson's efforts to increase its presence in the North American datacom market and to apply the knowledge gained there to operations globally. The company aims to position itself as a supplier of solutions and to develop products for the North American market, in the access segment among others.

During 1998, Ericsson acquired Advanced Computer Communications (ACC) for about SEK 2,300 m. ACC, based in California, manufactures routers and access products. It is a leader in the fast-growing remote access area, a technology used to enable connections to the Internet. The company's best-known product family is Tigris, which consists of various types of scaleable access routers. The decision to purchase ACC is part of Ericsson's acquisition



strategy, whose aim is to invest in small and mid-sized datacom companies in order to gain access to expertise in selected areas of technology.

Ericsson has also acquired an interest in Mariposa Technology, a young American company whose expertise is in access solutions for voice and data transmission via ATM.

Ericsson has a strategic partnership with Juniper that involved integrating Juniper's new backbone router into Ericsson's total solutions.

CyberLab in Silicon Alley, Ericsson's research and development center for Internet technology, opened in New York in May 1998. The new facility focuses on emerging Internet technologies and applications for finance, media, healthcare and education. Located in the heart of Manhattan's financial and new media communities, CyberLab provides a virtual bridge to Ericsson's CyberLab in Silicon Valley as well as to other development labs throughout the world.

Other operations

Ericsson serves the Enterprise market with wireless PBX solutions. In the growing professional services segment, Ericsson provides a number of services, such as call centers. The company also offers two-way radio communication systems to government agencies and others.

In the components business, Ericsson has successfully developed and marketed high-performance transistors for base stations.



Markets in North America (SEK m.)

USA	17,000
Canada	1,560

China became Ericsson's largest market

Compared with 1997, net sales in Asia Pacific fell 3 percent, to SEK 42,900 m. (44,000), corresponding to 23 percent of Ericsson's total sales. Excluding China, however, sales in the market area declined by 28 percent. Asia Pacific includes Australia and New Zealand.

Asia was characterized by financial turbulence during the past year, with major variations among the countries. While the countries of Southeast Asia were hard hit, such economies as China and Taiwan were virtually unaffected.

The outlook for the countries' economies in 1999 is uncertain, but Ericsson believes that over the long term the region will unquestionably be a growth market.

China

During 1998 China, including Hong Kong, surpassed the United States as Ericsson's largest market and now accounts for 12 percent of the Company's total sales. Sales rose sharply, by 43 percent, during the past year to SEK 22,400 m.

Ericsson holds more than a 40 percent share of the market for mobile systems. The number of mobile subscribers in China amounts to 25 million, representing a penetration rate of 2 percent. During 1998, the number of mobile subscribers in GSM networks rose by 11.3 million.

During the year Ericsson received its largest order to date in China when Guandong Mobile Communications Corporation decided to expand its GSM network at a cost of SEK 3,000 m. Other large orders for GSM equipment were received from Shandong PTA and Liaoning PTA. In 1998 Ericsson also received an order that is regarded as a breakthrough for ATM technology in China. When installed, the system will be one of China's largest data networks, serving more than 50,000 users. In total, Ericsson landed contracts in China during 1998 valued at SEK 20,000 m.

Ericsson is represented throughout the country. Ericsson is a partner, with Chinese companies, in eight joint-venture companies, five of which have production facilities. A research center is located in Shanghai. These joint-venture companies are of great importance to Ericsson and their significance will continue to increase in the future. The Chinese government has announced that it will give priority to suppliers with local production, and Ericsson, through its joint-venture companies, will in all probability be regarded as a local supplier.

Japan

Japan is Ericsson's second-largest market in Asia Pacific. The country has survived the financial turbulence fairly well. Since Japan has invested heavily in its infrastructure in recent years there is still capacity available in the network. Net sales amounted to SEK 4,800 m. (6,300).

Mobile systems account for 98 percent of Ericsson's sales, but the company has a mobile telephone that is being tested in the market.

There are about 39 million subscribers in Japan, and the number is increasing by nearly one million a month. The penetration rate, currently 27 percent, is expected to reach 60 percent in a few years.

Japan is unique in its use of its PDC system. A second wave of investments in mobile telephony is expected when Japan changes over to the third generation of mobile systems. During 1998 Ericsson delivered a test system for wideband mobile telephony based on WCDMA technology to the NTT DoCoMo operating company. The next generation of mobile systems is expected to be in operation in Japan in 2001.

Australia

Australia has been an important market for Ericsson for many years. The country is Ericsson's third largest market in Asia Pacific, with net sales of SEK 4,300 m. Ericsson has cooperated closely with Australia's leading telecom operator, Telstra, for many years.

Taiwan

Taiwan's economy is strong, with growth of 5 percent in GDP last year and an expected increase in growth in 1999. With sales of SEK 3,100 m., Taiwan is Ericsson's fourth-largest market in Asia Pacific. Two national and five regional licenses for mobile systems were awarded during the year. Ericsson has contracts with one of the national operators and two of the regionals.



Southeast Asia, including Singapore

Singapore is Ericsson's fifth largest market in Asia Pacific and has been moderately affected by the economic situation. Ericsson has close relationship with the leading operator Singapore Telecom.

Indonesia, Thailand and Malaysia were the countries affected hardest by the Asian crisis, resulting in a decline in sales. At the beginning of 1999 there were signs that the situation in Thailand was improving, with increased activity and declining inflation and unemployment. Malaysia's and Indonesia's problems appear to be longer lasting.

Southeast Asia accounts for less than 5 percent of Ericsson's sales in the Asia Pacific market area.

Announced orders in China during 1998

Customer	Amounts	SEK m.
GSM networks		
Guandong MCC		2,950
Shandong PTA		2,310
Liaoning PTA		1,679
Jiangsu PTA		1,455
Heilongjiang PTA		1,324
Guangxi PTA		1,280
Chongqing TA		1,080
Heilongjiang PTA		916
Hebei PTA		860
Jiangsu PTA		808
Sichuan PTA		670
Wuhan PTB		600
Shanghai PTA		512
Hebei PTA		460
SmarTone (Hong Kong)		400
Peoples Telephone (Hong Kong)		255
TDMA network		
Hongkong Telecom		360
ATM network		
Shandong Sanlian		82



The five largest markets in Asia Pacific (SEK m.)

China	22,372
Japan	4,811
Australia	4,287
Taiwan	3,102
Singapore	2,045

Strong growth in the region

Ericsson is the dominant telecommunications supplier in Latin America. Its share of the market for wireline and mobile telecommunications systems amounts to about 40 percent. Ericsson has 8,100 employees in the region, and because of its strong market presence the Company is regarded as local, which is one of its major strengths.

Net sales in Latin America increased by 20 percent in 1998, to SEK 25,500 m. (21,300). As a result, the region was the market area with the greatest growth during the year.

Privatization of the telecom sector in Brazil, as well as in Mexico, Chile and Argentina, has resulted in explosive demand. At the same time, a real breakthrough for mobile telephony is creating strong demand.

Compared with Asia, for example, the Latin American market is relatively homogeneous, and TDMA is the dominant standard in mobile systems. Increased activity from Lucent and Nortel, among others, was noted in 1998.

Ericsson's largest customers are such global operators as BellSouth, Cable & Wireless, France Télécom, Telecom Italia Mobile, Telefónica and SBC, in cooperation with local operators.

Latin America's economy was relatively stable during 1998, although the region was affected to some extent by the global currency unrest. On January 15, 1999, the Brazilian central bank decided to let the local currency float. As a result, the value of the real relative to the U.S. dollar has declined between 30 and 40 percent. It is still too early to say what effect this will have on Ericsson's customers in terms of future buying power and willingness to invest. The rest of Latin America has been affected by the turbulence in Brazil due to the country's important role in the Latin American economy.

Brazil

Brazil has grown in a short time to be Ericsson's fourth-largest market. The positive trend of business in the country continued in 1998 as net sales increased by 22 percent to SEK 11,900 m. (9,700), equal to 47 percent of the Company's sales in Latin America.

As a result of deregulation of the telecom sector and the privatization of Telebras, the state-owned operator, the Brazilian government sold a large number of licenses for wireline telephony and mobile systems in 1998, which opened the market for international operators. The stiffening

competition among suppliers caused pressure on prices.

Ericsson has more than 40 percent of the market among the new operators in the mobile sector in Brazil and received a number of strategic contracts in 1998. The total value of orders in Brazil in 1998 amounted to SEK 11,000 m.

Penetration of the market for mobile telephony among Brazil's 165 million inhabitants amounts to only 4 percent, so the potential is very substantial. A number of additional licenses for the wireline network will be auctioned off in Brazil during 1999. The number of wired lines is expected to increase from 12 million in 1997 to 28 million in 2000, and to 40 million in 2002.

During the year Ericsson bought up most of the outstanding shares of its subsidiary Ericsson Telecomunicações SA. The purchase was made against the background of Ericsson's positive view of the Brazilian market for telecommunications.

Mexico, Argentina and Chile

Mexico, Argentina and Chile account for a total of 32 percent of Ericsson's net sales in Latin America.

Ericsson has a strong position in Mexico, where it has 2,500 employees. Net sales in Mexico amounted to SEK 3,200 m. The country experienced a wave of privatization between two and four years ago, and the rate of growth has leveled off since then. Ericsson is benefiting from the



addition of new operators in the market, since the increased competition between them increases the demand.

In Argentina during the third quarter, Ericsson received two large orders for TDMA networks from Telefónica Comunicaciones and Telecom Personal.

The Argentine government will award new PCS licenses during 1999, and this will generate additional investments in mobile telephony infrastructure.

Chile invested heavily in infrastructure and became the first country in Latin America to install GSM systems supplied by Ericsson.

Colombia

A record total of 711,000 AXE lines were installed in Colombia in 1998.

In the transport network sector, Empresa de Teléfonos de Santa Fé de Bogotá continued to place orders for equipment to expand its SDH network. It is one of the largest SDH networks supplied by Ericsson anywhere in the world.

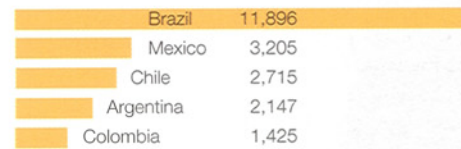
Venezuela

During 1998 Ericsson signed an agreement with the Movilnet mobile system operator covering TDMA systems valued at about SEK 1,600 m. Nacional Telefonos de Venezuela awarded Ericsson a contract for an advanced fiber optical protection system that offers higher capacity and better protection. It will be the first system of its type in Latin America.

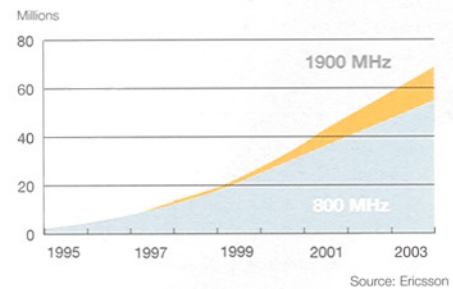
Central America and the Caribbean

Hurricane Mitch caused heavy damage to the infrastructure in Honduras and Nicaragua. Ericsson and Teléfonos de Mexico sent mobile telephones and equipment to these countries and are working with various relief organizations to rebuild the telecommunications system. Privatization of the telecom sector in the area is expected to result in strong growth.

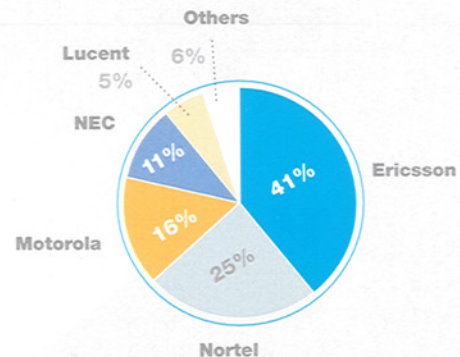
The five largest markets in Latin America (SEK m.)



Number of mobile telephone subscribers in Latin America, 1995-2003 (forecast)



Shares of the Brazilian market for mobile telephony



Strong sales despite pressure on prices

The new Business Segment Network Operators and Service Providers includes a majority of the Business Units formerly in the Business Areas Mobile Systems and Infocom Systems. In addition, new Business Units have been created to explore new business opportunities and further develop sales of services.

The Business Segment, with 68,000 employees and proforma 1998 sales of SEK 123,200 m., equal to about 67 percent of total sales, is Ericsson's largest. It is also the most profitable segment, with an operating margin of 13 percent during 1998.

In the segment, Ericsson combines its unique strength in mobile systems and large robust networks with a strong focus on IP (Internet Protocol) technology. It has brought together units for mobile and wireline systems for both voice and datacom services. This is something that Ericsson's customers are now beginning to demand increasingly in a converging market in which different types of communication supplement, rather than compete with each other. Ericsson possesses a strength in its ability to offer existing and new customers total solutions or integration based on many varying systems and services.

The Business Segment comprises the following Business Units: GSM, TDMA and PDC Systems, WCDMA, Wireline Systems, Datacom and IP Services, Transmission Solutions, Professional Services and New and Special Business Operations.

Ericsson has installed mobile systems in more than 100 countries and is clearly the world's leading supplier. The company has delivered cellular networks to more than 350 network operators, who have a combined total of more than 700 licenses. Some 40 percent of the world's mobile subscribers are connected to Ericsson systems. During the year the Company captured half of all new contracts awarded for GSM systems.

Globally, there are currently more than 300 million mobile subscribers, of which more than 210 million are connected to digital networks.

Ericsson offers all three digital standards based on TDMA technology, the dominant technology for mobile systems and telephones. These standards include GSM, TDMA and PDC, which was developed for the Japanese market. Moreover, Ericsson is the leader in developing the third-generation of mobile systems, which employ WCDMA technology. The Company also supplies systems based on the AMPS, NMT and TACS analog standards.

The Business Segment is expected to grow at a rate of more than 20 percent over the long-term. This is due in part to the fact that a number of new licenses to operate mobile networks will be issued during the next few years. The convergence of industries, technologies and services is

also creating a long list of new opportunities for network operators and suppliers of datacom and Internet services.

GSM Systems

GSM is the world's most widely spread mobile standard. Ericsson, the market leader, has delivered more than 130 systems to operators in 65 countries in all parts of the world. At the end of 1998, about 132 million subscribers throughout the world were using telephones connected to GSM networks. More than 50 million of them were connected to a GSM network supplied by Ericsson. The rate of growth throughout the world was very high during the year. The number of GSM subscribers grows at a rate of more than five million a month.

The GSM System Business Unit is Ericsson's largest. Proforma net sales in 1998 amounted to SEK 55,000 m., or 30 percent of consolidated net sales.

Ericsson received a large number of contracts from Chinese operators in 1998. China is the country with the largest number of GSM users and it is also Ericsson's largest individual market. Other important orders for GSM systems were received from established and new customers in Belgium, Germany, Italy, the Netherlands, Russia, Serbia, South Africa, Spain and Turkey.

Ericsson has supplied NMT networks since 1981. These systems are in service primarily in Scandinavia, Asia, Russia and other Eastern European countries. There



are 4.5 million users of NMT systems in about 40 countries. The strength of NMT lies in the fact the systems cover large areas at low costs. Ericsson also holds a strong position in TACS networks, which are mainly used in Asia and Europe. Ericsson has delivered TACS networks in 13 countries, serving eight million of the 15 million users of this standard.

TDMA Systems

TDMA is the digital enhancement of the AMPS analog standard and, like GSM, is based on TDMA technology. More than 90 million subscribers throughout the world are using TDMA or AMPS networks. About 18 million subscribers in more than 35 countries are in the digital systems. The dominant markets are North America, Latin America and parts of Asia.

TDMA (formerly also known as D-AMPS) was the first standard that made possible the commercial operation of dual-band (a technology in which the two digital frequency areas, 800 and 1900 MHz, can be used) and dual-mode (a technology that makes it possible to shift from analog to digital).

During the year, Ericsson, holding a clear leading position in this standard, received contracts from operators of TDMA systems in Argentina, Brazil, Canada, Chile, Mexico, Russia, the U.S. and Venezuela.

PDC Systems

PDC, the world's second-largest digital standard for mobile systems, is based on TDMA technology. It is used only in Japan. More than 35 million users are connected to PDC networks, and the number has increased by nearly one million per month. Japan is also a leader in developing the third-generation of mobile networks that will also handle telephony more efficiently – an important factor in countries where many subscribers have to share available frequencies.

Ericsson has been chosen as a system supplier by six mobile telephone operators in Japan. During 1998 a number of new contracts were received from Digital Phone Group operators to expand their PDC networks, and Ericsson also developed special solutions for communication within areas where many mobile telephone calls are being made at the same time.

WCDMA

Early in 1988 Ericsson delivered one of the world's first WCDMA experimental systems to NTT DoCoMo, a Japanese operator, and later installed a similar system at

Japan Telecom. Ericsson is also participating in experimental systems with operators in Germany, Britain, Italy and Sweden. The company has had its own WCDMA network in operation for demonstration in Stockholm since 1995. WCDMA constitutes the foundation for the third-generation of mobile systems that make it possible for operators to offer a broad spectrum of wireless multimedia services, such as Internet and intranet and other IP-based services.

Datacom and IP Services

The Datacom and IP Services Business Unit plays a key role in Ericsson's strategy of utilizing its strength in telecommunications to become one of the leading players in data communications and services based on the Internet Protocol (IP). Ericsson has already built up a strong position in IP telephony, where the current trend is to look beyond merely providing voice services, and instead to create added value and increase the number of services. This trend clearly favors Ericsson with its long experience in building large, robust networks.

The management of the Business Unit moved to Boston in the United States during the year to strengthen the unit's presence on the "home turf" of the datacom and Internet market.

In March Ericsson launched the new ATM switch, the AXD 301, for widearea networks. ATM is a technology for high-quality wideband services that can package datacom traffic and telecom traffic, as needed. The new switch is designed for operators of public networks and Internet service providers and will be able to serve as the basis for their telecom, datacom and IP services.

During the autumn Ericsson won a first strategic ATM contract in China in severe competition with other datacom suppliers. The order pertained to deliveries of AXD 301 switches that will constitute the foundation for one of the largest ATM-based networks in China to date.

Strategically important corporate investments were made in the datacom field. Ericsson purchased Advanced Computer Communications (ACC), which has long experience with IP technology and which offers access and data network products, as well as routers. ACC is a leader in the field of remote access, a technology for connecting with the Internet – outside an office, for example. During the year Ericsson won contracts with Dishnet (India) and Sonera (Finland) to supply systems for remote access.

Ericsson purchased an interest in U.S.-based Mariposa Technology. Mariposa develops access systems for the transfer of voice and data via ATM.

The company also acquired an ownership interest in Juniper, an American router start-up. As a result, Ericsson can now offer customers routers in the gigabit class.



Wireline Systems

Wireline Systems brings together Ericsson's broad expertise in robust systems for wireline and optical fiber communications. Ericsson has installed 140 million fixed lines for more than 350 customers in 130 countries.

Wireline Systems, formerly Public Networks, had net sales of SEK 30,500 m. in 1998, equal to about 17 percent of Ericsson's total sales.

The Business Unit's objective is to grow in pace with the market. Profitability in certain sectors has declined in recent years, due mainly to very heavy pressure on prices. The leading operators have largely expanded their public networks, but there are still substantial needs for expansion in such countries as Brazil, China and Russia.

Certain customers experienced payment problems in 1998 as a result of the trend of business in Asia. In Latin America, Ericsson was affected by problems related to the supply of certain components. At the same time, the pressure on prices continued to be heavy in China. Nevertheless, the Business Unit avoided a loss during 1998.

The Business Unit contains a number of growth areas, notably access solutions, in which the leading operators are now investing to upgrade their operations. As a result of growth in use of the Internet, for example, the need for a second wireline telephone line in homes has increased sharply in industrialized countries, as well as the need for more powerful access systems for fast data communications.

