

Ericsson Interim Report Six months ended June 30, 1998

Ericsson reports increased net sales and a continuing strong development of income in the first six months of 1998, but the Asian crisis is increasingly noticeable.

Consolidated net sales rose by 14 percent in the first six months of 1998 compared with the corresponding period last year and amounted to SEK 82,250 m.

Income before taxes increased 24 percent to SEK 7,571 m., compared with the year earlier period. Ericsson's profitability was strengthened through improved margins. Income includes positive currency effects of SEK 100 m. Income per share was SEK 2.66 (2.12).

Net sales	SEK 82,250 m.	+ 14 percent
Income before taxes	SEK 7,571 m.	+ 24 percent
Income per share	SEK 2.66	+ 25 percent

Order bookings are no longer considered to be a pertinent indicator of the company's development and are therefore not shown in this report.

Most of the market regions reported good growth. China has strengthened its position as Ericsson's largest market. Sales to Asia increased by 6 percent. Excluding China, however, sales to Asia declined by 27 percent. Latin America increased by 55 percent, and Europe by 18 percent. Sales to North America decreased by 7 percent.

The cash flow was positive in the second quarter and it is also expected to be positive for the full year. Cash flow before financial operations was negative during the first half of the year. This was due in part to increased commitments for customer financing and to seasonal variations in the volume of the company's business.

Provisions have been made in anticipation of increased risks pertaining to changes in markets, technologies and customer financing.

The equity ratio was 38.6 percent (37.7).

The number of employees at the end of the period was 103,328, an increase of 2,600 since December 1997 (1,360 of which, due to the consolidation of MET in France).

Ericsson's investments in property, plant and equipment amounted to

SEK 3,414 m. (2,891), of which SEK 1,648 m. (1,551) in Sweden. During the first half year Ericsson acquired the remaining 50 percent outstanding interest in MET and General Electric's remaining 20 percent interest in the jointly owned US subsidiary.

Business areas

Mobile Systems continued to show strong growth. Net sales of the business area rose 20 percent. Major successes were recorded during the period in business with new operators in such important markets as Brazil, Italy and Spain. The growth in subscribers, in digital systems in particular, is very rapid throughout the world. The strong support for the third-generation standard for mobile telephony based on WCDMA technology represents a major success for Ericsson. The business area is reporting a very strong operating income.

Mobile Phones & Terminals showed an increase of 19 percent in sales and a strong operating income. Ericsson has very well defended its share of the market for mobile phones during the period. Ericsson is particularly strong in the digital mobile phone segment.

Net sales of *Infocom Systems* increased 4 percent. The weaker trend in certain Asian markets and reduced demand for Network Construction operations in Italy, as well as the lower investment rate by operators in some Latin American markets, contributed to the lower rate of growth in sales.

The new AXE platform with open system architecture has been very well received by customers and the system is continuing to score successes in the market. Belgium and Iran were added to the list of slightly more than 125 countries in which AXE is now represented. Demand for the new AXE has exceeded expectations, resulting in certain delivery problems during the period.

Earnings of the business area are still unsatisfactory. During the period, some delays were experienced in the restructuring program currently under way in the business unit Public Networks, which is part of the business area. As a result of this and the lower growth rate in sales, delivery problems for the new AXE and reduced demand for Network Construction operations in Italy, the objective of achieving acceptable earnings may not be reached until after the end of the year. For the full year 1998, however – as a result of the restructuring – the business area as a whole is expected to show improved earnings compared with 1997.

Net sales posted by *Other operations* (among others power, components, cable and defense electronics) increased 9 percent.

Stockholm, July 27, 1998

Sven-Christer Nilsson

(This report is unaudited.)

CHIEF EXECUTIVE OFFICER'S COMMENTS

Ericsson is reporting a strong increase in earnings for the first six months of the year. The Company's profitability was strengthened through improved margins, but we also foresee continued heavy pressure on prices from now on. The successes for both mobile systems and mobile phones are continuing.

The large number of contracts reported is evidence of Ericsson's strength. However, order bookings are no longer a reliable indicator of the Company's future growth, since we have shorter lead times and contracts are often structured as framework agreements and booked as orders close to delivery.

Despite the fact that there is still strong growth in demand in most of Ericsson's markets, some weakening of sales was noted during the period. This was due in part to the downturn in a number of Asian economies and in part to problems with deliveries of the new generation of AXE. The delivery problems affect the Mobile Systems and Infocom Systems business areas. Corrective measures have been taken and full delivery capacity will be achieved during the current year.

The Chinese market continues to show strong growth. During the period Ericsson strongly increased its sales in China, the Company's single largest market.

