Ericsson
1998 Report

* *1998 a new record year*
* *Market capitalization up 29 percent in 1998*
* *Mobile Systems continue to grow strongly*
* *Strong volume growth but high price pressure for mobile phones*

Net sales	**SEK 184,438m**	**+10 percent**
Income before tax	**SEK 18,210m**	**+ 6 percent**
Income per share	**SEK 6.66**	**+10 percent**
Proposed dividend per share	**SEK 2.00**	**+14 percent**

Sales and orders
In 1998, Ericsson's net sales rose by 10 percent compared with 1997 to SEK 184,438 m. (167,740). Net sales for comparable units rose 9 percent.

China was the largest single Ericsson market with 12 percent of total sales, followed by the United States, the United Kingdom, Brazil, Italy and Sweden. Sales in the Asia/Pacific area declined 3 percent in spite of strong growth in China. Latin America saw sales increase by 20 percent, and Europe/Middle East/Africa sales increased 17 percent, while sales in North America declined 2 percent.

Net sales during the fourth quarter rose by 7 percent over the fourth quarter previous year for comparable units.

Exports from Sweden were SEK 110,400 m. (93,100), up 19 percent.

Orders booked increased by 4 percent to SEK 187,415 m. (179,770), and order backlog at year-end was SEK 78,990 m. (76,047, after adjustment for sold/purchased units).

Income
Income before taxes was SEK 18,210 m. (17,218), an increase of 6 percent, or SEK 992 m. compared with 1997. Excluding net capital gains of SEK 234 m. (-147), income before taxes was 4 percent higher. Net capital gains include a SEK 658 m. gain on the sale of Intracom. The weaker Swedish krona compared to 1997 contributed SEK 800 m. (1,900) to income before taxes.

Fourth quarter income before taxes excluding net capital gains, SEK 5,971 m., was 15 percent (SEK 1,033 m.) lower than the year before.

Taxes were affected by non-taxable capital gains and a reduced tax rate in Italy, lowering this year’s tax to 28.4 percent of income before tax from last year’s 30.6 percent.

Income per share increased by 10 percent, to SEK 6.66 (6.08). The income per share is calculated fully diluted. Net income for the year is adjusted with interest after tax on convertible debentures, and the average number of outstanding shares has been adjusted for issued but not yet converted debentures.

As of December 31, 1998, Ericsson had 103,667 employees, an increase of 2,893 since December 1997. In Sweden, the number of employees decreased by 381 to 44,979 (45,360).

Total expenses for research and development, selling and administration amounted to SEK 61,057 m. (52,461). As a percentage of sales, total expenses were 33 percent, compared with 31 percent in 1997.

Ericsson's total technical costs were SEK 30,190 m. (26,609), equal to 16 percent (16) of sales. The amount includes research and development costs of SEK 25,189 m. (20,906) on own account and for customer orders, which represent 14 (12) percent of net sales. In 1998, Ericsson accelerated the R&D efforts, especially regarding third generation mobile systems (WCDMA, GPRS and Edge), Internet products and mobile phones. The number of patent applications was at the same level as last year, approximately 1,200.

Operating margin was SEK 19,273 m. (18,757), to which the business areas Mobile Systems and Mobile Phones and Terminals were the main contributors. The operating margin declined slightly from 11 to 10 percent as a result of price pressure and product mix in mobile phones, increased R&D spending, strengthening of the sales organization and increased branding activities in mobile phones and implementation projects for business support systems and process re-engineering.

Ericsson's financial net was SEK -237 m. (48) due to lower interest revenue related to reduced cash and increased interest expenses from higher borrowing.

Investments, financing and cash flow

In 1998, cash flow before financial activities was SEK –9,825 m. compared to SEK 7,746 m. in 1997. This amount includes strategic acquisitions of just over SEK 10,000 m. Excluding these acquisitions, cash flow was somewhat positive in spite of increased customer financing of more than SEK 5,700 m. The rate of capital turnover decreased from 2.4 times to 2.1 times as a consequence of the investments and customer financing. Inventory amounts to 15 percent (14) of sales. Total provisions increased somewhat during the year. Provisions other than for pensions, receivables and inventory were SEK 11,840 m. (11,550) at year end, related to guarantee commitments, risks pertaining to customer financing and changes in technology and markets as well as restructuring.