At the same time, many new global operators have become established throughout the world. These companies often offer their customers coordinated wireline and mobile communications services, and new demand for AXE switches is coming from this sector.

AXE is the most widely sold digital system in the world and also constitutes a platform for Ericsson's mobile telecommunications systems that are serving more than 100 million users of mobile communications on five continents.

A new version of the AXE switch introduced in the spring of 1998 was very well received. The switch features so-called open architecture in which a number of new functions can be built in a simpler, faster way. This applies, for example, to functions for Intelligent Networks (IN) that connect wireline and mobile services, as well as different types of data and Internet applications. Ericsson has nearly 50 percent of the global IN market, and its sales in this segment are doubling every other year.

At the beginning of 1999, Ericsson won an epoch-

making contract with BT in Britain. The order covers development of BT's wireline AXE network and integration of circuit-switched AXE technology, packet-switched ATM technology and IP. This large-scale network will facilitate rapidly growing Internet traffic.

The order demonstrates that Ericsson is well-positioned for the convergence of data- and telecom.

During 1998 Ericsson continued to concentrate on improving the profitability of the former Business Area Infocom Systems. A comprehensive outsourcing program was implemented. Many operations that were formerly handled internally were transferred to outside suppliers. During 1999 Ericsson will continue an aggressive action program to further reduce the number of production units and increase the synergies in the new organization. This program of measures was announced in January 1999.

Transmission Solutions

Ericsson brings together its resources for transport networks for wireline and mobile networks in this unit. One-fourth of all investments in wireline telecommunications equipment are used to expand transport networks. Just over 100 customers in more than 80 countries have chosen Ericsson their supplier.

Ericsson has built up a competitive product portfolio around SDH technology.

During the year the Company was awarded one of its largest SDH contracts to date. The customer was Embratel, the Brazilian company that is building a network serving 14 of the country's states.

Ericsson also continued to gain orders for WDM, the new technology that uses fiber optical networks. Spain's Telefónica, Finnish Sonera and BT are among the companies that chose Ericsson's solutions, representing a breakthrough for the company's WDM technology.

Ericsson manufactures and markets wireless microwave links for mobile telephone networks' antennas that handle long-distance traffic in wireless and wireline networks. Mini-Link is a highly successful product family that has more than a 30 percent share of the world market, more than twice as much as its closest competitor. Wireline and mobile operators in more than 100 countries have chosen Ericsson's product.

Professional Services

The sale of service solutions is an area of ever-increasing priority for Ericsson. Investments in new equipment amount to less than one-tenth of an operator's total costs.



Operating, maintaining and administering networks and services account for the greater part of the operator's costs. Accordingly, a new common Business Unit has been established. Ericsson is offering operators and companies a large number of services, including business planning, network planning, installation, network improvements, skills development, operating support and operations management.

The Company has also custom-tailored various packages of services. One, for example, is designed for GSM operators; another was developed for customers who want to guard against unexpected events and disasters. During the year Ericsson signed important service contracts with operators in Brazil, Singapore and the United States, among other countries.

New and Special Business Operations

This unit contains a number of activities designed to expose new and attractive business opportunities in the New Telecoms World. The unit contains sectors dealing with such subjects as Commercial Innovations, Wireless Internet, Private Radio over Cellular, Satellite Communication, Fixed Wireless Access, e-commerce and Mobitex.

Ericsson has a long and broad experience in mobile data communications. During the year it demonstrated a number of new technologies, including GPRS and Edge, as world's first. These technologies will further improve the ability of today's mobile networks to handle datacom services – a highly attractive development as the need for wireless Internet services increases. The Company is already a world leader in the field of mobile datacom networks and has substantial experience with large packet-switched networks. For example, operators in more than 25 countries have selected Ericsson's Mobitex network to handle the increased demand for reliable and cost-effective services.

The Business Segment's wanted position

- To maintain its position as number one in the wireless telephony market.
- To establish a position as number one in wireless datacom.
- To maintain its position as one of the three largest companies in the field of wireline telephony.
- To establish a niche position among the three largest players in the field of wireline Internet and datacom in real time.

Business Segment Network Operators and Service Providers, in brief, 1998

	SEK bn	Percent of Group
Orders booked	127.6	68
Net sales	123.2	67
Operating margin	16.5	85
Operating margin %	13	
Number of employees	68,645	

Net sales of major units (proforma)

SEK bn	1998
GSM Systems	55.0
TDMA Systems	18.0
Wireline Systems	30.5
Other	19.7
	123.2



Strong increase in volume of mobile phones

In the new organization, the former Business Area Mobile Phones and Terminals has become part of the new Business Segment Consumer Products.

Mobile phones, the dominant operation, are being supplemented with other consumer products used primarily in wireless communications.

Proforma net sales of the Business Segment in 1998 amounted to SEK 45,200 m. (42,300), a 7 percent increase. This corresponds to 25 percent of Ericsson's total sales during the year. The Business Segment, with an operating margin of 7 percent, continued to show favorable profitability.

Ericsson sold slightly more than 24 million mobile telephones in 1998, 50 percent more than in 1997. The Company effectively defended its share of the total world market.

Ericsson's objective is to grow more rapidly than the market. The long-term growth anticipated in the Business Segment is expected to exceed the Company's overall growth target of 20 percent within three to five years.

But growth in mobile data communications is not expected to gain pace until the year 2000 when operators begin to offer services based on GPRS, which permits higher data transmission speeds.

Pressure on prices on Ericsson's products in 1998 is estimated to have amounted to nearly 30 percent. This pressure in the industry is expected to continue in 1999 in the range of 15 to 20 percent. Ericsson is dealing with this trend through continuing strong rationalization measures.

Strong increase in prepaid subscriptions

The market for mobile telephones was characterized during the year by the sharp increase in the percentage of phones with prepaid subscriptions. This type of subscription has grown rapidly in large parts of the world. Prepaid subscriptions today account for one-third of the market in Western Europe.

The trend toward prepaid subscriptions has involved a shift in demand toward cheaper and less advanced mobile telephones. In Ericsson's case, this resulted in lower operating margins during the latter part of the year as the trend accelerated.

Smaller subsidies

In many countries, mobile telephones are sold with substantial subsidies from system operators. The purchase of a telephone binds the customer to subscribe for service from a particular operator.

In some countries, such as Finland, operators are forbidden to subsidize mobile telephones. Still, sales of telephones have been very strong and Finland today, with 57 percent penetration of the market, is the country with the world's highest mobile telephone density. The probable trend will be toward reduced subsidies, but with tariffs for telephone calls declining at the same time.

210 million people place calls digitally

Based on preliminary statistics at year-end 1998, there were more than 300 million mobile telephone subscribers worldwide. Nearly 210 million were connected to digital systems, an increase of about 98 million in 1998.

Of these subscribers, 132 million were users of GSM systems, while 39 million were connected to PDC systems, 20 million to CDMA and 18 million to TDMA.

CDMA is the only system not based on TDMA technology, and the only one for which Ericsson has elected not to develop equipment.

160 million new telephones

Based on preliminary figures available at the time this Annual Report was written, 160 million mobile telephones were sold in 1998, 55 million more than in 1997.

Ericsson is forecasting that the total market will increase to 200 million units in 1999, and to 265 million in 2000.

The market-penetration rate measures the percentage of telephones relative to the total population of a country or area. In North America, this rate was 23 percent, a figure that is expected to rise to 50 percent in 2003.

The penetration rate in Europe was 15 percent and is expected to increase to 50 percent in 2003. Individual countries, primarily in the Nordic region, have penetration rates of about 50 percent.

The average global penetration rate is only 5 percent, since the percentage of users in highly populated countries and such areas as China, Latin America and Africa is very low. However, the global penetration rate is expected to increase sharply to 15 percent in 2003.

Replacement market increasing strongly

Sales of new telephones to existing subscribers are expected to increase substantially in the years immediately ahead. Subscribers who replace their old telephones are expected to choose a more advanced instrument. Ericsson is forecasting that in 2001 this market will be larger than the market for sales of telephones to new subscribers.

Branding campaign

February marked the start of Ericsson's global brand name campaign, "Make Yourself Heard," which was aimed at the consumer market.

Ericsson respects the voice of every individual and gives them the power to be heard. The new brand will be visible in all communications from Ericsson.

The campaign ran all year in all parts of the world, in daily newspapers and magazines, on television and in motion picture theaters, as well as on billboards.

New products

During 1998 Ericsson's former Business Area Mobile Phones and Terminals introduced more than 20 new products, including the SH 888, I 888 World and S 868 mobile telephones. These so-called dual-band instruments can be used on two different frequency bands. The caller is connected to the network that is handling the least traffic at the moment, thereby increasing reliability. The I 888 World instrument, which can be used in 120 countries, also has a built-in infrared port for connections to computers. The SH 888 model also has a port of this type.

Ericsson also introduced a test telephone, designated the ER205, in the Japanese market. The telephone is very small and has many features adapted to the special demands imposed by users in Japan.

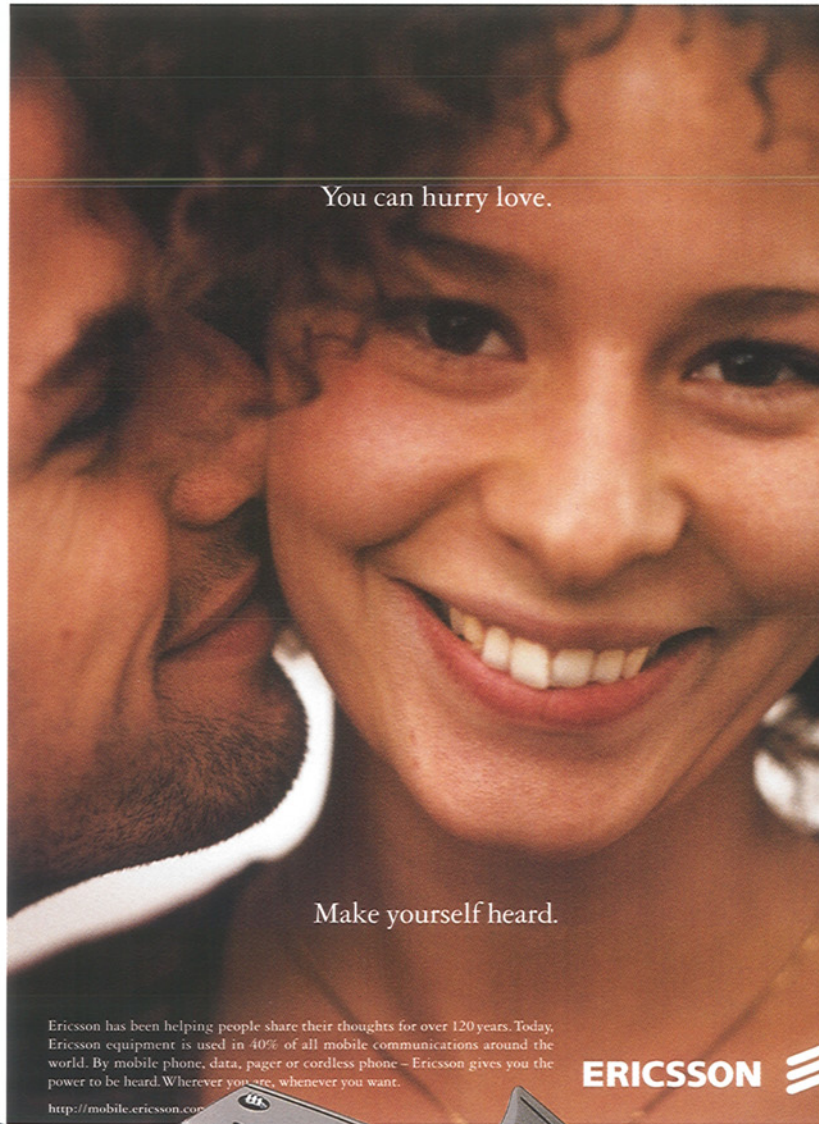
Most of Ericsson's mobile telephones sold in 1999 will operate on two or three frequencies, will use less power and will have infrared links to computers.

In 1998, Ericsson also launched the MC 16 system, a mobile system for data communications in the form of a mobile terminal and a separate small computer. In 1999, in an enhanced MC 18 version, it will be equipped with the EPOC operating system from Symbian.

Ericsson announced plans for a "world telephone" that will work in most of the mobile systems throughout the world. It will be possible to use the instrument on GSM's three frequency bands and in TDMA systems in the 800 and 1900 MHz frequency bands.

The area of use contains 175 million subscribers, or about 80 percent of the world market for mobile telephones.

In the beginning of 1999, Ericsson introduced the T28, the thinnest GSM telephone on the market. The phone is equipped with the latest technology and has a number of features, such as voice-controlled dialing and answering, a world clock and the possibility of having two telephone numbers assigned to the same SIM card. The T28 is one of several new phones to be launched in 1999.




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Personal pagers

In December, Ericsson decided to terminate production of personal pagers. The decision was based on the fact that profitability in the segment is weak and the future of personal pagers looks dark as more and more functions are transferred to mobile telephones. The Ericsson department that developed personal pagers was liquidated and the employees have been moved to the unit that develops mobile telephones.

Satellite telephones

Ericsson received a contract from Globalstar, an American operator, to supply satellite telephones that can be used both with satellites and as GSM instruments. Globalstar is a satellite-based system that is scheduled to be in operation by the end of 1999.

Battery problems

During the autumn a number of design problems were reported regarding the battery contacts for some of Ericsson's mobile telephones. The problems originated in the initial production of certain models and occurred mainly in the Swedish market, where the products were first released. Ericsson replaced batteries with faulty contacts at no charge to customers and increased after-sales service resources to quickly solve the problem.

Research into electromagnetic fields

Product safety is a key issue at Ericsson. Products must be safe to use and not cause any disturbances in the areas in which they are used. Ericsson continually ensures that current and future products meet the recommendations, limits and standards that regulate human exposure to electromagnetic fields.

Based on the collective research in this area, an expert group within the World Health Organization (WHO) has determined that there are no results indicating that the electromagnetic field generated by a base station or a cellular phone could cause any health risks. Ericsson has been conducting its own research in this area for many years and provides financial support for medical research conducted by independent national and international research organizations.

Consumer products

Ericsson's new organization provides a sharper strategic focus on consumer products within its area of expertise, such as modems and wireless communications, an area expected to increase sharply in the future.

The Business Segment's wanted position

- To improve its position and become one of the two largest players in wireless telephony.
- To establish a position among the two largest players in wireless data transmission.
- To establish a niche position among the three largest companies in real-time wireline data transmission of the highest class.

Business Segment Consumer Products in brief, 1998

	SEK bn	Percent of Group
Orders booked	44.9	24
Net sales	45.2	25
Operating margin	3.2	17
Operating margin, %	7	
Number of employees	14,193	

Leading the way to the New Telecoms World

Ericsson's new Business Segment, Enterprise Solutions, consists of parts of the former Business Areas Mobile Systems, Infocom Systems and the Ericsson Data operation. The segment provides communications solutions for businesses and public sector organizations worldwide.

The segment's proforma net sales amounted to SEK 16,100 m. during 1998, or 9 percent of Ericsson's total sales. The result was affected by large investments in future growth areas such as next-generation wireless office solutions.

Ericsson believes that in the New Telecoms World, those enterprises that first apply convergence technologies will stand to develop decisive competitive advantages, often on a global scale.

Employees in companies will demand access to network services irrespective of location, driving the adoption of third-generation mobile networking solutions. Enterprises will seek to use networked computing solutions to innovate in customer service and streamline their supply chains.

Three Business Units have been created within the segment to address these opportunities: Enterprise Systems, Wireless Office Solutions and Business Consulting.

The growth rate in the enterprise market is estimated at 7 percent a year. By increasing market share in existing business and targeting fast-growing and upcoming markets such as Wireless Office, voice over data network platforms and advanced computer telephony solutions, Enterprise Solutions expects to continue to grow at least 10 to 15 percent a year, a faster rate than the markets the segment serves.

Enterprise Systems

The Enterprise Systems Business Unit will continue to expand Ericsson's private branch exchange business and is expected to achieve rapid growth in the newly emerging Voice over IP (VoIP) and computer telephony segments.

Traditional private branch exchange business grew by volume during 1998, measured in new extensions shipped, and was profitable. This marks the third consecutive year that growth in volume shipments far outstripped that of the market, representing a further gain in worldwide market share.

Furthermore, a substantial part of the customer base took advantage of the millennium situation to upgrade to the latest releases, and could thereby benefit from many of the new business communications solutions that were launched globally in 1998. For instance, the call center business grew by 35 percent in value during 1998 as

enterprises exploited the benefits of the latest computer telephony applications for the MD110.

Ericsson introduced a broad range of new computer telephony solutions, including the award-winning Next Generation Call Center solution offering media streaming, intelligent routing and IVR (Interactive Voice Response) and, when combined with Ericsson's OneBox solution, full unified messaging support with text-to-speech translation capable of handling fax, voice and e-mail.

Ericsson also announced the new Personal Screen call server, which provides call-by-name, directory access and other advanced user-productivity applications accessed through a Web interface.

Ericsson launched gateway products that allow users to connect their PBXs over the Internet, thus lowering costs, and provide a full range of voice over data offerings for wide area network access.

The acquisition of Advanced Computer Communications (ACC) means that Ericsson is exploiting ACC's router and enterprise remote access server lines and incorporating ACC's technologies into Ericsson's expanding enterprise data networking portfolio. That portfolio already includes frame relay, ATM, router and remote access solutions as well as a range of modems. Meanwhile, developments for the future in the IP-PBX arena are continuing. First shipments are targeted for 1999 delivery.

Major contracts were signed during the year with InterPolizia in Italy (complete voice and data network infrastructure), National Australia Bank (advanced call center solution), and Stockholm County Council (complete voice and data network infrastructure based on the AXD 301 ATM switch).

Wireless Office Solutions

Ericsson's leadership position in premises-based wireless solutions will be developed and extended by the Wireless Office Solutions Business Unit.

The low 2 percent penetration rate of wireless indoor presents Ericsson with a significant opportunity. Investments in office technologies



and products for wireless telecommunications are significant and support Ericsson's ambition to lead this segment, where adoption levels are expected to reach those usually associated with cellular networks.

DECT and PWT indoor wireless voice markets continued to post strong growth in 1998 (30 percent by volume measured in new user extensions shipped). Ericsson announced the integration of cordless technology in its private branch exchange (BusinessPhone and MD110) platforms.

New wireless office solutions were announced during 1998, including Mobility Server 2.0, a wireless access independent server capable of supporting licensed and unlicensed radio solutions for enterprises, new terminals and base stations for PWT and DECT.

Ericsson's cellular wireless office solutions have received major attention. These include TDMA (IS-136) wireless office solution, due for shipment in 1999, and GSM on the Net, where LAN-connected GSM base stations provide access to next-generation VoIP networking and services.

Finally, 1998 saw the entry of Ericsson for the first time into the wireless LAN marketplace, providing a unique solution with data security.

Business Consulting

A newly formed Business Consulting Business Unit will provide advanced professional services to advise, integrate and manage innovative networked solutions for enterprises. It will operate as a dedicated professional services business, encompassing Ericsson's IT operations and the Dedicated Networks and professional services operations

of the former Business Networks. This services business consists of more than 4,000 people with skills in IT, network management and outsourcing, integration and e-commerce.

Major new contracts were signed for managed services with the Crown Prosecution Service in Britain, as well as for a worldwide service contract for a leading manufacturer of consumer products.

The Business Segment's wanted position

- To maintain a leading position in the wireless voice market and be among the top two in the wireless office segment.
- To establish a position among the top three in wireless data vendors.
- To remain in the top five in wireline voice, including a number one position in larger PBXs and migrating this customer base to IP.
- To establish a large and profitable Business Consulting business within the communication and IT areas.

Net sales of major units (proforma)

SEK bn	1998
Enterprise Systems	9.0
Business Consulting	4.8
Other	2.3
	16.1

Business Segment Enterprise Solutions in brief, 1998

	SEK bn	Percent of Group
Orders booked	15.8	8.0
Net sales	16.1	9.0
Operating margin	0.1	0.5
Operating margin, %	1	
Number of employees	10,486	



Breakthrough order for airborne radar

Ericsson's organization includes the other business operations – Defense Systems, Cables and Components – which are outside the Business Segments and are organized as separate companies.

Defense Systems

Defense Systems, which is part of Ericsson Microwave Systems, had sales of SEK 2,300 m. (3,100) in 1998.

During the year, the jointly owned company Ericsson Saab Avionics AB was deconsolidated according to plan. Excluding these operations, Defense Systems posted continued growth.

Ericsson Microwave Systems was selected by the Greek authorities to supply five Erieye airborne radar systems. The industrial consortium involved includes Thomson-CSF, the French defense supplier, and Embraer, the Brazilian aircraft manufacturer. The contract, which is expected to be signed in 1999, is worth slightly more than SEK 5,000 m. and Ericsson's share is valued at SEK 2,500 m. The order represents a breakthrough for Ericsson's defense systems in NATO countries.

In South Africa, Ericsson Microwave was chosen for additional contract negotiations pertaining to the radar system for the Swedish JAS 39 Gripen multi-role military aircraft. The company already has production orders extending to the year 2007.

The Swedish Defense authorities placed an order valued at SEK 240 m. covering development of a radar for the coast artillery and the YS 2000 surface combat vessel.

Ericsson has also received a number of export orders, valued at SEK 300 m., for Arthur and Giraffe ground radars.

During 1998, Ericsson Microwave completed development of a new computer, Macs, for the JAS 39 Gripen.

Ericsson Microwave's civilian sector, including Mini-Link, is described in the section on Network Operators and Service Providers.

Cables

Ericsson Cables manufactures and markets copper and fiber optic cable, power cable and network products. The company had sales of SEK 2,600 m. (2,600) in 1998. Traditional copper cable still accounts for the largest percentage of sales, but optocable sales are growing rapidly, at a rate of 15 to 20 percent a year.

Ericsson Cables experienced continued strong growth in demand for fiber optic submarine cable systems in 1998. Among other successes, the company received an important contract from Statoil in Norway.

The year was characterized by declining prices for optocable, but this was offset by strong increases in volume. The

company noted reduced demand from customers in Asia.

Ericsson Cable Contracting, a subsidiary that engineers and constructs optofiber cable networks, was established during 1998. The company is expected to grow rapidly.

Ericsson Cables introduced a number of products with larger numbers of fibers, including a cable containing more than 200 fibers. The company is working to develop and market complete systems solutions.

The Power Cable Business Unit delivered a number of projects containing high-voltage cable during 1998. Power cable operations experienced strong pressure on prices, but the volumes of business were relatively stable.

Components

Ericsson Components, which comprises the Energy Systems, Microelectronics and Electronic Distribution Business Units, had sales of SEK 6,700 m. (6,900) in 1998. Energy Systems is one of the world's largest suppliers of systems for telecommunications and datacom networks. The Business Unit scored breakthroughs with a number of new, fast-growing operators during the year. Its customers include Alcatel, Fujitsu, NEC and Siemens. The "Telecool Classic" climate-control system was approved by the AT&T operating company for use in its telecommunications exchanges in the United States, and the first systems were placed in service. The Power Modules product line recorded a breakthrough in Japan, resulting in a further increase in the market for module business. Ericsson is the world's largest supplier of power modules.

The Microelectronics Business Unit develops and manufactures microelectronic and "opto" components for telecommunications systems and mobile telephones.

Components used in wireless applications represent a sharply expanding field in which the unit consolidated its position as a leading supplier of power transistors for radio base stations in mobile telephone systems. The Optocomponents product line registered marketing successes in the United States, where demand for fiber optic high-capacity networks of the WDM type increased substantially. Large volumes of linear circuits have been delivered to central switches and, increasingly, to network terminals through the subscriber, notably in connection with the expansion of such digital facilities as ISDN. The unit has begun to introduce components for wideband digital subscriber lines, such as ADSL. These include an ATM chip that can handle video, computer and telephone traffic simultaneously. Radio components are being developed for the new Bluetooth standard that will broaden its application to include completely new areas for wireless communication.

A new corporate function for Supply and Information Technology has been introduced in Ericsson's new organization. It includes such areas as IT, production, purchasing, logistics and implementation. In 1998, Ericsson initiated development of a new business model called Ericsson Global Business Model (EGBM), which is intended to increase efficiency and reduce lead-times through standardized and improved routines and processes. Experience gained from the former Business Area Mobile Phones and Terminals will be used to benefit the entire company.

Increased delivery precision

A section of EGBM related to Time-to-Customer flows (TTC) was started within Ericsson's Business Areas in 1997 to simplify flow processes and increase delivery precision. The objective of TTC is to provide customers with the right product, in the right quantity, at the right place and the right time. Efforts are now being concentrated to establish uniform processes throughout all parts of Ericsson.

Production of the new generation of AXE exchanges serves as one example. Deliveries of products that once required several weeks before final installation are now placed in operation within a matter of days.

Increased capital turnover rate, new business system

In the same way that increased capital turnover has assumed greater importance for the entire company, it has also become a critical element in production. ITO (Inventory Turnover), a measure used to gauge the capital turnover rate in production, tripled for some units in 1998, and the objective in 1999 is to increase it for these units and to share good experiences with other units in order to get a larger impact in the Company.

Installation of a new business system, SAP R/3, was initiated throughout Ericsson in 1998 to secure the perpetuation of the changes achieved. Despite some installation delays, the rationalization of some delivery flows has already been achieved.

Outsourcing and cooperation

The former Infocom Systems Business Area implemented consistent outsourcing of activities that were not considered part of core operations. As a result, functions that were managed internally in the past are now handled by external suppliers.

Ericsson places stringent demands on its suppliers. They have to offer world-class technology and quality, be able to handle large volumes, offer production flexibility and have the capability to adapt to Ericsson's global operations.

Many independent suppliers are now handling production, engineering and design, with particular emphasis on standard components.

Outsourcing has enabled Ericsson to concentrate on a few important partners.

In 1998, for example, the company initiated a program of close cooperation with the American IT company Hewlett-Packard as part of efforts to develop new test approaches and, in a short period of time, Ericsson has developed sophisticated proprietary skills in this field.

Reduced production costs

Ericsson was also able to reduce production costs in large areas of business operations in 1998, particularly within mobile systems, where the company is implementing a series of measures to cope with price pressure.

The concentration strategy to reduce the number of production units is continuing in order to meet the technological changes whereby products have a lower work content.

Shortened lead-times

In the field of purchasing, continuous discussions have been conducted with suppliers to reduce lead-times. In 1996, the average procurement period for purchases of components was 45 days. The average time in 1998 was reduced to 15 days, and in 1999 it should be reduced to 10 days.

This has been made possible through global purchasing agreements, which have seen distributors assume a significant part of the responsibility for standard components purchasing and, through a reduction in the number of suppliers, created potential for closer cooperation. This has been accomplished without deviating from Ericsson's policy to avoid dependence on any suppliers.

Ericsson leads in technical development

Ericsson's new organization involves the establishment of a new corporate function for technology. It will coordinate Ericsson's research and development and deal with standardization matters, patents and issues related to strategic partnerships.

The management of the technology function will attempt to find synergies in the area of product development. It will also establish strategies governing the introduction of new technologies.

Ericsson invested SEK 30,000 m. (27,000), equal to 16 percent of sales, in technical development in 1998.

About 22,000 people were working in design centers in a total of 25 countries during 1998.

Product development in the new organization takes place in more than 50 Product Units, which operate as profit centers within the Business Units.

A new unit, Ericsson Research, which is responsible for advanced early research, was also created during the year. This unit has its roots in the research unit within mobile systems and mobile telephones that gave birth to the WCDMA, Edge and Bluetooth concepts, among others. Ericsson is leading the development work in its core area. Outside this area, the company turns to joint ventures with such other leading companies as Hewlett-Packard, Intel, Sun Microsystems and Texas Instruments.

AXE and ATM

AXE, the digital exchange system for wireline and mobile networks, is the world's most successful telecommunications system. A new, "slimmed" version of the AXE exchange was introduced during 1998. It is five to 10 times smaller than the earlier exchange, which results in major savings for operators. Handling and production costs are also reduced substantially.

Ericsson launched its new flexible high-performance ATM exchange, the AXD 301, which is designed for use by Internet operators.

The company also introduced two data switches that are based on the same technology as the AXD 301. They make it possible for Internet suppliers and large companies to increase the capacity of their IP networks 10-fold to 20-fold.

Wireless IP

Guglielmo Marconi transmitted the first commercial wireless message on June 3, 1898. Despite the passage of 100 years, wireless communication is still in its infancy. It took more than 80 years before the portable mobile telephone reached the public.

The first generation of mobile telecommunications

system, such as NMT and AMPS, was based on analog technology. The second generation, which emerged around 1990, was based on such digital systems as GSM, PDC and TDMA. During 1998 major decisions pertaining to the third generation of mobile systems were made.

Wireless communication based on the Internet Protocol (IP) constitutes the nucleus of third-generation systems that will offer completely new services and transmission speeds more than 100 times faster than those of current systems.

The third generation will offer up to two megabits per second. This will mean fast Internet transmission, as well as fast, easy-to-handle e-mail services, including transmission of images.

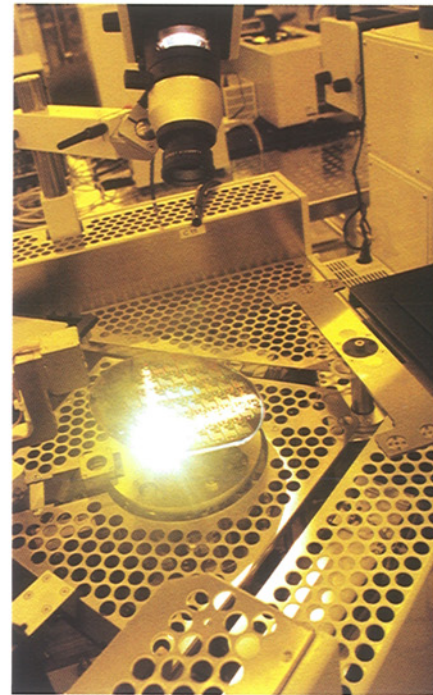
Efficient use of wideband technology is required in radio networks. Ericsson occupies a unique position in this area. It dominates the world market for mobile telephony and has been developing mobile data systems for a long time. The wideband technology is now being built into mobile telephony.

GSM, GPRS and Edge

A new technology known as HSCSD, for higher transmission speeds in GSM systems, was launched during 1998. It is a circuit-switched technology that can yield speeds as high as 57 kilobits per second. The next stage of development for GSM is GPRS, which will again double data-transmission speeds to 115 kilobits per second. GPRS is a packet-linked service for which Ericsson is developing its own built-in routers.

GPRS, which is being introduced in 1999, is a user-friendly service that makes it possible to transmit e-mail and other data communications via wireless systems at high speeds on existing bandwidth frequencies. Edge is a supplement to GPRS. During the year the operators agreed to merge GSM and TDMA, the dominant digital technology in North America and Latin America, among other regions, in a standard for packet data known as Edge. In this standard, which was created primarily for multimedia services, the speed is being further increased, to 384 kilobits per second.

During 1998 Ericsson, Motorola, Nokia and Unwired Planet, a Silicon Valley company, presented a license-free Wireless Application Protocol (WAP). The protocol makes it possible to create advanced mobile telephone services and to read Internet pages from a mobile telephone. WAP



is a de facto standard that is supported by a large number of suppliers.

WCDMA

A new 2 GHz frequency band has been allocated by the International Telecommunications Union (ITU) for the third generation of mobile networks in large parts of the world.

Ericsson's WCDMA technology for the next generation of mobile systems was adopted throughout the world during 1998. In January the technology was accepted by ETSI, the European standardization body, as the standard for the third generation in Europe. A comprehensive program was begun to combine the efforts being made in Europe with standardization in China, Japan and the United States, among other countries. The result was that WCDMA was proposed to the ITU as a world standard at the end of June.

Parallel with the ITU's continuing program to recommend world standards, rapid progress was made in the final technical specification for WCDMA. At the end of the year the Third Generation Partnership Project (3GPP), a global joint venture of regional standardization organizations, had been formed to coordinate the program and achieve quick results.

Ericsson has been working with WCDMA technology since 1989. Today's standardization work is based in part on important findings made and patented by the Company. This has made Ericsson a pioneer in the next generation of mobile telephony.

WCDMA is a 5 MHz wideband radio technology for communication between users and radio base stations in the mobile network. WCDMA enables the transmission of very large amounts of data in a cost-effective manner. This is making it possible to develop tomorrow's mobile communications, in which multimedia functions and access to

the Internet and all its services occupy a special position.

In the course of development and standardization, WCDMA has been optimized to meet future needs at the same time that the technology has been harmonized for today's users. In its development of WCDMA, Ericsson has placed special emphasis on a gradual evolution from today's systems. This ensures that today's operators can make the transition to the future at their own pace, based on market demand. Ericsson's efforts in the area of WCDMA have made it the leading technology for third-generation mobile telephony which is supported today by nearly 85 percent of the world's mobile operators with digital networks.

Ericsson is leading the development of experimental systems for the third generation. The Company has 16 experimental systems for WCDMA in operation, and during 1998 it was able to deliver systems using the new technology to NTT DoCoMo in Japan and to a number of European operators. In these systems Ericsson has also focused on development of a special ATM technology, AAL2, to meet the transmission requirements imposed by the new radio technology.

Licensing of the frequency spectrum for WCDMA is already under way in several markets and will take place in Europe, among other regions, during 1999. In Japan, it is estimated that systems can be built and placed in commercial operation by 2001.

Voice over IP

IP telephony is speech that is transmitted in packet form by means of the Internet Protocol. The market is still hesitant, but the International Telecommunications Union foresees that 300 million people will be using IP telephony as early as 2001.

The low prices that operators can offer, particularly for long-distance traffic, are the primary driving force. New multimedia services are also expected to boost demand. The Internet was not created to handle voice traffic but it is possible, with so-called gateways, to bridge the gap between Internet service and traditional telephony.

Ericsson is in the forefront of IP telephony development and possesses such gateway products today. In its gateways for IP telephony, the Company has used its substantial experience with speech converters and so-called echo cancelers in GSM systems.

Ericsson has developed a platform for IP telephony that is known as the Internet Telephony Solution for Carriers (IPTC). This technology makes it possible to make calls and send faxes via the Internet. The IPTC handles calls received via traditional networks and moves them over to the Internet. When the calls have reached their destination





they are switched back to the regular network. Delta Three, an operator in Seattle, has built a network based on this platform for international calls between Israel, the United States and Britain.

The ITU's H.323 standard is being used for IP telephony today, but a new standard is being developed in a project known as Typhoon. Ericsson is one of the driving forces in this project.

Bluetooth

Bluetooth is a new, small, inexpensive and wireless radio chip that has been developed within Ericsson since 1996. The new technology was offered to other companies in 1998. A consortium consisting of Ericsson, IBM, Intel, Nokia and Toshiba was formed to support Bluetooth.

Ericsson is forecasting that the chip will be in more than 100 million mobile telephones by 2002. The specifications are open, and by the end of 1998 some 400 companies in the telecommunications and data industries had joined the Bluetooth Special Interest Group (SIG). Today, the technology is established as the de facto global standard.

The chip transmits signals over distances of tens of meters, making it possible to transfer data between a mobile telephone and a portable computer.

The mobile telephone functions as a sort of base station that can be linked to portable computers, handheld computers, cameras and such, without using wires. The rapid spread of

Bluetooth technology is creating new business opportunities for the companies involved. Telephones can be equipped with a number of useful new functions, and operators will be able to further expand mobile networks.

For consumers, Bluetooth means that wireless access from a personal computer or handheld computer will be simple and easy.

Symbian

Ericsson, Motorola, Nokia and Britain's Psion have formed a joint-venture company, Symbian, to develop and market the EPOC operating system for mobile telephones of the future. The three telecommunications companies combined have more than 65 percent of the world market for mobile telephones. Psion has manufactured and marketed hand-

held computers and mini-calculators since the 1980s. The Symbian companies will develop the EPOC operating system to make it suitable for use in mobile communications. The system is to be inexpensive and the standard is to be an open one, so that other companies will be able to use EPOC without incurring major costs.

Patent issues

Ericsson places great emphasis on protecting its inventions, and this is reflected by the fact that the Company submitted 1,200 applications for new patents in 1998.

As a result of its development work during the late 1980s Ericsson also has early patents that are necessary in connection with the application of narrowband CDMA (IS-95) for a technology known as "soft hand-off," among other applications. Earlier, the Company sued Qualcomm, an American company, claiming infringement of these early CDMA patents. The matter is scheduled to be resolved in an American court in April 1999.

Patent issues are of great importance for third-generation mobile systems and are addressed within ETSI and ITU, among other bodies.

Ericsson has a strong patent portfolio pertaining to the third-generation systems and the company has advised ETSI and ITU, among other organizations, that it has more than 50 essential patents for the third generation that are for licensing.



Limited effects of the introduction of the euro

The European Monetary Union (EMU) came into being on January 1, 1999. Since that date, 11 member countries have been using the euro as a common currency. Fixed exchange rates were established for the currencies of the member countries on May 3 last year, and the value of the euro was set on December 31. Sweden is initially staying outside the currency union.

A project group consisting of employees from Business Areas, local companies and corporate functions was established within Ericsson in 1995. The group analyzed the impact of the currency union on Ericsson, made plans for introducing the euro and took steps to implement necessary adjustments. Each of Ericsson's European countries has a "euro coordinator" and a project organization to deal with the EMU.

Dutch company was the first

At the start of 1999 the subsidiary in the Netherlands became the first Ericsson company to change over to use of the euro as a basic currency. The changeover was preceded by a pilot project that had been under way since November 1997. The project included a feasibility study, a list of consequences and necessary preparatory measures, and a plan for the switch to the new currency. It developed a communications plan for customers, suppliers and employees.

In Sweden, too, Ericsson has conducted projects to analyze the expected effects of the euro at its introduction and at the time when Sweden is expected to join the currency union.

Beginning in January 1999, certain functions within Ericsson were adapted to handle the euro; others will follow at the end of the transition period. The speed of adaptation is determined by demands from customers, by operational efficiency and by cost benefits. Ericsson is introducing a euro cash pool in EMU countries and in Britain and Sweden this year to coordinate liquidity in EMU countries. The euro cash pool is discussed in the section on "Treasury management and financial risks."

Limited impact

As a result of deregulation and privatization, telecommunications have developed into an increasingly global industry. Price levels have been harmonized as customers, suppliers and competitors operated throughout the world.

The price transparency that may be expected from the introduction of a common currency in Europe should have only a limited effect on Ericsson. The pilot project in the Netherlands showed that the primary need is for programs to modify information systems. These programs will involve limited costs since Ericsson is making a group-wide introduction of the SAP R/3 business system throughout the world. This system is expected to be able to handle the changeover to the euro without major additional adjustments.

Meanwhile, more efficient cash management and a reduction in currency risks are achieving greater cost-effectiveness. Based on currently available information, the introduction of the euro is considered to have a limited commercial and financial impact on Ericsson.

Board of Directors' Report

Sales and orders booked

Ericsson's net sales amounted to SEK 184,438 million, an increase of 10 percent compared with the preceding year (167,740). China was the company's largest market with 12 (9) percent of sales, followed by the United States, the UK, Brazil, Italy and Sweden. Markets outside Sweden accounted for 95 (94) percent of sales, and 39 (38) percent of total sales were attributable to markets in the European Union. The European market accounted for the largest increase in sales during the year, rising 17 percent.