Ericsson's investments in tangible fixed assets, including a building in London, were SEK 8,965 m. (7,237), of which SEK 3,389 m. (3,539) in Sweden. Investments in intangible assets were SEK 6,013 m. (159), of which goodwill SEK 5,913 m. (10).

To finance portions of the investments, a 5-year loan of USD 300 m. was issued within Ericsson’s USD 800 m. Medium Term Note program.

The equity ratio was 38.9 percent (38.7).

Business Areas

Mobile Systems continued to show strong growth and clearly maintained its position as the leading systems supplier. The rapid growth in number of mobile users continued. The system standards supplied by Ericsson are now used by close to 95 percent of the total number of subscribers worldwide. GSM strengthened its position as the most widely distributed standard. Net sales increased by 20 percent. Operating income rose and accounted for a substantial portion of Ericsson's total operating income. Orders booked increased by 23 percent.

Net sales of *Infocom Systems* remained at same level as last year in spite of very weak development in certain Asian and Latin American markets. Previously reported delivery problems for AXE switching systems have essentially been remedied, but nonetheless affected sales for the business area during the second half of 1998. Orders booked declined by 14 percent, mainly attributable to markets in Latin America and Asia and the network construction business in Italy. Earnings for the business area are still unsatisfactory as a consequence of flat sales, costs for excess capacity in the Italian network construction company Cosir, capital losses and the restructuring program in the Public Networks business unit.

For *Mobile Phones and Terminals* the growth in sales slowed to 7 percent. Price pressure has continued and resulted in close to 30 percent price reduction in Ericsson’s product portfolio on an annual basis. Customer interest in prepaid services caused a rise in demand for entry-level mobile phones. Price competition in this segment is particularly severe, which influenced sales during the year. This trend was particularly evident in Europe. The business area shows continued strong volume growth with an increase of 50 percent in the number of phones sold. Ericsson’s market share was well defended. The operating margin, although substantially reduced from last year, contributed considerably to Ericsson’s total operating margin.

Other Operations (including energy systems, components, cables and defense electronics) increased sales by 11 percent and reported a satisfactory profit. Orders booked declined 7 percent compared to 1997, mainly due to that year’s large orders for airborne surveillance radar to Brazil and the Swedish military aircraft project Gripen.

Key issues for 1999

Ericsson’s long-term objective is to grow faster than the market. For 1999 we foresee 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.

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.

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 mid-1999.

Significant changes in Ericsson during 1998
On March 30, Sven-Christer Nilsson became CEO, replacing Lars Ramqvist, who was appointed new chairman of the Board.

During the year, Ericsson acquired minority stakes in MET S.A. (France), Ericsson Holding II Inc. (USA), and Ericsson Telecomunicacoes S.A. (Brazil). Advanced Computer Communications Inc. (USA) was purchased and two joint ventures were started with other major actors in the industry; Symbian, regarding the operating system EPOC, and Bluetooth for radio communication over short distances between computers or mobile phones. The voting and management responsibility of Ericsson SAAB Avionics was changed as planned at year end. Ericsson now holds a minority interest of 49.9 percent and the company is now classified as an associated company. Ericsson reduced its holdings in the Greek company Intracom S.A., which generated a capital gain of SEK 658 m. An agreement was reached with the Siete Group in Italy to divest 80 percent of the shares in Cosir in the beginning of 1999.

In September, it was decided to implement a new organization, to strengthen the company’s position as a major player in the New Telecoms World. The new organization is expected to generate substantial synergies.

Introduction to new segments and market areas
Attached is a proforma statement of sales and results for 1998 reflecting the business segments in the new organization; Network operators/Service providers, Enterprise solutions and Consumer products. A breakdown of segment sales by major business units is also provided.

Geographical distribution of sales is restructured to agree with our new market organization, consisting of four market areas: Europe/Middle East/Africa, North America, Latin America and Asia/Pacific.

Our definition of market areas is slightly different than previous regions, which means that the area figures cannot be restated from the regions. The sales for all individual quarters of 1998 are reported as well as percentage changes from last year.

The Parent Company, Telefonaktiebolaget L M Ericsson

The parent company results include the operations conducted on commission basis by Ericsson Telecom AB and Ericsson Treasury Services AB. Net Sales for the parent company were SEK 16,836 m. (16,217). Income before appropriations to/from untaxed reserves and taxes was SEK 1,372 m. (1,244). 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 4,067 m. was attributable to stock issues in the Ericsson Holding II Inc. (USA). Cash and short-term cash investments decreased by SEK 11,072 m. to SEK 10,397 m. at year end.