Economic development in certain countries resulted in a sales decline of 3 percent in Asia/Pacific, compared with last year's sales, despite a strong increase in China. Exports from Sweden, including sales to foreign subsidiaries, amounted to SEK 110,400 m. (93,100), an increase of 19 percent.

Orders booked increased 4 percent to SEK 187,415 m. (179,770). The order backlog at year-end amounted to SEK 78,990 m. (76,047 after adjustments for acquired/divested units).

Earnings

Consolidated income before taxes amounted to SEK 18,210 m. (17,218), an increase of 6 percent compared with 1997. Of this amount, SEK 234 m. (deficit: 147) was attributable to net capital gains after deduction of minority interests. Excluding net capital gains, income before taxes rose by 4 percent.

Earnings per share rose 10 percent to SEK 6.66 (6.08). The taxes in 1998 were affected by non-taxable capital gains and a lower tax rate in Italy, reducing taxes to 28.4 percent of income before tax, compared to last year's 30.6 percent.

Despite competitive pricing during the year on some products and in certain individual markets, overall gross margins increased by one percentage point as a result of product rationalization and a favorable product mix.

Other operating revenues increased, primarily as a result of SEK 381 m. higher capital gains compared with a year earlier. Ericsson's income from share in earnings of associated companies declined, compared with the preceding year, mainly as a consequence of the acquisition of outstanding shares in MET S.A. (France), and this company now is consolidated as a subsidiary. Total operating expenses for research and development, selling and administration amounted to SEK 61,057 m. (52,461), or 33 (31) percent of sales. Ericsson continued to make substantial investments in technical development in 1998, particularly in such third-generation mobile telephone systems as GPRS, Edge and WCDMA as well as Internet products and mobile phones. Total technical costs for research and development (including costs related to customer orders of SEK 1,328 m. (1,421), which are reported as costs of sales), amounted to SEK 25,189 m. (20,906), or 14 (12)

percent of sales. Total technical costs, which also include costs for modifying systems and products for specific markets, amounted to SEK 30,190 m. (26,609), or 16 (16) percent of sales. The number of patent applications filed remained at approximately 1,200, the same level as reported in the preceding year.

The operating margin declined from 11.2 to 10.4 percent, due mainly to price pressure and product mix in mobile phones, increased product development efforts, strengthening of the sales organization and increased branding activities in mobile telephones, and implementation projects for business support systems and process re-engineering. Operating margin amounted to SEK 19,273 m. (18,757) and was attributable mainly to the Mobile Systems and Mobile Phones and Terminals business areas. The weaker Swedish krona, compared with 1997, had a favorable impact of approximately SEK 800 m. on income before taxes.

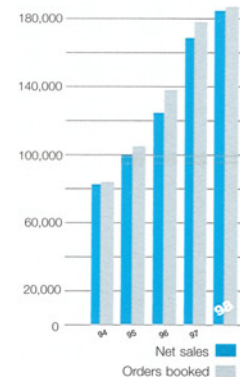
Ericsson's financial net was SEK -237 m. (48). Financial turbulence during the year, most notably in Southeast Asia and Latin America, did not have any significant effects on financial income and expenses. Minority interests in income before taxes amounted to SEK 826 m. (1,587), with most of the decline attributable to Ericsson's acquisition of minority interests in its Brazilian subsidiary during the year.

Sales by the Mobile Systems business area continued to show strong growth, up 20 percent compared with 1997, and Ericsson defended its position as the market's leading systems supplier. Of the total number of mobile telephone subscribers, 95 percent are connected to system standards supplied by Ericsson. GSM strengthened its position during the year as the most widely used system. Orders booked increased by 23 percent. Business trends were highly favorable as a result of rapid growth in the number of subscribers. Operating margin rose and accounted for a substantial percentage of Ericsson's consolidated operating margin.

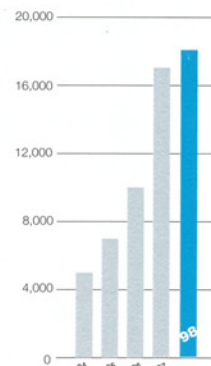
The Infocom Systems business area achieved same sales volume as in 1997, despite negative effects of conditions in Asian markets. Most of the delivery problems reported earlier concerning AXE exchanges have been resolved, but caused a decline in sales during the second half of 1998. Infocom's margins and expenses showed unfavorable development, however, due to competitive pricing, continued restructuring and costs related to overcapacity in Cosir, the Italian network construction company. The business area as a whole continued to show unsatisfactory earnings. Orders booked declined by 14 percent.

The sales growth of Mobile Phones and Terminals slowed to 7 percent, mainly because of falling prices and a shift in market demand toward less expensive telephone models. The business area strengthened its market share in terms of the total number of digital mobile phones

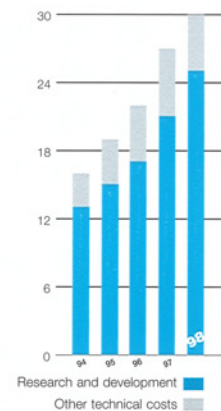
Sales and orders booked, SEK m.



Income before taxes SEK m.



Total technical costs, SEK m.



sold. The operating margin, although substantially reduced from last year, contributed considerably to Ericsson's total operating margin.

Primarily because of the substantial orders booked in 1997 for airborne radar surveillance equipment to Brazil and increases in the Swedish military aircraft project Gripen, orders booked by Other Operations (energy systems, components, cable, and defense systems) were down 7 percent in 1998. Invoiced sales rose by 11 percent, however, and operating margin was satisfactory.

Capital expenditures, financing and cash flow

Ericsson's liquidity was reduced during the year by several strategic acquisitions, totaling more than SEK 10,000 m., including remaining shares in MET S.A. (France), minority interests in Ericsson Telecomunicações (Brazil,) and Ericsson Holding II Inc. (USA), the acquisition of Advanced Computer Communications Inc. (USA) and a commercial property in London.

Cash flow before financing activities in 1998 amounted to SEK -9,825 m. compared with SEK 7,746 m. in the preceding year. Adjusted for the strategic acquisitions above, the cash flow was somewhat positive, despite a strong increase of more than SEK 15 billion in receivables from customers, of which almost SEK 6 billion in customer financing.

The need for export and project financing in 1998 increased faster than sales, due mainly to customers in Brazil and Mexico. No significant credit losses were incurred. Initial refinancing of customer credits related to new projects is still a difficult problem area. The capital turnover rate declined some from 2.4 times to 2.1. Inventories corresponded to 15 (14) percent of sales.

The net of Ericsson's financial assets, which comprise cash and bank deposits, short-term investments and interest-bearing debt (including pension liabilities) amounted to SEK -9,241 m. (5,981).

Ericsson Treasury Services AB is responsible for most of Ericsson's liquidity and currency management. Income was satisfactory in 1998 and yielded a favorable impact on Ericsson's financial net. The unit operates under a risk management policy 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. In addition, sales and purchases are hedged up to 12 months, based on estimates of the certainty of volumes in each business area.

Investments in tangible assets amounted to SEK 8,965 m. (7,237). Capital expenditures in Sweden were down marginally to SEK 3,389 m. from SEK 3,539 m. in 1997. Capital expenditures in other EU countries accounted for SEK 2,910 m. (1,541) of total investments. In addition to the property acquired in London, major investments in 1998 included production equipment for mobile

phones, microelectronics for mobile phones and test systems for WCDMA.

Provisions in addition to pensions and taxes amounted to SEK 11,840 m. (11,550) and relate to guarantee commitments, risks related to guaranteed off-balance-sheet customer financing, changes in technologies and markets, and restructuring.

To finance part of the investments, a five-year bond loan totaling USD 300 m. was issued within the framework of Ericsson's USD 800 m. Medium Term Note program.

The equity ratio was 38.9 (38.7) percent.

Personnel

The number of employees increased by 2,893 (3%) to 103,667 (100,774). In Sweden, the labor force declined by a net total of -381 to 44,979 (45,360), mainly as a consequence of that Ericsson Saab Avionics AB is no longer consolidated as a subsidiary and through continued outsourcing of production operations, with partly offsetting increases in expanding areas such as research and development. The total number of employees includes 25,378 persons (23,930) in other EU countries.

Wages, salaries and other remuneration paid totaled SEK 32,226 m. (28,159). Information on average number of employees, wages, salaries and other remuneration, as well as benefits to senior executives, appears in Notes to the Financial Statements.

Key issues for 1999

Ericsson's long-term objective is to grow faster than the market. For 1999 we foresee a sales growth at least in line with market growth.

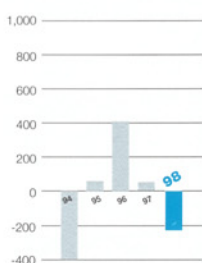
The market for mobile systems continues to increase based on the strong subscriber growth. Ericsson's achievements in this market provide a very good basis for a continued substantial contribution from mobile systems to Ericsson's development in 1999. Ericsson intends to strengthen its position as the leading supplier through important investments in development of the next generation of system technologies. Further investments will also be made in new mobile phones.

Ericsson will continue to invest in new IP- and telecom/datacom technologies in order to meet growing market demand in these areas. The dynamics of these markets require close monitoring of the development of customer demand.

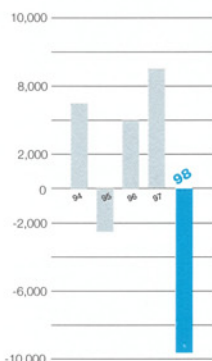
1999 is forecasted to be a year with limited expansion in the global economy. Markets in Asia and Latin America require attention due to the financial uncertainty. The effects of the Brazilian currency devaluation in January 1999 are limited in the near-term.

All in all for Ericsson, the income for the first six

Financial net SEK m.



Cash flow before external financing, SEK m.



months is expected to be lower than for the first six months of 1998. This is due to the financial uncertainty in a number of markets, the cost of investments in new products and technologies, the fact that the launch of new mobile phones will impact earnings mostly in the second half of the year, and the initial costs for restructuring, which are not expected to be offset by positive effects until later in the year.

Millennium shift

A millennium program was established at the corporate level in 1997. The program is designed to minimize eventual disturbances that may affect Ericsson's customers or the company's own operations in conjunction with the new millennium. Efforts to prepare Ericsson for Y2K are expected to be completed in mid-1999.

During 1997-1998, approximately SEK 900 m. have been spent in the program, and the cost estimate for preparations during 1999 is SEK 2,000 m. In Ericsson's opinion, the risk is small that the group's financial systems would be adversely affected to such extent that it would impair the publishing of correct financial information to the stock market.

The Board of Directors and its procedures

LM Ericsson's Board of Directors consists of ten members, without deputies, who are elected by the Annual General Meeting, and three members, with deputies, who are appointed by the employee organizations. Company personnel participate in Board meetings, delivering special presentations.

The Board held eight meetings during the fiscal year 1998. The auditors of the company have reported their observations from the audit to the Board.

In all essential respects, the work of the Board follows a set plan, which is designed to meet the Board's need for information and otherwise follows the arrangement the Board has adopted with respect to the distribution of work between the Board and the president. Accordingly, matters handled by the Board include Ericsson's strategy and organizational structure, major investments in businesses and plants, major sales of operations and plants, large customer-financing projects, and rules governing cash management.

The Board has also established a presidium, consisting of the Chairman, the two Vice Chairmen and the President, which during the period between Board meetings acts on urgent matters such as projects involving customer financing and acquisitions and divestments, based on authorization by the Board. The presidium also establishes the terms of employment for the president and reports them to the Board for approval. Certain principles pertaining to benefits for other senior executives are approved by the presidium. The Board makes case-by-case decisions with respect to stock options programs for employees within Ericsson.

Significant changes within Ericsson

On March 30, Sven-Christer Nilsson was appointed President and CEO, succeeding Lars Ramqvist, who was named Chairman of Ericsson's Board of Directors.

In the beginning of 1998, Ericsson acquired the outstanding 50 percent of the shares in MET S.A., a former associated company in France.

During the second quarter, General Electric exercised an option to sell its 20-percent minority interest in the jointly owned company Ericsson Holding II Inc. (USA) to Ericsson.

In June, a program of cooperation was announced between Ericsson and other leading market players to develop and market the EPOC operating system for small mobile terminals. The cooperation will be conducted through Symbian Ltd., a joint-venture company in which Ericsson owns 23.1 percent. The program of cooperation has attracted strong interest among major operators and other suppliers.

To further strengthen rapid market expansion and technological development within mobile telephony, Ericsson initiated a program of cooperation with other leading telecom players in project Bluetooth, which was started to develop a standard for short-range radio communications between mobile telephones and computers and between computers.

During August and September, Ericsson acquired shares for SEK 4,869 m., out of the minority holdings of over 49 percent of the stock of the Brazilian subsidiary Ericsson Telecomunicações S.A. Ericsson now owns 97.8 percent of the company.

In the autumn, Ericsson acquired edgecom AB, a Swedish consultant company with more than 30 employees and operators in the telecommunications industry as customers.

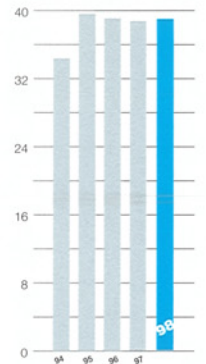
Advanced Computer Communications Inc. (ACC), a leading supplier of remote access products based in California, was acquired in November, 1998, for a purchase price of USD 285 m.

Ericsson Hewlett-Packard Telecommunications AB established two wholly owned subsidiaries in Malaysia and India during the year.

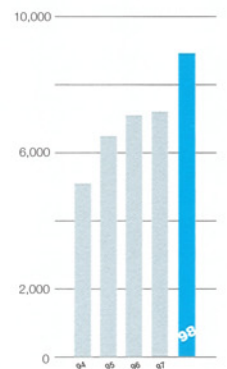
The operations of Ericsson Sverige AB were started toward year-end. The company will handle all sales of products and services for both fixed and mobile networks to operators and companies as well as the public sector of the Swedish market. Ericsson Sverige AB was operative as of January 1, 1999.

The ownership structure of Ericsson Saab Avionics AB was changed as planned on December 31, reducing Ericsson's ownership interest to 49.9 percent. As a result, the company is since January 1, 1998, no longer consolidated as a subsidiary.

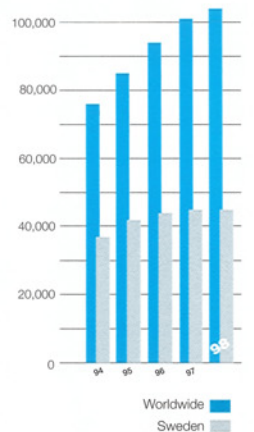
Equity ratio, %



Investments in tangible assets, SEK m.



Number of employees



In December, Ericsson reduced its shareholding in Intracom S.A., a Greek company, from 13 percent to 5 percent. Ericsson is still the company's third largest shareholder. The sale yielded a capital gain of SEK 658 m.

Also in December, the Italian subsidiary Ericsson S.p.A. signed an agreement to sell 80 percent of all shares in Cosir S.p.A., a network construction company. The sale will be finalized in the beginning of 1999.

Several areas of Ericsson's operations in Sweden and abroad were outsourced during 1999, whereby activities were transferred to independent suppliers to create benefits of scale in their activities and streamline Ericsson's own operations. During the autumn, Ericsson's former Distribution Center in Huddinge was sold to Caterpillar Logistics of the U.S. Outsourcing activities outside Sweden affected Ericsson operations in Australia, Brazil, Croatia, Italy, Mexico and Spain.

Ericsson has branch offices in more than 40 countries. Large branch offices are maintained in Egypt, Libya, Poland, Russia, the United Arab Emirates and Vietnam. New branch offices were opened during 1998 in Cyprus, Moldova and the Republic of Srpska.

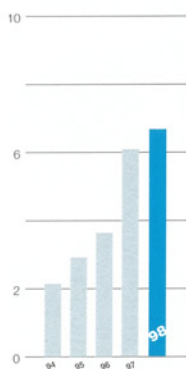
Effective January 1, 1999, a new corporate structure was introduced to strengthen Ericsson's position as a leading player in the New Telecoms World. Mergers of various units in fixed and mobile communications are expected to generate substantial synergy effects.

In the end of January, 1999, a decision was made to implement a restructuring program, which will reduce the number of employees by approximately 11,000 over a two-year period. The program is a consequence of the rapid technological development, which has led to earlier than expected product phase-outs and reduced work content in new products in production as well as in installation, and of rationalization effects of the new organization.

Parent Company Telefonaktiebolaget LM Ericsson

Parent company results include the operations conducted on commission basis by Ericsson Telecom AB and Ericsson Treasury Services AB. Parent Company sales amounted to SEK 16,836 m. (16,217). Net income for the Parent totaled SEK 5,732 m. (4,758). Earnings available for distribution at year-end amounted to SEK 14,564 m. (12,263). Major changes in the financial position were increased investments in subsidiaries of SEK 5,050 m. and long-term loans to subsidiaries of SEK 6,630 m., offset by lower cash and increased external borrowing, including the USD 300 m. loan mentioned above. Of the increase in investments in subsidiaries, SEK 4,607 m. were attributable to stock issues in the U.S. company Ericsson Holding II Inc.. Cash and short-term cash investments decreased by SEK 11,072 m. to SEK 10,397 m. at year-end.

Income per share, SEK m.



Bonus issue

On April 28, 1998, a 1-for-1 bonus issue was effected, increasing the capital stock from SEK 2,438 m. to SEK 4,876 m. through a transfer from restricted reserves and increasing the number of shares to 1,950,194,300.

Proposed disposition of earnings

The amount of SEK 14,564,359,735 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:

that a dividend of SEK 2.00 per share be paid to shareholders duly registered on the record date	SEK 3,942,882,968
and that the remainder be retained within the business	SEK 10,621,476,767
	SEK 14,564,359,735

Debentures 1993/2000 converted up to February 5, 1999, are also entitled to dividends for 1998. Assuming all such debentures are converted by February 5, 1999, the dividend will amount to the total specified above.

Stockholm, January 28, 1999
Telefonaktiebolaget LM Ericsson (publ)
Org. no. 556016-0680

Tom Hedelius Vice Chairman	Lars Ramqvist Chairman	Marcus Wallenberg Vice Chairman
Bo Berggren	Sverker Martin-Löf	Lars-Eric Petersson
Clas Reuterskiöld	Peter Sutherland	Sven Ågrup
Göran Engström	Jan Hedlund	Per Lindh
	Sven-Christer Nilsson President	



Consolidated Income Statement

Years ended December 31, SEK m.		1998	1997	1996
Net sales	Note 1	184,438	167,740	124,266
Cost of sales		-105,251	-97,868	-74,179
Gross Margin		79,187	69,872	50,087
Research and development and other technical expenses		-28,027	-24,242	-19,837
Selling expenses		-24,108	-20,464	-14,765
Administrative expenses		-8,922	-7,755	-6,344
Other operating revenues	Note 2	995	866	1,193
Share in earnings of associated companies		148	480	424
Operating Margin		19,273	18,757	10,758
Financial income	Note 3	2,228	2,413	1,908
Financial expenses	Note 3	-2,465	-2,365	-1,496
Income After Financial Items		19,036	18,805	11,170
Minority interest in income before taxes		-826	-1,587	-1,018
Income Before Taxes		18,210	17,218	10,152
Taxes				
Income taxes for the year	Note 4	-5,409	-5,755	-3,399
Minority interest in taxes		240	478	357
Net Income		13,041	11,941	7,110
Earnings per share, SEK	Note 5	6.66	6.08	3.64

Net Sales:
SEK 184,438 m.

Income Before Taxes:
SEK 18,210 m.

Earnings Per Share:
SEK 6.66

Consolidated Balance Sheet

December 31, SEK m.		1998	1997
Fixed Assets			
Intangible assets	Note 6	6,354	748
Tangible assets	Note 7, 23, 25	22,516	19,225
Financial assets	Note 8		
Equity in associated companies		2,777	2,643
Other investments		1,438	1,434
Long-term customer financing		5,937	2,000
Other long-term receivables		2,902	3,365
		41,924	29,415
Current Assets			
Inventories	Note 10	26,973	23,614
Receivables			
Accounts receivable - trade	Note 11	53,900	44,446
Short-term customer financing		3,837	1,705
Other receivables	Note 13	22,589	19,133
Short-term cash investments		6,356	20,416
Cash and bank		11,877	8,711
		125,532	118,025
Total Assets		167,456	147,440
Stockholders' Equity			
Capital stock	Note 14	4,878	2,436
Reserves not available for distribution		28,053	29,172
Restricted equity		32,931	31,608
Retained earnings		17,140	9,075
Net income		13,041	11,941
Non-restricted equity		30,181	21,016
		63,112	52,624
Minority Interest in Equity of Consolidated Subsidiaries		2,051	4,395
Provisions	Note 16	22,284	21,095
Long-Term Liabilities			
Notes and bond loans	Note 17, 20	4,470	2,476
Convertible debentures		6,241	6,034
Liabilities to financial institutions		1,898	2,209
Other long-term liabilities		459	510
		13,068	11,229
Current Liabilities			
Current maturities of long-term debt	Note 20	1,188	742
Current liabilities to financial institutions	Note 18	5,427	4,242
Advances from customers		8,398	7,633
Accounts payable - trade		18,246	14,803
Income tax liabilities		1,957	4,100
Other current liabilities	Note 19	31,725	26,577
		66,941	58,097
Total Stockholders' Equity, Provisions and Liabilities		167,456	147,440
Assets Pledged as Collateral	Note 20	1,203	1,018
Contingent Liabilities	Note 21	8,063	7,305

Consolidated Statement of Cash Flows

Years ended December 31, SEK m.		1998	1997	1996
Operations	Note 22			
Net income		13,041	11,941	7,110
Adjustments to Reconcile Net Income to Cash				
Minority interest in net income		586	1,109	661
Depreciation and amortization		6,081	5,756	4,659
Capital gains (-)/losses on sale of fixed assets		-230	152	-345
Changes in Operating Net Assets				
Inventories		-2,056	-3,396	1,118
Customer financing, short-term and long-term		-5,727	-347	-309
Accounts receivable - trade and other operating assets		-10,893	-16,669	-9,205
Provisions and other operating liabilities		6,592	16,356	5,609
Cash Flow From Operating Activities		7,394	14,902	9,298
Investments				
Investments in tangible assets		-8,965	-7,237	-6,290
Sales of tangible assets		632	642	767
Acquisitions/sales of other investments, net		-8,865	-69	-540
Net change in capital contributed by minority		35	21	1
Other		-56	-513	808
Cash Flow From Investing Activities		-17,219	-7,156	-5,254
Cash Flow Before Financing Activities		-9,825	7,746	4,044
Financing				
	Note 22			
Changes in current liabilities to financial institutions, net		955	96	1,453
Issue of convertible debentures		19	4,875	-
Proceeds from issuance of other long-term debt		3,366	2,571	682
Repayments of long-term debt		-1,332	-2,672	-2,029
Dividends paid		-3,800	-2,805	-1,917
Cash Flow From Financing Activities		-792	2,065	-1,811
Effect of exchange rate changes on cash		-277	256	38
Cash effect from consolidation of previously associated entity		-	-	1,404
Net Change in Cash		-10,894	10,067	3,675
Cash, Beginning of Period		29,127	19,060	15,385
Cash, End of Period		18,233	29,127	19,060

Parent Company Income Statement

Years ended December 31, SEK m.		1998	1997	1996
Net sales	Note 1	16,836	16,217	15,404
Cost of sales		-11,657	-12,205	-11,018
Gross Margin		5,179	4,012	4,386
Research and development and other technical expenses		-6,160	-6,578	-5,387
Selling expenses		-2,151	-1,408	-1,035
Administrative expenses		-2,272	-1,546	-892
Other operating revenues	Note 2	2,666	2,368	2,220
Operating Margin		-2,738	-3,152	-708
Financial income	Note 3	6,052	6,223	6,578
Financial expenses	Note 3	-1,942	-1,827	-1,491
Income After Financial Net		1,372	1,244	4,379
Appropriations to (-)/transfers from untaxed reserves				
Changes in depreciation in excess of plan	Note 15	204	337	92
Changes in other untaxed reserves	Note 15	-174	-504	-112
		30	-167	-20
Contributions from subsidiaries, net		4,749	4,074	811
Income Before Taxes		6,151	5,151	5,170
Income taxes for the year	Note 4	-419	-393	-239
Net Income		5,732	4,758	4,931

Net Sales:
SEK 16,836 m.

**Income
Before Taxes:**
SEK 6,151 m.



Parent Company

Balance Sheet

December 31, SEK m.		1998	1997
ASSETS			
Fixed Assets			
Intangible assets	Note 6	78	177
Tangible assets	Note 7	2,625	2,887
Financial assets			
Investments			
Subsidiaries	Note 8, 9	19,262	14,212
Associated companies	Note 8, 9	974	1,025
Other investments	Note 8	46	45
Receivables from subsidiaries	Note 12	12,329	5,699
Long-term customer financing	Note 8	280	124
Other long-term receivables	Note 8	127	101
		35,721	24,270
Current Assets			
Inventories	Note 10	1,607	1,771
Receivables			
Accounts receivable – trade	Note 11	2,544	2,634
Short-term customer financing		30	21
Receivables from subsidiaries	Note 12	18,617	13,296
Other receivables	Note 13	7,618	8,599
Short-term cash investments		5,732	17,988
Cash and bank		4,665	3,481
		40,813	47,790
Total Assets		76,534	72,060
Assets Pledged As Collateral	Note 20	402	529

Parent Company

Balance Sheet

December 31, SEK m.		1998	1997
STOCKHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Stockholders' Equity	Note 14		
Capital stock		4,878	2,436
Share premium reserve		1,687	1,614
Revaluation reserve		95	75
Other reserves		9,680	12,116
Restricted equity		16,340	16,241
Retained earnings		8,832	7,505
Net income		5,732	4,758
Non-restricted equity		14,564	12,263
		30,904	28,504
Untaxed Reserves	Note 15	3,086	3,116
Provisions	Note 16	3,731	3,360
Long-Term Liabilities			
Notes and bond loans	Note 17	4,470	2,476
Convertible debentures	Note 17	6,195	5,943
Liabilities to financial institutions	Note 17, 20	320	399
Liabilities to subsidiaries	Note 12, 17	2,821	1,910
Other long-term liabilities	Note 17	21	42
		13,827	10,770
Current Liabilities	Note 20		
Current maturities of long-term debt		558	207
Current liabilities to financial institutions	Note 18	26	232
Advances from customers		365	351
Accounts payable – trade		1,203	1,099
Liabilities to subsidiaries	Note 12	17,448	19,250
Income tax liability		104	295
Other current liabilities	Note 19	5,282	4,876
		24,986	26,310
Total Stockholders' Equity, Provisions and Liabilities		76,534	72,060
Contingent Liabilities	Note 21	6,968	7,792

Parent Company

Statement of Cash Flows

Years ended December 31, SEK m.	1998	1997	1996
Operations			
Net income	5,732	4,758	4,931
Adjustments to Reconcile Net Income to Cash			
Depreciation and amortization	442	665	547
Capital gains (-)/losses on sale of fixed assets	1,022	94	-2,166
Appropriations to/transfers from (-) untaxed reserves	-30	167	20
Unsettled contributions from (-)/to subsidiaries	-4,700	-4,000	-821
Unsettled dividends	-2,290	-3,269	-1,137
Changes in Operating Net Assets			
Inventories	164	-311	319
Customer financing	-164	-86	38
Accounts receivable - trade and other operating assets	5,133	-5,079	1,093
Provisions and other operating liabilities	-237	5,158	-652
Cash Flow From Operating Activities	5,072	-1,903	2,172
Investments			
Investments in tangible assets	-396	-622	-799
Sales of tangible assets	247	401	403
Acquisitions/sales of other investments, net	-5,978	-97	-1,052
Lending, net	-4,706	-3,370	6,131
Other	-	-111	-
Cash Flow From Investing Activities	-10,833	-3,799	4,683
Cash Flow Before Financing Activities	-5,761	-5,702	6,855
Financing			
Changes in current liabilities to financial institutions, net	-206	207	-9
Changes in current liabilities to subsidiaries	-4,181	13,199	-2,784
Issue of convertible debentures	-	6,000	-
Proceeds from issuance of other long-term debt	2,645	1,866	831
Repayments of long-term debt	-428	-1,804	-2,321
Dividends paid	-3,410	-2,404	-1,676
Other	269	-38	124
Cash Flow From Financing Activities	-5,311	17,026	-5,835
Net Change in Cash	-11,072	11,324	1,020
Cash, Beginning of Period	21,469	10,145	9,125
Cash, End of Period	10,397	21,469	10,145

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

The consolidated financial statements of Telefonaktiebolaget LM Ericsson and its subsidiaries ("the Company") are 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 those in the United States. For a description of major differences, see Note 24.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Parent Company and all 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 includes equity in subsidiaries and associated companies earned only 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, where voting stock interest is at least 20 percent but not more than 50 percent, are accounted for according to the equity method. Ericsson's share of income before tax in these companies is reported in item "Share in earnings of associated companies", included in the Operating Margin. Taxes are included in item "Taxes". Unrealized internal profits in inventory in associated companies purchased from subsidiaries are eliminated in full in the consolidated accounts. Investments in associated companies are shown at equity after adjustments for unrealized intercompany profits and unamortized goodwill (see (b) below).

Undistributed earnings of associated companies included in consolidated restricted equity are reported as "Equity proportion reserve". 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, resulting in amortization periods of up to 20 years. Depending on the nature of the acquisition, goodwill amortizations are reported under "Research and development and other technical expenses", "Selling expenses" or "Administrative expenses".

(c) Translation of foreign currency financial statements

For most subsidiaries and associated companies, the local currency is the currency in which the companies primarily generate and expend cash, and is thus considered their functional (business) currency. Their financial statements are translated to SEK using the current method, whereby any translation adjustments are reported directly to stockholders' equity. When a company accounted for in accordance with these principles is sold, accumulated translation adjustments are included in the consolidated income.

Financial statements of companies with finance activities or other companies, having such close relations with the Swedish operations that their functional currency is considered to be the Swedish krona, are labeled "integrated companies" and are translated using the monetary method. Adjustments from translation of financial statements of these companies are included in the consolidated income statement (see Note 14).

Financial statements of companies operating for example in countries with highly inflationary economies, whose functional currency is considered to be another currency than local currency, are 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.

(d) Translation of foreign currency items in individual companies

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

Gains and losses on foreign exchange are divided into operational and financial. Net operational gains and losses 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 related to financial liabilities are included in financial expenses.

Translation effects related to permanent financing of foreign subsidiaries are reported directly to Stockholder's equity, net of tax effects.

(e) Valuation of short-term cash investments and derivatives

Short-term cash investments held by companies other than Ericsson Treasury Services AB are valued at the lowest of acquisition cost plus accrued interest and market value.

Short-term cash investments and interest related derivatives in Ericsson Treasury Services AB are valued at market value, and net unrealized gains are reserved. Gains and losses from derivatives in Ericsson Treasury Services AB are reported net as Other financial income/expense.

Financial assets and liabilities, including unrealized gains and losses on derivatives, are reported net in the Balance Sheet only when accounting principles so permit, for example when ISDA-agreements are signed.

Derivative instruments are used mainly to hedge financial interest- and currency risks.

In order to limit currency risks, purchases and sales in foreign currencies are hedged using forward currency contracts in all cases involving binding contracts with suppliers and customers. The hedge periods shall agree with expected future cash flow. In addition, anticipated future cash flows in foreign currencies are also hedged for periods up to twelve months. Some framework agreements and bids are also hedged, normally through currency options.

Forward exchange options and investments hedging certain positions have been valued in a manner reflecting the accounting for the hedged position. 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 hedged instrument. Other foreign exchange related derivatives are valued at market value.

When a transaction hedged in advance ceases to be an exposure, the hedge is closed. Hereby deviations between actual and hedged flows are recognized in income as soon as they are identified.

(f) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation, adjusted with net value of revaluations. Annual depreciation is reported as plan depreciation, generally using the straight-line method, with estimated useful lives of, in general, 40 years on buildings, 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.

(g) Inventories

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

(h) Revenue recognition

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

Revenue from long-term customer contracts is recognized successively. If costs required to complete such contracts are estimated to exceed remaining revenues, provision is made for estimated losses.

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.

(i) Research and development costs

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

(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 Standards 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) 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 with a probability to be used greater than 50 percent.

Appropriations and Untaxed reserves are not reported in the consolidated financial statements. Such items reported by consolidated companies have been reversed, 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 reported 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.

(l) 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" and recommendation No. 7 from the Swedish Financial Accounting Standards Council. 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.

Subsidiaries purchased and/or sold, 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.

(m) 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.

1

Net sales
by geographic area

Consolidated	1998	1997	1996
Europe*, Middle East, Africa	97,456	83,490	62,061
North America	18,560	18,973	15,729
Latin America	25,537	21,267	12,047
Asia Pacific	42,885	44,010	34,429
Total**	184,438	167,740	124,266
* Of which Sweden	8,509	9,320	7,616
** Of which EU	71,094	64,244	48,906
Parent Company	1998	1997	1996
Europe*, Middle East, Africa	11,315	11,171	11,581
North America	202	282	349
Latin America	2,362	2,185	1,096
Asia Pacific	2,957	2,579	2,378
Total**	16,836	16,217	15,404
* Of which Sweden	2,062	3,789	4,591
** Of which EU	7,903	6,064	6,727

Figures for 1997 and 1996 have been restated according to new marketarea organization.

2

Other operating
revenues

Consolidated	1998	1997	1996
Commissions, license fees and other operating revenues	765	1,017	849
Net losses (-) on sales of intangible and tangible assets	-214	-150	-67
Net gains/losses (-) on sales of investments and operations	444	-1	411
	995	866	1,193
Parent Company	1998	1997	1996
Commissions, license fees and other operating revenues	2,735	2,398	2,234
Net losses (-) on sales of tangible assets	-69	-30	-14
	2,666	2,368	2,220

3

Financial income
and expenses

Consolidated	1998	1997	1996
Financial Income			
Result from securities and receivables accounted for as fixed assets	892	491	117
Other interest income and similar profit/loss items	1,336	1,922	1,791
Total financial income	2,228	2,413	1,908
Financial Expenses			
Interest expenses and similar profit/loss items	2,465	2,365	1,496
Total financial expenses	2,465	2,365	1,496
Financial Net	-237	48	412
Parent Company	1998	1997	1996
Financial Income			
Result from participations in subsidiaries			
Dividends*	4,026	4,326	2,322
Net gains on sales	468	7	2,115
Result from participations in associated companies			
Dividends	6	54	119
Net gains on sales	-	2	-
Result from other securities and receivables accounted for as fixed assets	2	1	68
Other interest income and similar profit/loss items			
Subsidiaries	892	650	635
Other**	658	1,183	1,319
Total financial income	6,052	6,223	6,578
Financial Expenses			
Losses on sales of participations in subsidiaries	1	-	3
Losses on sales of participations in associated companies	2	74	-
Interest expenses and similar profit/loss items			
Subsidiaries	1,104	859	673
Other	824	888	804
Other financial expenses	11	6	11
Total financial expenses	1,942	1,827	1,491
Financial Net	4,110	4,396	5,087

* Dividends from Ericsson Cables Holding AB amounting to SEK 1,420 m. has been reported net of a SEK 1,420 m. write-down of the investment in the company.

** Of the total amount, SEK -150 m. in 1998, SEK -105 m. in 1997, SEK 34m. in 1996 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.

4	Income taxes for the year		
	1998	1997	1996
Consolidated			
Income tax paid	-5,214	-6,551	-4,671
Income tax deferred	-195	796	1,272
Tax on profit for the year	-5,409	-5,755	-3,399

As explained under Notes to the financial statements (k), 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 319 m. The final years in which these loss carryforwards can be utilized are shown in the following table. The Parent Company had no unutilized loss carryforwards.

The Parent Company's deferred taxes for the period amounts to SEK -88 m., SEK 123 m. 1997 and SEK 54 m. 1996.

Year of expiration	Amount
1999	161
2000	28
2001	20
2002	-
2003	54
2004 or later	56
	319

5	Earnings Per Share		
	1998	1997	1996
Consolidated			
Net income	13,041	11,941	7,110
Interest expenses on convertible debentures, net of income taxes	265	55	59
Net income after full conversion	13,306	11,996	7,169
Average number of shares outstanding after full conversion and stock issue including stock dividend element	1,996.9	1,974.4	1,971.4
Earnings per share	6.66	6.08	3.64

6	Intangible assets				Parent Company	Patents, licenses, trademarks and similar rights
	Licenses, trademarks and similar rights	Patents and pur- chased research and devel- opment	Goodwill	Total		
Consolidated						
Acquisitions Cost					Acquisitions Cost	
Opening balance	363	479	1,719	2,561	Opening balance	457
Acquisitions	64	36	5,913	6,013	Acquisitions	-
Balances regarding acquired and sold companies	895	-	-	895	Sales/disposals	-
Sales/disposals	-136	-28	-554	-718		
Translation difference for the year	112	18	-	130		
Closing balance	1,298	505	7,078	8,881	Closing balance	457
Accumulated Depreciation					Accumulated Depreciation	
Opening balance	-301	-334	-1,178	-1,813	Opening balance	-280
Depreciation for the year	-90	-109	-337	-536	Depreciation for the year	-99
Balances regarding acquired and sold companies	-774	-	-	-774	Sales/disposals	-
Sales/disposals	120	29	556	705		
Translation difference for the year	-99	-10	-	-109		
Closing balance	-1,144	-424	-959	-2,527	Closing balance	-379
Total	154	81	6,119	6,354	Total	78

Tangible assets

Consolidated	Land and buildings	Machinery	Other equipment	Con- struction in pro- cess and advance payments	Total
Acquisitions Cost					
Opening balance	7,472	12,934	19,299	997	40,702
Acquisitions	1,673	1,948	2,902	2,423	8,946
Balances regarding acquired and sold companies	31	429	356	-	816
Sales/disposals	-440	-1,996	-1,559	-40	-4,035
Reclassifications	464	837	877	-2,178	-
Translation difference for the year	241	286	511	8	1,046
Closing balance	9,441	14,438	22,386	1,210	47,475
Accumulated Depreciation					
Opening balance	-1,870	-7,612	-12,452	-	-21,934
Depreciation for the year	-301	-2,066	-3,158	-	-5,525
Balances regarding acquired and sold companies	-14	-305	-275	-	-594
Sales/disposals	176	1,533	1,496	-	3,205
Reclassifications	-112	181	-69	-	-
Translation difference for the year	-62	-171	-341	-	-574
Closing balance	-2,183	-8,440	-14,799	-	-25,422
Accumulated Revaluations, Net					
Opening balance	452	-	5	-	457
Revaluations for the year	19	-	-	-	19
Depreciation for the year on revaluations	-19	-	-1	-	-20
Sales/disposals	-13	-	-2	-	-15
Translation difference for the year	22	-	-	-	22
Closing balance	461	-	2	-	463
Total	7,719	5,998	7,589	1,210	22,516
Parent Company					
Acquisitions Cost					
Opening balance	1,970	1,166	1,711	196	5,043
Acquisitions	6	15	146	229	396
Sales/disposals	-	-661	-360	-11	-1,032
Reclassifications	41	3	79	-123	-
Closing balance	2,017	523	1,576	291	4,407
Accumulated Depreciation					
Opening balance	-417	-800	-1,100	-	-2,317
Depreciation for the year	-46	-41	-249	-	-336
Sales/disposals	-	443	271	-	714
Closing balance	-463	-398	-1,078	-	-1,939
Accumulated Revaluations, Net					
Opening balance	161	-	-	-	161
Depreciation for the year on revaluations	-4	-	-	-	-4
Closing balance	157	-	-	-	157
Total	1,711	125	498	291	2,625

Financial assets

Equity in associated companies				Long-term customer financing	Other long-term receivables	
Opening balance		2,643				
Share in earnings		148				
Taxes		-89				
Translation difference for the year		57				
Dividends/Group contribution		243				
Write-downs		-				
Acquisitions		461				
Sales		-686				
Closing balance		2,777				
Consolidated						
Acquisitions Cost						
Opening balance			1,435	2,955	3,433	
Acquisitions/credits granted			867	5,228	405	
Sales/repayments			-870	-527	-952	
Translation difference for the year			24	-74	40	
Closing balance			1,456	7,582	2,926	
Accumulated Revaluations						
Opening balance			36	-	-	
Revaluations for the year			2	-	-	
Sales/repayments			-15	-	-	
Translation difference for the year			-2	-	-	
Closing balance			21	-	-	
Accumulated Write-Downs ¹						
Opening balance			-37	-955	-68	
Write-downs for the year			-2	-1,004	-3	
Sales/repayments			-	316	47	
Translation difference for the year			-	-2	-	
Closing balance			-39	-1,645	-24	
Total				1,438	5,937	2,902 ²
<p>Goodwill, net, constitutes SEK 79 m. (101) of the investments. Dividends received from companies accounted for under the equity method were SEK 142 m. in 1997 and SEK 93 m. in 1996.</p>						
	Parent Company	Subsidiaries	Associated companies	Other investments		
Investments						
Opening balance		14,212	1,025	45		
Acquisitions and stock issues		4,931	2	-		
Shareholders' contribution		1,475	-	-		
Revaluations for the year		20	-	1		
Write-downs		-1,420	-	-		
Reclassifications		53	-53	-		
Sales		-9	-	-		
Closing balance		19,262	974	46		
Parent Company						
Long-term customer financing						
Other long-term receivables						
Acquisitions Cost						
Opening balance				129		101
Acquisitions/credits granted				171		61
Sales/repayments				-15		-35
Closing balance				285		127
Accumulated Write-Downs						
Opening balance				-5		-
Closing balance				-5		-
Total						
				280		127

¹ Write-Downs are included in Selling expenses due to the close relation to operations.