Board of Directors' dividend proposal

The Board of Directors will propose to the Annual General Meeting a dividend increase of 14 percent to SEK 2.00 per share (1.75 adjusted for bonus issue 1:1).

Stockholm, January 28, 1999

Sven-Christer Nilsson

Telefonaktiebolaget L M Ericsson (publ)

The Annual General Meeting will be held on March 23, 1999.

The Annual Report will be distributed to shareholders and be available at the head office at Telefonplan, Stockholm, as of March 2, 1999.

CHIEF EXECUTIVE OFFICER'S COMMENTS

Ericsson reports positive development during 1998, both in earnings and sales. Income before tax increased by 6 percent to SEK 18,210 m.

These results have been achieved primarily by a strengthening of our leading position in mobile communications. The impressive growth and income achieved have created a solid basis for positive long-term growth prospects. A number of important contracts have been concluded during the year. The significant progress made in WCDMA development has resulted in several orders for third generation (3G) test systems in key markets.

1998 was a year characterized by major changes. The Asian crisis continued, leading to turbulence and greater uncertainty in the world economy.

In the telecoms world, changes continued at a rate faster than ever before. The convergence of data communications and telecommunications, which we predicted, has been intensified. This also applies to the consolidation of operators all over the world. In brief, we are experiencing exciting developments which also present challenges.

These developments constitute a technical revolution. New, mainly Internet-based technologies transform both our products and the way we work. With 3G mobile systems we anticipate a technology which will probably lead to a greater change than when the telephone first became a part of our everyday lives.

The past year also meant major changes within Ericsson. I became CEO on March 30, 1998. During the spring, we embarked on a comprehensive review of our technical expertise and our research orientation. The results of this review clearly showed that Ericsson's overall know-how gives us a strong starting position in the "New Telecoms World." This is the phrase we coined to describe developments in which data communications and telecommunications converge and where we believe that wireless or mobile communications will be a central development trend.

The technology review was followed by a review of our entire operation, which resulted in our new strategy and organization. This was a comprehensive task. We have operations in 140 countries and research resources in 25 countries worldwide.

When our new strategy was outlined in the autumn the determining factors were our technical expertise in all areas of telecommunications, a leading position in wireless– combined with our global reach established over the past century.

This strategy is designed to ensure that Ericsson plays a key role in the new, changing telecoms world.

The convergence of data communications and telecommunications is becoming increasingly obvious. One example is the groundbreaking contract announced in January 1999 with BT in the UK, which Ericsson won in fierce competition. This contract will take BT's AXE wireline networks into the next millennium. It will efficiently integrate circuit-switched AXE and packet-switched ATM and IP to support a wide range of services, ranging from voice to datacom. The contract also represents a breakthrough for Ericsson's ATM line, including the scalable ATM switch, AXD301.

The new network will facilitate the rapidly increasing volumes of Internet traffic. The large-scale network will handle national and international traffic as well as interconnect traffic. This solution supports migration to an integrated narrowband and broadband core network and forms the heart of BT's network in the New Telecoms World. This was a strategic order which demonstrates that Ericsson has positioned itself in the forefront as the data communications and telecommunications worlds converge.

Another example of how Ericsson's strategy is meeting success is given by the contract announced this week with the German operator T-Mobil (Deutsche Telekom MobilNet). The contract covers implementation of GPRS (General Packet Radio Service) into T-Mobil's nationwide GSM network. This packet-switched data communications technology will enable T-Mobil to offer wireless Internet and other IP-based services at speeds up to 115 kbps – a more than tenfold increase of the current network speeds. GPRS is also an important step for operators in the evolution to third generation (3G) networks.

GPRS is a common step for both GSM and TDMA (IS-136) networks to handle higher data speeds and offer 3G capabilities. GPRS, and the even faster Edge technology together form a major step in the convergence of the two standards. Added to that, Ericsson has also announced its coming Worldphone– handling services over GSM, TDMA and AMPS networks.

Ericsson has a clear strategy for data communications and the Internet which also includes acquisitions and strategic partnerships. During 1998, Ericsson acquired Advanced Computer Communications (ACC), a California-based company which develops world-leading Internet switches (routers).

During 1998, our industry was characterized by continued consolidation in which our competitors made a number of major acquisitions. Ericsson maintains its own acquisition strategy targeting small and medium-sized companies with leading-edge technology in fields which supplement Ericsson's products and expertise.

The new organization enables us to introduce new ways of working, taking full advantage of the rapid development of technology. This is the background to the changes, which we announced in January 1999, involving a reduction over two years of more than 11,000 out of a total of 104,000 jobs in Ericsson around the world.

One example clearly illustrates current technology developments; an installation project that once required 12 weeks is now completed in one week, and with half the number of personnel. A growing percentage of standardized software, standard components and purchased technologies also reduces the need for labor-intensive and costly in-house development.

Ericsson's income for the first six months of 1999 is expected to be lower than for the first six months of 1998 as stated on a number of occasions last autumn. 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.

Ericsson is leading the development in the highly challenging telecom industry, in which technologies, customers and competitors are changing at an astonishing pace. The combination of our strong present position, strengthened investments in R&D and hard work from our highly skilled employees will ensure our longstanding leading position. I am convinced that Ericsson will continue to create value for our customers, employees and shareholders.

Uncertainties in the Future.

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

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

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CONSOLIDATED INCOME STATEMENT

SEK millions	Oct - Dec 1998	Oct - Dec 1997	Jan - Dec 1998	Jan - Dec 1997
Net sales	59,042	55,123	184,438	167,740
Cost of sales	-34,078	-32,079	-105,251	-97,868
Gross margin	24,964	23,044	79,187	69,872
Gross margin as percentage of net sales	42.3%	41.8%	42.9%	41.7%
Research and development and other technical expenses	-8,382	-7,046	-28,027	-24,242
Selling expenses	-7,600	-6,597	-24,108	-20,464
Administrative expenses	-3,040	-2,562	-8,922	-7,755
Other operating revenues	488	195	995	866
Share in earnings of associated companies	40	141	148	480
Operating margin	6,470	7,175	19,273	18,757
Operating margin as percentage of net sales	11.0%	13.0%	10.4%	11.2%
Financial income	434	1,203	2,228	2,413
Financial expenses	- 795	-1,102	-2,465	-2,365
Income after financial items	6,109	7,276	19,036	18,805
Minority interest in income before taxes	4	- 383	- 826	-1,587
Income before taxes *)	6,113	6,893	18,210	17,218
Taxes	-1,368	-2,013	-5,169	-5,277
Net income *)	4,745	4,880	13,041	11,941
*) Including capital gains/losses, net	142	- 111	234	- 147

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CONSOLIDATED BALANCE SHEET

SEK millions	Dec 31 1998	Dec 31 1997
FIXED ASSETS		
Intangible assets	6,354	748
Tangible assets	22,516	19,225
Financial assets		
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
Total fixed assets	41,924	29,415
CURRENT ASSETS		
Inventories	26,973	23,614
Receivables		
Accounts receivable - trade	57,737	46,151
Other receivables	22,589	19,133
Short-term cash investments, cash and bank	18,233	29,127
Total current assets	125,532	118,025
TOTAL ASSETS	**167,456**	**147,440**
STOCKHOLDERS' EQUITY	63,112	52,624
MINORITY INTEREST IN EQUITY OF CONSOLIDATED SUBSIDIARIES	2,051	4,395
PROVISIONS		
Pensions	8,056	7,201
Taxes	2,388	2,344
Other provisions	11,840	11,550
Total provisions	22,284	21,095
LONG-TERM LIABILITIES	13,068	11,229
CURRENT LIABILITIES	66,941	58,097
TOTAL STOCKHOLDERS´ EQUITY, PROVISIONS AND LIABILITIES*)	**167,456**	**147,440**
*) Of which interest-bearing provisions and liabilities	27,474	23,146

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TREND OF OPERATIONS IN BRIEF

SEK millions	**January - December 1998**	**1997**	**%**
Net sales	184,438	167,740	10%
Income before taxes	18,210	17,218	6%
Net income	13,041	11,941	9%
Average number of shares after full conversion, million	1,997	1,974	1%

Income per share, SEK	6.66	6.08	10%
Equity ratio	38.9%	38.7%	
Return on capital employed	24.9%	29.9%	
Return on equity	22.5%	25.7%	
Cash flow before financing activities	-9,825	7,746	
Additions to fixed assets			
- tangible	8,965	7,237	24%
- intangible	6,013	159	
Number of employees, end of period	103,667	100,774	3%
Order bookings	187,415	179,770	4%
Order backlog, end of period	78,990	76,047	4%