² Of which deferred tax assets SEK 789 m. (SEK 913 m. 1997).

Investments

The following listing shows certain shareholdings owned directly and indirectly by the Parent Company. A complete listing of shareholdings, prepared in accordance with the Swedish Annual Accounts Act and filed with the Swedish

Patent and Registration Office, may be obtained upon request to Telefonaktiebolaget LM Ericsson, Corporate Financial Control, S-126 25 Stockholm, Sweden.

Shares directly owned by the Parent Company

Type	Company	Reg. No.	Domicile	Percentage of ownership	Par value	Carrying value	
Subsidiaries							
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	Ericsson Sverige AB	556329-5652	Sweden	100	100	100	
I	LM Ericsson Data AB	556250-9454	Sweden	100	85	102	
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	455	969	
II	LM Ericsson Holding AB	556381-7666	Sweden	100	105	1,122	
IV	Ericsson Treasury Services AB	556329-5673	Sweden	100	-	2	
	Other		Sweden	-	-	755	
I	Ericsson Austria AG		Austria	100	60	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	144	485	
IV	Ericsson Treasury Ireland Ltd.		Ireland	100	81	1,983	
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	Ericsson Holding Ltd.		United Kingdom	100	74	757	
I	Ericsson GmbH		Germany	100	39	341	
	Other		Europe (excluding Sweden)	-	-	144	
II	Ericsson Holding II Inc.		United States	86 ¹⁾	-	7,262	
I	Cia Ericsson S.A.C.I.		Argentina	100	5	10	
I	Teleindustria Ericsson S.A.		Mexico	100	n/a	572	
	Other		United States, Latin America	-	-	174	
II	Teleric Pty Ltd.		Australia	100	20	99	
I	Beijing Ericsson Mobile Communication Co. Ltd.		China	25 ²⁾	5	36	
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 ³⁾	15	4	
	Other		Other countries	-	-	663	
					Total	-	19,262
Associated Companies							
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 ⁴⁾	29	41	
IV	Ericsson Project Finance AB	556058-5936	Sweden	91 ⁵⁾	425	510	
	Other			-	-	88	
					Total	-	974

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Investments

Shares owned by subsidiaries

Type	Company	Reg. No.	Domicile	Percentage of ownership
Subsidiaries				
I	Ericsson Cables AB	556000-0365	Sweden	100
I	MET S.A.		France	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	Advanced Computer Communications Inc.		USA	100
I	Ericsson Inc.		USA	100
I	Ericsson Telekomunikasyon A.S.		Turkey	100
I	Ericsson Telecomunicações S.A.		Brazil	98
I	Ericsson Telecom S.A. de C.V.		Mexico	100
I	Nippon Ericsson K.K.		Japan	90
I	Ericsson Australia Pty. Ltd.		Australia	100
Associated Companies				
III	Symbian Ltd.		United Kingdom	23

Key to type of company

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

The subsidiary, Ericsson S.p.A., is listed on the Milan stock exchange in Italy. Ericsson's share of the market value as per December 31, 1998, was SEK 6,123 m.

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Inventories

	Consolidated		Parent Company	
	1998	1997	1998	1997
Raw material, components and consumables	10,696	10,444	388	735
Manufacturing work in process	2,926	3,527	30	138
Finished products and goods for resale	4,356	4,871	80	100
Contract work in process	11,643	8,335	1,152	863
Less advances from customers	-2,648	-3,563	-43	-65
Inventories, net	26,973	23,614	1,607	1,771

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Accounts receivable - trade

	Consolidated		Parent Company	
	1998	1997	1998	1997
Notes and accounts receivable	53,775	44,053	2,535	2,435
Receivables from associated companies	125	393	9	199
	53,900	44,446	2,544	2,634

Allowance for doubtful accounts amounting to SEK 2,308 m. (1,445) and SEK 369 m. (359) 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.

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Receivables and payables - subsidiaries

Parent Company	1998	1997
Long-Term Receivables*		
Financial receivables	12,329	5,699
Current Receivables		
Commercial receivables	2,398	1,826
Financial receivables	16,219	11,470
	18,617	13,296
Long-Term Liabilities*		
Financial liabilities	2,821	1,910
Current Liabilities		
Commercial liabilities	1,480	1,786
Financial liabilities	15,968	17,464
	17,448	19,250

* Including non-interest bearing receivables and liabilities, net, amounting to SEK 8,191 m. (5,094). Interest-free transactions involving current receivables and liabilities may also arise at times.

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Other receivables

	Consolidated		Parent Company	
	1998	1997	1998	1997
Prepaid expenses	1,990	1,222	190	135
Accrued revenues	1,695	1,412	272	577
Advance payments to suppliers	704	331	1	4
Deferred tax assets	3,275	3,062	-	-
Other	14,925	13,106	7,155	7,883
	22,589	19,133	7,618	8,599

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Stockholders' equity

Capital stock

Capital stock at December 31, 1998 consisted of the following:

	Number of shares outstanding	Aggregate par value
A shares (par value SEK 2.50)	164,054,660	410
B shares (par value SEK 2.50)	1,787,297,730	4,468
	1,951,352,390	4,878

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.

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 -77 m. (SEK -62 m. in 1997) and SEK 94 m. (SEK -30 m. in 1997) from sold/liquidated companies.

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

	1998	1997
Cost of sales	34	100
Financial income	14	-111
Taxes	-2	-6
	46	-17

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Changes in stockholders' equity

Consolidated	Capital stock	Equity proportion reserve	Other restricted reserves	Restricted equity	Non-restricted equity	Total
January 1, 1998	2,436	1,355	27,817	31,608	21,016	52,624
Bonus issue	2,438	-	-2,438	-	-	-
Conversion of debentures	4	-	81	85	-	85
Proceeds from unclaimed stock dividend shares	-	-	2	2	-	2
Dividends paid	-	-	-	-	-3,411	-3,411
Revaluation of fixed assets	-	-	22	22	-	22
Transfer between non-restricted and restricted reserves	-	-80	545	465	-465	-
Changes in cumulative translation adjustments	-	-	749	749	-	749
Net income 1998	-	-	-	-	13,041	13,041
December 31, 1998	4,878	1,275	26,778	32,931	30,181	63,112

Of retained earnings, SEK 79 m. will be appropriated to reserves not available for distribution, in accordance with the proposals of the respective companies' boards of directors. In evaluating the consolidated financial position, it should be noted that earnings in foreign companies may be subject to taxation when transferred to Sweden and that, in some

instances, such transfers of earnings may be limited by currency restrictions.

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

Parent Company	Capital stock	Share premium reserve ¹	Revaluation reserve	Statutory reserve	Total restricted equity	Disposition reserve	Other retained earnings	Non-restricted equity	Total
January 1, 1998	2,436	1,614	75	12,116	16,241	100	12,163	12,263	28,504
Bonus issue	2,438	-	-	-2,438	-	-	-	-	-
Conversion of debentures	4	81	-	-	85	-	-	-	85
Capital discount	-	-8	-	-	-8	-	-	-	-8
Transfer between non-restricted and restricted equity	-	-	20	-	20	-	-20	-20	-
Proceeds from unclaimed stock dividend shares	-	-	-	2	2	-	-	-	2
Dividends paid	-	-	-	-	-	-	-3,411	-3,411	-3,411
Net income 1998	-	-	-	-	-	-	5,732	5,732	5,732
December 31, 1998	4,878	1,687	95	9,680	16,340	100	14,464	14,564	30,904

¹ 1996 and prior years' share premium is included in Statutory reserve.

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Untaxed reserves

Parent Company 1998	Jan. 1	Allocations/withdrawals(-)	Dec. 31
Accumulated Depreciation In Excess Of Plan			
Intangible assets	19	-8	11
Tangible assets	679	-196	483
Total accumulated depreciation in excess of plan	698	-204	494
Other Untaxed Reserves			
Tax equalization reserve	381	-127	254
Reserve for doubtful receivables	1,173	-53	1,120
Income deferral reserve	864	354	1,218
Total other untaxed reserves	2,418	174	2,592
Total Untaxed Reserves	3,116	-30	3,086

Changes in other untaxed reserves in the Parent Company in 1997 consisted of the following: withdrawal of tax equalization reserve, SEK 110 m. (103); allocation to reserve for doubtful receivables, SEK 270 m. (-1) and allocation to income deferral reserve SEK 344 m. (216).

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Provisions

	Consolidated		Parent Company	
	1998	1997	1998	1997
Pensions and similar commitments	8,056	7,201	2,900	2,618
Taxes	2,388	2,344	-	-
Other provisions	11,840	11,550	831	742
	22,284	21,095	3,731	3,360

The pension liabilities include the Parent Company's and other Swedish companies' obligations in the amount of SEK 5,902 m. (5,214) 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 2,717 m. (2,472) in accordance with its agreement with PRI.

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

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Long-term liabilities

	Consolidated		Parent Company	
	1998	1997	1998	1997
Notes and bond loans (maturing 2002-2003)	4,470	2,476	4,470	2,476
Convertible debentures (maturing 2000)	725	810	679	719
(maturing 2003)	5,516	5,224	5,516	5,224
Liabilities to financial institutions	1,898	2,169	320	399
Liabilities to subsidiaries	-	-	2,821	1,910
Liabilities to associated companies	-	40	-	-
Other	459	510	21	42
	13,068	11,229	13,827	10,770

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

Liabilities to financial institutions	437
Other	154
	591

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, bonus issue and adjustments for new stock issue, of SEK 36.10 per B share. During 1998 debentures in the amount of SEK 85 m. were converted to 2,360,272 B shares.

Upon conversion of all outstanding debentures, there would be a further increase of 20,089,094 in the number of shares. During the period January 1 to February 5, 1999, additional debentures may be converted to B shares carrying right to dividend for 1998.

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 convertible debenture loan in the amount of SEK 6,000 m. was issued during 1997. Of the total amount, convertible debentures amounting to SEK 4,859 m. were sold to Ericsson employees, and debentures amounting to SEK 1,141 were sold to the wholly owned subsidiary AB Aulis. The debentures held by AB Aulis are offered at market price to new employees. The debentures, which carry an interest defined as STIBOR¹ less 1.5 percent, are convertible to B shares from November 19, 1999, up to and including May 30, 2003, at a conversion price, after the 1998 bonus issue, of SEK 236 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.

¹ Stockholm Inter Bank Offered Rate

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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 4,896 m. In addition, the Parent Company had unused long-term lines of credit amounting to SEK 1,620 m.

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Other current liabilities

	Consolidated		Parent Company	
	1998	1997	1998	1997
Liabilities to associated companies	598	182	546	22
Accrued expenses	20,716	16,132	1,600	1,343
Prepaid revenues	939	990	4	3
Other	9,472	9,273	3,132	3,508
	31,725	26,577	5,282	4,876

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Assets pledged as collateral

Consolidated	Liabilities to financial institutions	Advances from customers	Total	
			1998	1997
Real estate mortgages	206	43	249	421
Chattel mortgages	209	160	369	256
Bank deposits	209	3	212	341
Other	373	-	373	-
	997	206	1,203	1,018

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Parent Company				
Chattel mortgages	-	160	160	160
Bank deposits	208	-	208	323
Other	34	-	34	46
	242	160	402	529

At December 31, 1998, the Parent Company had no pledged assets in favor of subsidiaries. However, under certain conditions, it may pledge collateral for certain subsidiaries' pension obligations.

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Contingent liabilities

	Consolidated		Parent Company	
	1998	1997	1998	1997
Guarantees for customer financing	4,034	5,888	2,155	3,086
Other contingent liabilities	4,029	1,417	4,813	4,706
	8,063	7,305	6,968	7,792

Of the guarantees assumed by the Parent Company, SEK 4,566 m. in 1998 and SEK 4,046 m. in 1997 were related to subsidiaries.

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Statement of cash flows

Interest paid in 1998 was SEK 1,425 m. (1,497), and income taxes paid were SEK 6,258 m. (3,250).

Non-cash transaction under "Cash flow from operating activities" not reported separately is current year increase in pension liabilities of SEK 855 m. (SEK 945 m. in 1997 and SEK 431 m. in 1996).

Non-cash items in "financing activities"

In 1998, conversions of debentures were made for SEK 4 m. (1997 SEK 961 m., 1995 SEK 256 m.).

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Leasing

Leasing obligations

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

Financial Leases	1998	1997
Acquisitions Cost		
Land and buildings	321	310
Machinery	25	48
Other equipment	41	38
	387	396
Accumulated Depreciation		
Land and buildings	146	44
Machinery	25	38
Other equipment	25	22
	196	104
Net value	191	292

At December 31, 1998, future payment obligations for leases were distributed as follows:

	Financial leases	Operating leases
1999	50	1,687
2000	44	1,414
2001	28	1,154
2002	19	980
2003	18	888
2004 and later	153	2,201
	312	8,324

Expenses for the year for leasing of assets were SEK 1,770 m. (SEK 1,659 m. in 1997 and SEK 1,385 m. in 1996).

Leasing income

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

The acquisition value of assets leased to others under Operating leases amounted to SEK 517 m. at December 31, 1998 (December 31, 1997: SEK 473 m.). Accumulated depreciation amounted to SEK 446 m. and net investments to SEK 71 m. at December 31, 1998 (December 31, 1997: SEK 390 m. and SEK 83 m., respectively).

Net investment in Sales-type leases and Financial leases amounted to SEK 36 m. at December 31, 1998 (December 31, 1997: SEK 155 m.).

Future payments receivable for leased equipment are distributed as follows:

	Sales-type and Financial leases	Operating leases
1999	24	55
2000	16	33
2001	2	36
2002	1	19
2003	-	14
2004 and later	-	2
	43	159
Less: interest	-7	
Net investment	36	

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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.

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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 7,170 m. (SEK 5,232 m. in 1997) has increased income and amortization amounting to SEK 3,824 m. (SEK 3,934 m. in 1997) 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

Sale-leaseback of property

In 1987, group companies sold a property which was leased to subsidiaries under contracts expiring in 1997.

Under U.S. GAAP, the sale during 1987 is considered as a financing arrangement and the gains is 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 1997, Ericsson waived its option to repurchase and canceled the rental contract on the property. Consequently, the income portion of the sales proceeds were recognized in income for the period 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 repatriation of profits.

Business combination adjustments

When applying Swedish accounting practice, the Company has shown 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	1998	1997	1996
Items increasing reported net income			
Depreciation on revaluation of assets	33	22	24
Capitalization of software	3,346	1,298	942
Capital discount on convertible debentures	120	13	–
Pensions	211	–72	158
	3,710	1,261	1,124
Items decreasing reported income			
Capitalization of interest expenses, net after depreciation	67	10	–24
Other	191	207	–97
Deferred income taxes	954	137	379
	1,212	354	258
Net increase in net income	2,498	907	866
Net income as reported in the consolidated income statements	13,041	11,941	7,110
Approximate net income in accordance with U.S. GAAP	15,539	12,848	7,976
Reported income per share, fully diluted	6.66	6.08	3.64
Approximate income per share in accordance with U.S. GAAP, fully diluted	7.87	6.53	4.08

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Adjustment of Equity	1998	1997	1996
Increases			
Capitalization of software	10,744	7,398	6,100
Pensions	885	674	746
Capitalization of interest, net after cumulative depreciation	273	339	349
	11,902	8,411	7,195
Reductions			
Revaluation of assets	434	425	403
Capital discount on convertible debentures	682	803	-
Other	488	305	97
Deferred income taxes	3,092	2,138	2,230
	4,696	3,671	2,730
Adjustment of stockholders' equity, net	7,206	4,740	4,465
Reported Stockholders' equity	63,112	52,624	40,456
Approximate equity according to U.S. GAAP	70,318	57,364	44,921

Adjustment of Certain Balance Sheet Items According to US GAAP

SEK m.	As per reported balance sheet		As per US GAAP	
	Dec 31 1998	Dec 31 1997	Dec 31 1998	Dec 31 1997
Intangible assets	6,354	748	17,098	8,146
Tangible assets	22,516	19,225	22,256	19,048
Other long-term receivables	2,902	3,365	2,902	3,414
Other receivables	22,589	19,133	23,745	20,176
Minority interest in equity	2,051	4,395	2,021	4,427
Provisions	22,284	21,095	25,646	23,606
Convertible debentures	6,241	6,034	6,923	6,837
Other long-term liabilities	459	510	459	510
Other current liabilities	31,725	26,577	32,143	26,804

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 according to U.S. GAAP. Applying this definition would mean following adjustments of reported cash:

Consolidated, SEK m.	1998	1997	1996	1995
Short-term cash investments, cash and bank, as reported	18,233	29,127	19,060	15,385
Adjustment for items with maturity of 4-12 months	-5,978	-15,004	-8,396	-7,902
Cash and cash equivalents as per US GAAP	12,255	14,123	10,664	7,483

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Tax assessment values (Sweden)

	Consolidated		Parent Company	
	1998	1997	1998	1997
Land and land improvements	383	408	244	254
Buildings	2,557	2,479	1,538	1,567

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Special information regarding the Parent Company

Sales of the Parent Company were SEK 16,836 m. (SEK 16,217 m.), of which exports accounted for 88 (77) percent. Consolidated companies were customers for 62 (60) percent of the Parent Company's sales, while 51 (58) percent of the Company's total purchases of goods and services were from such companies.

Loans totaling SEK 2 m. have been made to a total of 90 employees for the purchase of shares in LM Ericsson's Share Savings Fund.

The Parent Company has guaranteed up to an amount of SEK 5 m. for loans obtained by employees for the purchase of housing and private cars.

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Average number of employees and remuneration in 1998 and 1997

Average number of employees

Consolidated	1998			1997		
	Men	Women	Total	Men	Women	Total
Europe,						
Middle East, Africa	52,365	19,661	72,026	49,609	18,594	68,203
USA and Canada	6,421	3,533	9,954	6,067	3,112	9,179
Latin America	6,279	1,837	8,116	5,677	1,756	7,433
Asia Pacific	7,303	4,086	11,389	7,502	3,261	10,763
	72,368	29,117	101,485	68,855	26,723	95,578
Of which Sweden	28,907	12,647	41,554	27,843	12,510	40,353
Of which EU	48,260	18,446	66,706	46,098	17,515	63,613

Parent Company	1998			1997		
	Men	Women	Total	Men	Women	Total
Europe,						
Middle East, Africa	4,571	1,958	6,529	5,745	2,683	8,428
USA and Canada	-	-	-	-	-	-
Latin America	-	-	-	-	-	-
Asia Pacific	-	-	-	-	-	-
	4,571	1,958	6,529	5,745	2,683	8,428
Of which Sweden	4,018	1,892	5,910	5,352	2,623	7,975
Of which EU	4,018	1,892	5,910	5,352	2,623	7,975

Wages and salaries and security expenses

	Consolidated		Parent Company	
	1998	1997	1998	1997
Wages and salaries	32,226	28,159	2,254	2,661
Security expenses	10,952	9,409	1,331	1,208
Of which pension costs	2,605	1,374	722	435

Wages and salaries per geographical area

	Consolidated		Parent Company	
	1998	1997	1998	1997
Europe, Middle East, Africa	23,627	20,576	2,254	2,661
USA and Canada	4,806	4,120	-	-
Latin America	1,642	1,313	-	-
Asia Pacific	2,151	2,150	-	-
	32,226	28,159	2,254	2,661
Of which Sweden	13,301	12,165	2,153	2,589
Of which EU	22,380	19,595	2,153	2,589
Board of Directors, President and Corporate Executive Vice Presidents (of which bonus and similar)			50	27
			(12)	(5,5)

Figures for 1997 have been restated according to new market area organization. Remuneration in foreign currency has been translated to Swedish kronor at average exchange rates for the year.

Benefits paid to member of the corporate executive team

The Chairman of the Board of Directors received a fee of SEK 1,000,000 during the year. This fee was determined by the Board of Directors within the total amount of Board fees approved 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 present company President, who also serves as Chief Executive Officer, amounted to SEK 5,643,377 during the year. Provision was also made for a bonus of SEK 1,348,200 for 1998.

The salary and value of benefits paid to the former President in 1998 amounted to SEK 16,703,823, of which SEK 10,303,823 constituted salary, car benefit and other benefits, and SEK 6,400,000 constituted bonus earned during the years 1995-1997. Provisions was also made for a bonus of SEK 462,240 for 1998. After the employment contract elapsed for the former President pension is paid to him.

The following rules regarding severance pay and pension apply to persons, including the President, who are member of the corporate executive team.

Severance payments are not made if an employee resigns voluntarily. 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 that, 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. Upon termination of employment, severance pay amounting to two years' salary is normally paid. In certain cases, if the employee is 50 years of age or older, 40 to 60 percent of the employees final salary, depending on age, is paid annually to age 60. Such payments are made currently during the pertinent period and cease at age 60.

Pension arrangements for member of the corporate executive team are in process of change. In the new system, the basic security still consists of affiliation with the so-called ITP plan which applies to all member of the corporate executive team.

In the new system, the employee's pension is premium-based and not based on a pension commitment by the company. In accordance with the system the company pays the premiums for a capital insurance. For the portion of a salary in excess of 20 basis amounts, the company pays an amount that is related both to the age of the executive and to the executive's salary plus a standard bonus. Most of the member of the corporate executive team are already covered by this system.

As described in earlier Annual Reports, the following principles apply to other member of the corporate executive team:

The benefits 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 retire with a pension at age 60, at the earliest. Following which the pension is based on the current pensionable salary at retirement and amounts to between 40 and 70 percent of this salary. Subject to certain conditions, this pension is also paid if the employee is entitled to severance pay at age 60.

Costs of pensions for the former and present President and eight executive vice presidents amounted to SEK 71.5 million during the year.

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 1998. 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 28, 1999

Carl-Eric Bohlin
Authorized
Public Accountant
PricewaterhouseCoopers

Olof Herolf
Authorized
Public Accountant
PricewaterhouseCoopers

Thomas Thiel
Authorized
Public Accountant

Ten-Year Summary

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Results For The Year										
Net sales	184,438	167,740	124,266	98,780	82,554	62,954	47,020	45,793	45,702	39,549
Operating margin ³⁾	19,273	18,757	10,758	8,164	6,553	3,530	1,754	2,282	5,694	4,557
Financial net	-237	48	412	58	-386	8	-204	-189	-163	-431
Income before taxes ³⁾	18,210	17,218	10,152	7,615	5,610	3,108	1,241	1,595	4,855	3,715
Year-End Position										
Total assets ³⁾	167,456	147,440	112,152	90,832	72,999	67,490	56,637	50,080	47,167	40,856
Working capital	53,923	53,095	36,180	29,394	20,899	20,869	20,063	17,497	16,965	14,975
Tangible assets	22,516	19,225	17,754	15,521	13,678	12,363	11,093	10,477	9,058	7,776
Stockholders' equity ^{1) 3)}	63,112	52,624	40,456	34,263	23,302	21,305	17,720	17,050	16,753	13,996
- after full conversion ^{1) 3)}	69,353	59,490	42,269	36,353	25,519	23,512	18,349	17,690	17,398	14,721
Interest-bearing provisions and liabilities	27,474	23,146	17,545	15,554	16,522	16,868	16,321	12,913	9,366	8,769
Other Information										
Earnings per share, SEK ^{3) 5) 6) 7)}	6.66	6.08	3.64	2.92	2.15	1.54	0.28	0.52	1.71	1.23
- in accordance with U.S. GAAP, fully diluted ^{2) 4) 5) 7)}	7.87	6.53	4.08	3.56	2.65	1.86	0.76	0.91	1.98	1.27
Adjusted stockholders' equity per share after full conversion SEK ^{1) 2) 3) 5) 7)}	35	30	22	20	15	13	11	10	10	9
Cash dividends per share ^{2) 5) 7)}	2.00	1.75	1.25	0.88	0.69	0.57	0.44	0.44	0.44	0.35
Shares outstanding - average (in thousands) ^{2) 5) 7)}	1,950,225	1,938,742	1,919,084	1,769,384	1,737,530	1,716,272	1,648,528	1,646,992	1,642,976	1,601,080
Additions to tangible assets	8,965	7,237	7,188	6,457	5,137	3,805	3,847	3,583	3,448	2,672
Depreciation	5,545	5,422	4,216	3,614	3,004	2,651	2,193	1,863	1,572	1,294
Research and development - expenses	25,189	20,906	17,467	15,093	13,407	10,924	7,377	7,054	4,901	4,329
- as percent of net sales	13.7	12.5	14.1	15.3	16.2	17.4	15.7	15.4	10.7	10.9
Ratios										
Return on equity, percent ^{1) 3)}	22.5	25.7	19.0	18.9	17.7	14.5	2.8	5.3	20.4	17.5
Return on capital employed, percent ^{1) 3)}	24.9	29.9	22.4	20.7	18.2	12.9	9.6	12.0	25.9	23.7
Equity ratio, percent ^{1) 3)}	38.9	38.7	39.1	39.6	34.4	34.5	34.5	38.1	39.3	37.8
Debt-equity ratio ^{1) 3)}	0.4	0.4	0.4	0.4	0.7	0.7	0.8	0.7	0.5	0.6
Current ratio	1.6	1.7	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.8
Statistical Data, Year-End										
Backlog of orders	78,990	77,499	63,401	48,401	45,671	45,296	38,050	28,777	30,415	29,426
Number of employees										
- Worldwide	103,667	100,774	93,949	84,513	76,144	69,597	66,232	71,247	70,238	69,229
- Sweden	44,979	45,360	43,896	42,022	36,984	31,796	29,979	31,244	30,817	32,226

* For 1998, proposed by the Board of Directors.

¹⁾ 1989 adjusted for change in accounting principles.

²⁾ 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⁾ 1989-1994 adjusted for stock issue and 4-for-1 stock split.

⁶⁾ 1989-1994 adjusted for stock dividend element of the stock issue in 1995.

⁷⁾ 1989-1997 adjusted for stock issue 1:1.

Working Capital

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

Earnings Per Share

Earnings 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 earnings per share accordance with U.S.GAAP, see Note 24 to the financial Statements.

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). 1989-1990 adjusted for increases resulting from a reduction in the tax rates on the equity portion of timing differences.

Return on Capital Employed

Defined as the total of operating margin 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 stockholder's 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.

Ericsson tightens environmental requirements

Environmental efforts at Ericsson have entered a new phase. Previous efforts emphasized providing the organization with the appropriate tools for implementing various environmental measures. The objective was to introduce certifiable environmental management systems and to prepare databases and systems that could produce materials declarations for equipment.

Ericsson is continuing these fundamental efforts, and all Ericsson companies that have an impact on the environment must implement a certifiable environmental management system before the end of the year 2000. However, during 1998, Ericsson began the practical work of applying its tools and fulfilling the objectives established by the Company in its environmental plan.

Stricter environmental demands

Ericsson's customers are placing increasing demands on the company to design future systems and products in an environmentally optimal manner, and Ericsson in turn is placing stricter demands on its suppliers. At the same time, authorities are increasing their demands that those who produce goods should also assume responsibility for them throughout the lifetime of the goods. This is known as manufacturer responsibility.

As an example of customer demands, the leading Japanese mobile operator NTT DoCoMo has placed certain requirements on the next generation of WCDMA systems. NTT DoCoMo is demanding that the products consume less power, specifying materials and excluding certain hazardous substances. Due to fundamental efforts carried out previously, Ericsson is able to meet these demands, and environmental aspects are now considered at an early stage in development projects, as early as planning and development.

Increasingly, Ericsson is cooperating with customers, colleges and authorities in the environmental field. Cooperation with network operators AT&T and Telia covers environmental impact profiles for mobile and fixed telecom and datacom networks. These profiles mark the first descriptions of how the systems affect resource depletion and the environment.

Demands on suppliers

Ericsson has begun to place stricter demands on its suppliers by requiring that suppliers produce an environmental audit of themselves. Ericsson has also prepared a list of chemical substances that must not be used in Ericsson products and a list of substances that should not be used in Ericsson products and should be phased out over time.

The way in which this phasing out should occur is planned in cooperation with the suppliers. Ericsson wants to prevent the inclusion of substances that might incur unforeseen costs to the company when they are later scrapped.

Manufacturer responsibility

The laws on manufacturers' responsibility for electronic products are at varying stages in different countries. Europe and Asia, particularly Japan, are in favor of stricter laws. Ericsson is making preparations to be able to comply with future legislation.

Environmental design is one method. Another is to produce materials declarations for the products and to carry out environmental labeling if necessary. Ericsson has produced materials declarations for one mobile telephone exchange and a business switch, as well as for cables and optic fibers.

A third approach is to create a recycling process, covering recovery, reuse and disposal, which can be implemented practically. Although Ericsson's worn-out products contain many valuable substances, such as gold, that often make recovery economically profitable, logistics cause problems that are difficult to resolve, both financially and environmentally. In the Netherlands, Ericsson Telecommunicatie has produced a model that can be applied to the whole of Ericsson.

Life cycle assessment

Generally, Ericsson considers IT to be one of the most interesting solutions for fulfilling the political requirements of the Kyoto Agreement, reducing the mass flow by a factor of 10 over the course of a generation and breaking the connection between higher GDP and heavy environmental impact.

It will be possible to improve on this positive starting point through the general development of microelectronics and with the help of developed life cycle assessments, which are used to calculate the amount of environmental impact actually related to the operations of the datacom and telecom sector. The life cycle assessments applied by Ericsson go further than the usual assessments by calculating actual environmental impact rather than a mere average.

Further information on Ericsson's environmental efforts can be found at www.ericsson.com and in the company's Environmental Report.

Environmentally certified units at Ericsson during 1998

China	9
Sweden	7
Spain	3
India	1
The Netherlands	1
Britain	1
Austria	1
Total	23

Severe competition for top talent

Ericsson is a knowledge-based company. As such, it is totally dependent on its skilled employees. The competition for manpower has increased dramatically in recent years as a result of the appearance of new telecom and information technology (IT) companies that are also battling for top talent.

Ericsson has long occupied a unique position in Sweden. Thanks to its name, the Company has not experienced problems in finding skilled employees. Opportunities to work outside Sweden, as well as stimulating job responsibilities, have also attracted many to the Company.

Ericsson will continue to actively recruit, develop and hold the best talent in the industry. The education level of Ericsson's employees is continuously rising, as a result of expansion of the company's operations in areas which demand specialized competence. More than 30 percent of Ericsson's employees hold an academic degree.

A new approach is being implemented to deal with job seekers at Ericsson. Previously, such persons were offered a position only when there was a suitable opening or a position was available which could be identified by the recruiter. In order not to miss any top talent, a model is being discussed whereby such personnel could be recruited to Ericsson before a suitable position is identified.

The average age of Ericsson employees is declining each year and half of the workforce is younger than 35 years of age.

Many talented people are relatively young and want to move ahead fast. A new global trainee program is being created to increase the opportunities for these younger employees to acquire a broad range of knowledge quickly. The idea is that the participants should try a number of different jobs to develop greater breadth.

More aggressive wage and salary system

Ericsson has to follow developments in the market regarding wages, salaries and incentives. Its objective is to create a more aggressive wage and salary system in order to motivate and reward high-performing employees. This will be done in part by introducing variable salary factors for key people and by encouraging a higher degree of differentiation in fixed salaries.

An options program for 500 top executives and other key people was started during 1998. These key people are receiving as bonuses stock options amounting to a fixed percentage of their salaries. In addition to the executive's salary, the size of an allotment depends on how well Ericsson meets its profitability objectives during the "allotment year."

Personnel employed after October 10, 1997, are able to purchase Ericsson convertible debentures from the Ericsson company AB Aulis.

Next generation of executives

To ensure that it will have fresh talent at the management level, Ericsson conducts an executive development program throughout the world. Each executive in the organization identifies managerial candidates among his or her employees. At the corporate level, Ericsson identifies about 300 candidates who are considered capable of handling higher corporate positions within a year. The Company also selects a number of candidates who are designated as "Next Generation" and considered able to shoulder senior management responsibilities in a number of years.

The opportunities for growth within the organization are one reason why so many young people seek jobs at Ericsson. Today, 3,300 people are employed on contracts outside their home countries for periods longer than a year.

Many of Ericsson's foreign subsidiaries actively recruit foreign employees in the development of local skills. Through systematic programs and measures, the skills of the foreign employee are transferred to the local personnel. In this manner, the need for relatively costly foreign personnel is reduced in the local company while concurrently building a platform for enhancing the skills and the career development of the local employees.

Additional information on Ericsson's personnel program appears on the Internet www.ericsson.com and in a separate Personnel Report.

Employment structure

	1998	Share %	1997	Share %
Number of employees	103,667		100,774	
in Sweden	44,979	43	45,360	45
Men (average)	72,895	71	68,855	72
Women (average)	29,250	29	26,723	28

Board of Directors



Lars-Eric Petersson

Göran Engström

Clas Reuterskiöld

Per Lindh

Christer Åkerlind

Christer Binning

Peter Sutherland

Sven Ågrup

Bo Berggren

Monica Bergström

Sverker Martin-Löf

Jan Hedlund

Tom Hedelius

Lars Ramqvist

Sven-Christer Nilsson

Marcus Wallenberg

Board of Directors

Lars Ramqvist

(1938*).
Chairman.
Doctor of Philosophy. Honorary Doctor of Technology.
Chairman of EQT Scandinavia.
Deputy Chairman of the Federation of Swedish Industries, Skandia and Volvo. Member of the Boards of Astra and SCA. Member of the Royal Swedish Academy of Sciences, the Royal Swedish Academy of Engineering Sciences and the European Round Table of Industrialists. Member since 1990.
Shares held in Ericsson: B 7,548.
*Convertible debentures 1997/2003: 145,347.****

Tom Hedelius

(1939*).
Deputy Chairman.
Honorary Doctor of Economics.
Chairman of the Boards of Handelsbanken, Bergman & Beving, Svenska Le Carbone and the Foundation of Anders Sandrew. Deputy Chairman of AGA and Industrivärden. Member of the Boards of Volvo and SCA. Member of SAS Assembly of Representatives.
Member since 1991.
Shares held in Ericsson: B 18,154.

Marcus Wallenberg

(1956*).
Deputy Chairman.
Vice President of Investor. Deputy Chairman of Astra and Saab. Member of the Boards of Gambro, Investor, Scania, SEB, Stora Enso and the Foundation of Knut and Alice Wallenberg. Member since 1996.
Shares held in Ericsson: B 88,000.

Sven-Christer Nilsson

(1944*).
President and CEO.
Member since 1998.
Shares held in Ericsson: B 6,100.
*Convertible debentures 1993/2000: 6,250.***
*1997/2003: 145,347.****

Bo Berggren

(1936*).
Honorary Doctor of Technology.
Chairman of the Boards of Astra, the Federation of Swedish Industries, SAS and SAS Sverige. Deputy Chairman of Investor. Member of the Boards of Danisco, Robert Bosch and the Royal Institute of Technology. Member since 1994.
Shares held in Ericsson: B 12,000.

Göran Engström

(1948*).
Employee representative.
Member since 1994.
Shares held in Ericsson: B 1,720.
*Convertible debentures 1993/2000: 6,250.***
*1997/2003: 99,120.****

Jan Hedlund

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

Per Lindh

(1957*).
Employee representative.
Member since 1994.

Sverker Martin-Löf

(1943*).
President and CEO of SCA. Chairman of the Board of the Swedish Forest Industries Association. Member of the Boards of AGA, the Federation of Swedish Industries and the Swedish Employers' Confederation.
Member since 1991.
Shares held in Ericsson: B 2,000.

Lars-Eric Petersson

(1950*).
President and CEO of Skandia. Chairman of the Boards of the Swedish Insurance Federation and the Swedish Coalition of Service Industries. Member of the Boards of the Pohjola Group Insurance Corp., the Swedish Employers' Confederation and the Federation of Swedish Industries.
Member since 1996.
Shares held in Ericsson: B 1,000.

Clas Reuterskiöld

(1939*).
President and CEO of Industrivärden. Member of the Boards of AGA, Handelsbanken, SCA, Sandvik and Skanska.
Member since 1994.
Shares held in Ericsson: B 10,000.

Peter Sutherland

(1946*).
Honorary Doctor. Chairman of the Board of Goldman Sachs International, Co-Chairman of BP Amoco. Member of the Boards of Investor, ABB Asea Brown Boveri and the Foundation of the World Economic Forum.
Member since 1996.

Sven Ågrup

(1930*).
Chairman of the Board of AGA. Member of the Boards of Handelsbanken, Sandvik and Tetra Laval.
Member since 1983.
Shares held in Ericsson: B 6,000.

Deputy Members

Monica Bergström

(1961*).
Employee representative.
Member since 1998.
*Convertible debentures 1997/2003: 75,520.****

Christer Binning

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

Christer Åkerlind

(1950*).
Employee representative.
Member since 1994.
Shares held in Ericsson: B 88.
*Convertible debentures 1997/2003: 145,347.****

Statutory Auditors

Carl-Eric Bohlin

Authorized Public Accountant, PricewaterhouseCoopers.

Olof Herolf

Authorized Public Accountant, PricewaterhouseCoopers.

Thomas Thiel

Authorized Public Accountant.

Deputy Auditors

Lars Eklund

Authorized Public Accountant, PricewaterhouseCoopers.

Bo Hjalmarsson

Authorized Public Accountant, PricewaterhouseCoopers.