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SALES BY BUSINESS AREA

	Oct - Dec			**Jan - Dec**		
SEK millions	**1998**	**1997**	**%**	**1998**	**1997**	**%**
Mobile Systems	29,836	24,400	22%	85,920	71,700	20%
Infocom Systems	16,638	16,516	1%	49,929	49,204	1%
Mobile Phones and Terminals	12,536	12,905	-3%	45,237	42,292	7%
Other Operations	5,129	4,692	9%	18,278	16,433	11%
Less: Intersegment sales	-5,097	-3,390	50%	-14,926	-11,889	26%
Total	59,042	55,123	7%	184,438	167,740	10%

NET SALES BY MARKET AREA

	1998					**Change vs last year in %**				
SEK billions	Q1	Q2	Q3	Q4	Ytd	Q1	Q2	Q3	Q4	Ytd
Europe*, Middle East, Africa	19.5	22.4	23.3	32.2	97.4	22%	13%	15%	17%	17%
North America	4.3	3.7	4.3	6.3	18.6	18%	-26%	-7%	9%	-2%
Latin America	5.6	6.8	5.0	8.1	25.5	82%	38%	-8%	5%	20%
Asia Pacific	9.0	11.0	10.5	12.4	42.9	13%	-7%	4%	-12%	-3%
Total **	38.4	43.9	43.1	59.0	184.4	25%	6%	7%	7%	10%
* Of which Sweden	2.1	2.4	2.1	1.9	8.5	6%	4%	5%	-36%	-9%
** Of which EU	14.8	16.6	17.2	22.5	71.1	15%	9%	11%	9%	11%

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CONSOLIDATED STATEMENT OF CASH FLOWS

SEK millions	January - December 1998	1997
OPERATIONS		
Net income	13,041	11,941
Adjustments to reconcile net income to cash		
Minority interest in net income	586	1,109
Depreciation and amortization	6,081	5,756
Capital gains(-)/losses(+) on sale of fixed assets	-230	152
Changes in operating net assets		
Inventories	-2,056	-3,396
Customer financing, short-term and long-term	-5,727	-347
Accounts receivable - trade and other operating assets	-10,893	-16,669
Provisions and other operating liabilities	6,592	16,356
CASH FLOW FROM OPERATING ACTIVITIES	7,394	14,902
INVESTMENTS		
Investments in tangible fixed assets	-8,965	-7,237
Sales of tangible fixed assets	632	642
Acquisitions/sales of shares and participations, net	-8,865	-69
Other	-21	-492
CASH FLOW FROM INVESTING ACTIVITIES	-17,219	-7,156
CASH FLOW BEFORE FINANCING ACTIVITIES	-9,825	7,746
FINANCING		
Changes in current liabilities to financial institutions, net	955	96
Issue of convertible debentures	19	4,875
Proceeds from issuance of long-term debt	3,366	2,571
Repayment of long-term debt	-1,332	-2,672
Dividends paid	-3,800	-2,805
CASH FLOW FROM FINANCING ACTIVITIES	-792	2,065
Effect of exchange rate changes on cash	-277	256
NET CHANGE IN CASH	-10,894	10,067
CASH, BEGINNING OF PERIOD	29,127	19,060
CASH, END OF PERIOD	18,233	29,127

Closing exchange rate SEK/USD = 8.0987

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BUSINESS SEGMENTS YEAR 1998 (PROFORMA)

SEK billions	Net Sales	Operating margin	%	No. of Empl.	Orders booked
Network Operators and Service Providers	123.2	16,5	13%	68,645	127.6
Enterprise Solutions	16.1	0,1	1%	10,486	15.8
Consumer Products	45.2	3,2	7%	14,193	44.9
Other Operations and unallocated expenses	13.7	-0,5	-4%	10,343	13.0
Less: Intersegment sales	-13.8				-13.9
Total	184.4	19.3	10%	103,667	187.4

NET SALES BY MAJOR BUSINESS UNITS (PROFORMA)

SEK billions	1998
Network Operators and Service Providers	
- GSM-systems	55.0
- TDMA (IS-136)-systems	18.0
- Wireline Voice	30.5
- Other	19.7
	123.2
Enterprise Solutions	
- Enterprise Systems	9.0
- Business Consulting	4.8
- Other	2.3
	16.1
Consumer Products	
- Mobile Phones	45.2
	45.2
Other Operations	13.7
Less: Intersegment sales	-13.8
Total	184.4