Stefan Holmström

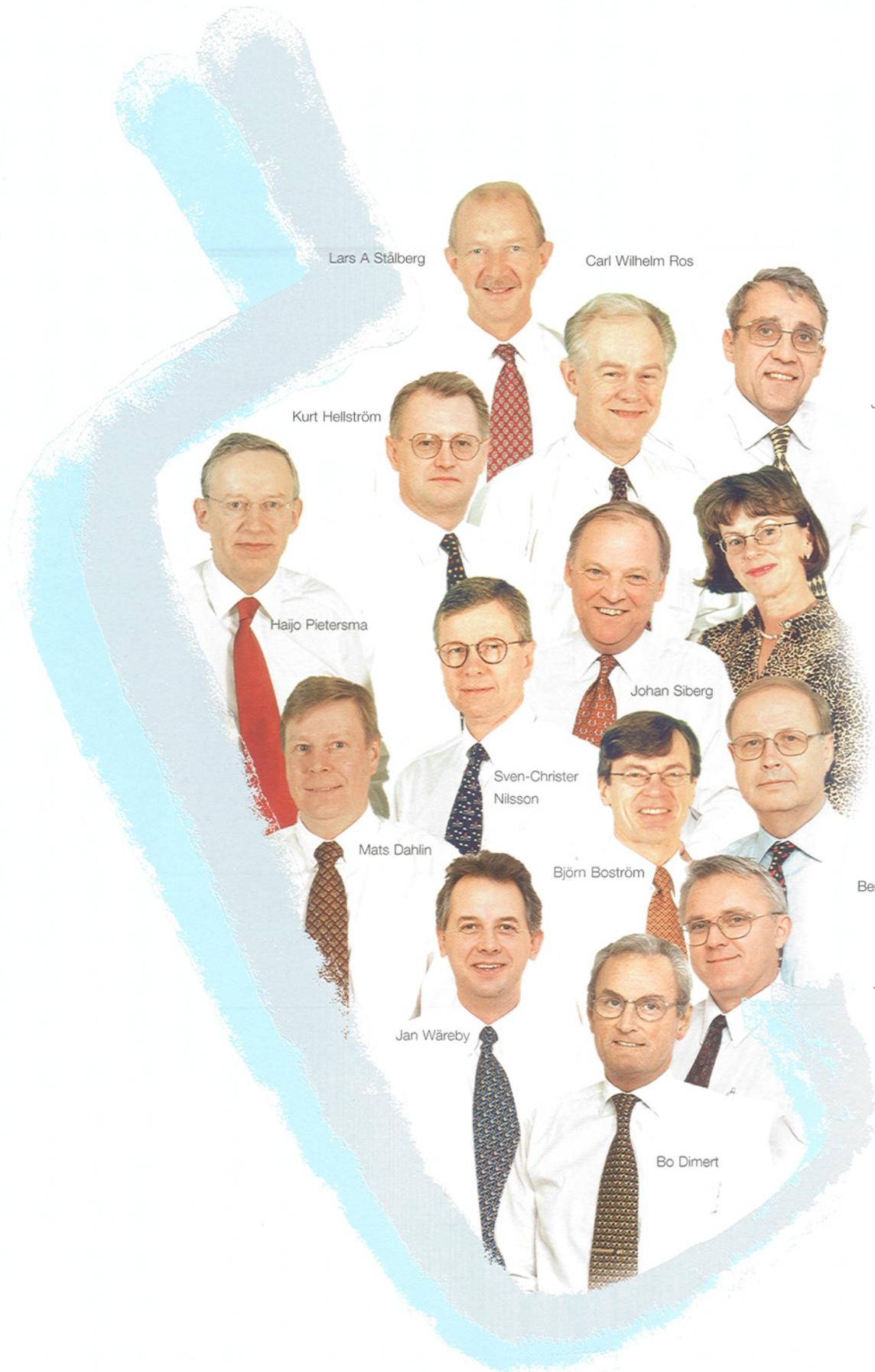
Authorized Public Accountant.

* Year of birth

** Conversion rate: SEK 36.10

*** Conversion rate: SEK 236

Corporate Executive Team



Lars A Stålberg

Carl Wilhelm Ros

Kurt Hellström

Jan Uddenfeldt

Haijo Pietersma

Britt Reigo

Johan Siberg

Sven-Christer Nilsson

Mats Dahlin

Björn Boström

Bengt Forsberg

Jan Wäreby

Torbjörn Nilsson

Bo Dimert

Sven-Christer Nilsson

(1944)* President and Chief Executive Officer. M.A. Employed 1982 as sales and marketing manager, Ericsson Components. President of Ericsson Radio Systems Sverige. Manager, Mobile Exchange Systems within Ericsson Telecom. Manager, American standard within Mobile Systems, 1982. *Shares held in Ericsson: B 6,100. Convertible debentures: 1993/2000: 6,250.** 1997/2003: 145,347****

Carl Wilhelm Ros

(1941)* Senior Executive Vice President and Chief Financial Officer. M. Pol. Sc. Worked for Alfa-Laval as EVP in the U.S., for ABB Fläkt as EVP, and for Astra as Group controller and financial manager in France before joining Ericsson in 1985 as EVP and CFO. Senior EVP since 1995. *Shares held in Ericsson: B 20,000. Convertible debentures: 1997/2003: 145,347.***

Mats Dahlin

(1944)* Executive Vice President and Manager, Business Segment Network Operators and Service Providers. B. Sc. (Econ) and engineer. Joined Ericsson in 1980. Managerial positions in U.S. and Canada. Regional manager for mobile operations in Asia Pacific. Marketing manager for the American markets and PCS operations. Executive Vice President, Ericsson Radio Systems and manager for GSM Business Unit, 1997. *Shares held in Ericsson: B 2,000.*

* Year within parentheses indicates date of birth.

** Conversion price: SEK 36.10

*** Conversion price: SEK 235

Johan Siberg

(1944)* Executive Vice President and Manager, Business Segment Consumer Products. Civil engineer and B. Sc. (Econ). Joined Ericsson in 1970. Production manager in then Public Telecommunications Business Area, responsible for telecom establishment in U.S. Manager, Ericsson product supply. Since 1997, manager of Business Area Mobile Phones and Terminals. *Shares held in Ericsson: B 16,000. Convertible debentures: 1997/2003: 145,347.***

Haijo Pietersma

(1953)* Executive Vice President and Manager, Business Segment Enterprise Solutions. Native of the Netherlands. Engineering studies. Has been with Ericsson in various positions in Sweden and Holland since 1978. President of local company in Holland, 1994. *Convertible debentures: 1997/2003: 145,347.***

Jan Wäreby

(1956)* Executive Vice President and Manager, Market Area Europe, Middle East and Africa. Civil engineer. Joined Ericsson in 1980, in transport network unit. Various senior positions in Mobile Systems, including manager of sales in unit for American standard. EVP, Ericsson Radio Systems, 1995. *Convertible debentures: 1997/2003: 145,347.***

Bo Dimert

(1943)* Executive Vice President and Manager, Market Area North America. B. Sc. (Econ.). VP-Sales for IBM in Sweden and president, Digital Equipment in Sweden before joining Ericsson in 1995 in charge of Business Networks in Business Area Infocom Systems. President, Ericsson Inc. in the U.S., 1998. *Shares held in Ericsson: B 800. Convertible debentures: 1997/2003: 145,347.***

Kurt Hellström

(1943)* Executive Vice President and Manager, Market Area Asia Pacific. Civil engineer and B. Sc. (Econ.). Joined Ericsson in 1984. Has held a number of managerial positions in mobile telephony, with emphasis on marketing and sales. Became manager of Business Area Mobile Systems in 1990. *Shares held in Ericsson: B 5,000. Convertible debentures: 1997/2003: 145,347.***

Bengt Forsberg

(1937)* Executive Vice President and Manager, Market Area, Latin America. Telecommunications engineer. Joined Ericsson in 1960. Held various positions in Portugal, Egypt, Saudi Arabia, Malaysia and Britain. Named SVP-Corporate Markets in 1996. *Shares held in Ericsson: B 1,000. Convertible debentures: 1997/2003: 145,347.***

Jan Uddenfeldt

(1960)* Senior Vice President, Corporate Technology. D. Tech., Hon. D. Tech, Joined Ericsson in 1978, Since 1985 has held managerial positions in research and development sector of Mobile Systems. Named VP-Technology in Ericsson Radio Systems and manager of Mobile Systems' worldwide R&D operations in 1990. *Shares held in Ericsson: B 208. Convertible debentures: 1993/2000: 2,400.** 1997/2003: 145,347.***

Björn Boström

(1947)* Senior Vice President, Corporate Supply and Information Technology. Civil engineer. Joined Ericsson in 1970. Has held various positions in Sweden, Mexico and Ireland. Named production manager in Mobile Systems in 1989. *Convertible debentures: 1997/2003: 145,347.***

Torbjörn Nilsson

(1953)* Senior Vice President, Corporate Marketing and Strategic Business Development. B. Sc. (Econ.) and civil engineer. Joined Ericsson in 1978. VP-Marketing in U.S. VP-Corporate Product Management. VP-Strategic Business Development in Mobile Systems, 1992. *Shares held in Ericsson: B 5,510. Convertible debentures: 1997/2003: 145,347.***

Britt Reigo

(1943)* Senior Vice President, Corporate Human Resources and Organization. M. Pol Sc. Joined Ericsson in 1988 as Vice President for Human Resources and Organization. Earlier, with SAS as manager of Inflight Service, with SSAB as administrative VP, and with SPP as personnel manager. Worked in China in 1995, building up local company's organization. *Shares held in Ericsson: B 1,000. Convertible debentures: 1997/2003: 145,347.***

Lars A Stålberg

(1940)* Senior Vice President, Corporate Communications. B. Sc. (Econ.). Joined Ericsson in 1989 following a long career in the Swedish Foreign Service, where he held a number of diplomatic positions. VP-Corporate Marketing. VP-Information since 1996. *Convertible debentures: 1997/2003: 145,347.***

Other Senior Executives

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.

Karl-Henrik Sundström

Senior Vice President, Corporate Treasury.

More than 20,000 pages of information

Information about Ericsson has been available on the company's Web site www.ericsson.com since 1994. The Web site contains more than 20,000 pages of information about the Company, products, its organization and much more. The Web site is maintained continuously and is updated virtually every day. In January 1999 it recorded an average of about one million hits per day.

Since 1996, the annual reports in English and Swedish have been available under the heading Investor Information. Year-end and interim reports have been published on the Web since 1994. Ericsson share prices on the Stockholm Stock Exchange and NASDAQ are shown under the same heading.

All news, press releases and reports are published continuously on the Web site. The Press Room contains all press releases since 1990 and includes a search engine for locating specific items. Press releases that match the search criteria are listed in order of relevance.

Visitors to the Web site can subscribe to all press releases by signing up on an e-mail list. Currently, the list has more than 10,000 subscribers. Visitors can also subscribe for financial information and receive reports automatically by e-mail.

A third alternative is to subscribe to updating via e-mail. Whenever an item is updated, subscribers receive a flag message by e-mail telling them where to find the update on the Web site. Questions can also be submitted directly to Ericsson via e-mail. If the questions are not too complicated, the aim is to respond within 24 hours.

Ericsson units in more than 20 countries have their own home pages linked to the Web site. These pages are most often in the local language and are managed locally.

Internet addresses within Ericsson or of various partners

www.ericsson.se

(for connecting within Europe,
Middle East and Africa)

www.ericsson.com

(for connecting within North and South America)

www.ericsson.com.au

(for connecting within Asia Pacific)

www.ericsson.com/nearyou

(Ericsson company address directory and
links to local Web sites)

www.ericsson.com/health/index.htm

(about research into electromagnetic fields and
related links)

www.bluetooth.com

(developments related to the Bluetooth
chip which can transmit data without contact
between radio circuits)

www.symbian.com

(cooperation between Ericsson, Motorola, Nokia,
and Psion to develop and market the EPOC
operating system for future wireless
communication equipment)

www.wapforum.com

(the license-free protocol, WAP, for wireless
communications)

This glossary has been prepared for a broad group of readers who may not be familiar with technical terms. 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, typically for video transmission, and a channel with significantly lower speed in the other direction.

AMPS (Advanced Mobile Phone System)

The original standard specification for analog systems. Used primarily in North America, Latin America, Australia and parts of Russia and Asia.

ATM (Asynchronous Transfer Mode)

A technology for wideband transmission of high-capacity telecommunications signals. In addition to high-capacity signal transmission, ATM provides considerable flexibility, since the individual subscriber is able to adapt the capacity of a switched connection to current requirements.

AXE

An open architecture, Ericsson's communications platform. A system for computer-controlled digital exchanges that constitute the nodes in large public telecommunications networks. The basis for Ericsson's wireline and mobile systems.

Bluetooth

A radio technology developed by Ericsson and other companies built around a new chip that makes wireless transmission possible over short distances between telephones, computers and other devices.

CDMA (Code Division Multiple Access)

A technology for digital transmission of radio signals between, for example, a mobile telephone and a radio base station. In CDMA, a frequency is divided into a number of codes. See also IS-95.

D-AMPS (Digital Advanced Mobile Phone System)

Earlier designation of American standard for digital mobile telephony used primarily in North America, Latin America, Australia and parts of Russia and Asia. Now known as TDMA. See also TDMA and IS-136.

DECT (Digital Enhanced Cordless Telecommunications)

A common standard for cordless telephony originally established by ETSI, a European standardization body. DECT is a system for cordless business communications.

Edge

A technology that gives GSM and TDMA similar capacity to handle services for the third generation of mobile telephony. Edge was developed to enable the transmission of large amounts of data at a high speed, 384 kilobits per second.

EPOC

An operating system for mobile terminals, developed by Symbian (a joint-venture company formed by Ericsson, Motorola, Nokia and Psion).

ETSI (European Telecommunications Standardization Institute)

The European standardization body for telecommunications.

GPRS (General Packet Radio Service)

A packet-linked technology that enables high-speed (115 kilobit per second) wireless Internet and other data communications.

GSM (Global System for Mobile Communications)

Originally developed as a pan-European standard for digital mobile telephony, GSM has become the world's most widely used mobile system. It is used on the 900 MHz and 1800 MHz frequencies in Europe, Asia and Australia, and the 1900 MHz frequency in North America and Latin America.

HSCSD (High Speed Circuit Switched Data)

A circuit-linked technology for higher transmission speeds - up to 57 kilobits per second - primarily in GSM systems.

IMT-2000 (International Mobile Telecommunications)

A term used by the International Telecommunication Union, a United Nations agency, to describe the third generation of mobile telephony due to be ready in 2000. Can also be applied to mobile telephone standards that meet a number of requirements in terms of transmission speed and other factors.

IP (Internet Protocol)

The Internet Protocol defines how information travels between systems across the Internet.

IS-95

A digital mobile telephony standard based on CDMA technology. See also CDMA.

IS-136

A digital mobile telephony standard based on TDMA technology. See also TDMA and D-AMPS.

ITU (International Telecommunications Union)

A United Nations agency that deals with telecommunications issues.

LAN (Local Area Network)

A small data network covering a limited area, such as within a building or group of buildings.

NMT (Nordic Mobile Telephony)

The common Nordic standard for analog mobile telephony as established by the telecommunications administrations in Sweden, Norway, Finland and Denmark in the early 1980s. NMT systems have also been installed in some European countries, including parts of Russia, and in the Middle East and Asia.

PBX (Private Branch Exchange)

An exchange system used in companies and organizations to handle internal and external calls.

PCS (Personal Communications Services)

Collective term for American mobile telephone services in the 1900 MHz frequency band.

PDC (Personal Digital Cellular)

A Japanese standard for digital mobile telephony in the 800 MHz and 1500 MHz bands.

Router

A data switch that handles connections between different networks. A router identifies the addresses on data passing through the switch, determines which route the transmission should take and collects data in so-called packets which are then sent to their destinations.

SDH (Synchronous Digital Hierarchy)

A standard for digital signal transmission within transport networks.

TACS (Total Access Communication System)

A mobile telephone standard originally used in Britain for the 900 MHz frequency band.

3GPP (Third-generation Partnership Project)

A global cooperative project in which standardization bodies in Europe, Japan, South Korea and the United States as founders are coordinating WCDMA issues. See also WCDMA.

TDMA (Time Division Multiple Access)

A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. In TDMA, the frequency band is split into a number of channels which in turn are stacked into short time units so that several calls can share a single channel without interfering with one another. TDMA is also the name of a digital technology based on the IS-136 standard. TDMA is the current designation for what was formerly known as D-AMPS. See also IS-136 and D-AMPS.

UMTS

(Universal Mobile Telecommunications System)

The name for the third-generation mobile telephone standard in Europe, standardized by ETSI.

VoIP (Voice Over IP)

A technology for transmitting ordinary telephone calls over the Internet using packet-linked routes. Also called IP telephony.

WAP (Wireless Application Protocol)

A free, unlicensed protocol for wireless communications that makes it possible to create advanced telecommunications services and to access Internet pages from a mobile telephone. WAP is a de facto standard that is supported by a large number of suppliers.

WCDMA (Wideband Code Division Multiple Access)

A technology for wideband digital radio communications of Internet, multimedia, video and other capacity-demanding applications. WCDMA, developed by Ericsson and others, has been selected for the third generation of mobile telephone systems in Europe, Japan and the United States. The technology is also the principal alternative being discussed in other parts of the world, notably Asia.

WDM (Wavelength Division Multiplexing)

A new technology that uses optical signals on different wavelengths to increase the capacity of fiber optic networks in order to handle a number of services simultaneously.

W-LAN (Wireless-Local Area Network)

A wireless version of the LAN. Provides access to the LAN even when the user is not in the office.

WLL (Wireless Local Loop)

A wireless connection of a telephone in a home or office to a fixed telephone network.

WOS (Wireless Office Systems)

A technology that allows the user to transfer calls to a mobile telephone.

Trademarks

A number of trademarks are mentioned in this annual report. Following are some of the trademarks owned by Ericsson:

AXE™	Giraffe®
Bluetooth™	MacroDens®
BusinessPhone®	Make Yourself Heard™
Consono™	MD110®
EriEye™	Mini-Link™
Eripax®	OneBox™
Eripower®	Telecool®

Annual General Meeting

The Annual General Meeting will be held in the Victoria Hall, Stockholm International Fairs, Stockholm, at 5:00 p.m. on Tuesday, March 23, 1999.

Shareholders intending to participate in the Annual General Meeting must be entered as shareholders in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than March 12, 1999.

Shareholders whose shares are registered in the names of trustees must temporarily be entered in the share register not later than March 12, 1999, in order to participate in the Meeting.

Notice of participation in Annual General Meeting

In addition to the requirements listed above, shareholders shall provide notice of attendance to:

Telefonaktiebolaget LM Ericsson
Corporate Legal Affairs
SE-126 25 Stockholm, Sweden
Tel: +46 8 719 3444 or +46 8 719 4498,
Fax: +46 8 719 9527

between 10 a.m. and 4 p.m. daily, not later than Thursday, March 18, 1999, 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 to the Company at the above address not later than March 22, 1999.

Dividend and dividend payment

A resolution adopted by shareholders at the Annual General Meeting will specify the date on which the share register and related list of pledge holders will be reconciled as the record day. The Board of Directors and President have proposed March 26, 1999 as the record date. If the proposal is approved, dividends are expected to be paid by Värdepapperscentralen VPC AB to all registered shareholders on April 6, 1999.

Change of address

Shareholders who have changed their name, mailing address or account number should notify their trustees as soon as possible, or Värdepapperscentralen VPC AB, Box 7822, SE-103 97 Stockholm.

Financial information from Ericsson

Interim report January-March	April 22, 1999
Interim report January-June	July 23, 1999
Interim report January-September	October 21, 1999
Preliminary year-end report	January 27, 2000
Annual Report 1999	March 2000

The Annual Report and interim reports are available on request from:

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www.ericsson.com

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