As a result, the impact of the Asian crisis on Ericsson does not become apparent until the successes in China are excluded. Net sales to customers in the Asian region, excluding China, decreased by 27 percent compared with the preceding year but varying from one country to another. The crisis in Asia may be roughly estimated to have caused reduced sales of between four and five billion kronor in sales during the period, compared to historic growth rates.

In addition to China, Latin America, Turkey, the Netherlands and Great Britain should be noted as individual geographic markets in which we had strong growth during the period.

Generally speaking, Ericsson's markets throughout the world are continuing to show strong growth. This applies to the market for mobile systems and mobile phones and the emerging new market for Internet-based tele- and data communications.

The *Mobile Systems* Business Area further strengthened its position as the world-leading supplier. Net sales increased 20 percent during the period, compared with first-half 1997 sales. Strategic contracts with new operators covering D-AMPS systems in São Paulo, Rio de Janeiro and Bahia, among other areas account for Ericsson's strong growth in Latin America. In addition, the expansion of D-AMPS in the Telebras network has continued.

In Europe, Ericsson was also selected as a supplier to new mobile operators in Belgium, the Netherlands, Portugal, Italy and Spain.

Standardization, which is of such strategic importance for the telecommunications industry, is continuously and rapidly developing. Ericsson is playing a key role in the standardization of WCDMA which is now rapidly gaining acceptance as a future world standard. Ericsson has entered into a number of agreements to deliver WCDMA test systems to customers in Europe and Asia starting this year. These customers are positioning themselves to rapidly introduce third generation systems for mobile multimedia communications.

Cooperation between D-AMPS and GSM in a system for mobile high-speed communication with multimedia access also started during the period. This system, which is based on the EDGE standard, is designed for use in both D-AMPS and GSM systems throughout the world. Access to the two systems will be made possible with a common terminal.

The *Mobile Phones & Terminals* Business Area continues to show rapid volume growth and has very well defended its share of the market during the period. The Asian and European markets are still very competitive with continuing price pressure.

We have experienced strong demand for mobile phones in the North and South American markets which we have met with increased delivery capacity from the new production unit in Brazil. The United States was Ericsson's single largest market for mobile phones during the first half of 1998.

New products introduced during the period were very well received by consumers and operators alike. The recently launched SH 888 phone model with a built-in infrared modem for simplified computer communications can be used on both GSM 900 and GSM 1800 systems.

The development continues of a traditional mobile phone into a dual-mode "world phone" that will work both with D-AMPS and GSM. Deliveries are scheduled for 1999.

As part of the rapid market expansion and technical development within mobile telephony, Ericsson is cooperating with other leading players in the market in the Bluetooth project in developing a standard for short-range radio communication between mobile phones and other devices, such as computers, as well as between devices. Bluetooth has gained very substantial interest within the industry and more than a hundred leading manufacturers of tele- and data communications equipment have already expressed their intent to use the new standard.

A joint venture, Symbian, was recently announced in which Ericsson, Nokia, PSION and Motorola are cooperating for the purpose of developing an operating system, EPOC, for small mobile terminals. This initiative has attracted the strong interest from leading operators and other suppliers. It is especially gratifying to note the active interest from independent software developers.

The *Infocom Systems* Business Area has been successful with its new-generation AXE platform with open architecture. The delivery problems noted earlier kept the unit from fully satisfying market demand. These problems were caused when the production volume had to be increased rapidly. In addition, there were problems related to deliveries of certain key components.

During the period, Ericsson strengthened its position as a leading supplier of intelligent networks and introduced such new, advanced products as Directory Access Gateway, a global catalog server for telecommunications.

Services offered to operators is another rapidly growing market for Ericsson. For the first time we have begun remote technical maintenance of an operator's network as a result of a contract with the Austrian operator UTA, whose network is now being maintained on-line from Stockholm.

The investment in data communications is continuing. In June, we decided to relocate the management of Business Unit Datacom Networks and IP Services to Boston as an important step to increase Ericsson's presence in the US market for data communications.

New products that supplement systems for operators of Internet services and data communications were introduced during the second quarter. An access router and a so-called gatekeeper for IP (Internet Protocol) telephony was introduced during the period to supplement Ericsson's other products in the field of IP communication. Ericsson also acquired an interest in Mariposa, a California-based data communications company, during the second quarter. In-house development of products, as well as partnerships and strategic acquisitions, are all parts of Ericsson's strategy to establish a leading position in data communications.

During the period, certain delays were noted in the ongoing restructuring of the Public Networks unit, which is part of the Infocom Systems business area. As a result of this, and the lower rate of growth in sales, delivery problems for the new AXE and problems with Network Construction operations in Italy, the objective of achieving acceptable earnings for Infocom Systems may not be met before the end of the year.

Ericsson is making substantial investments to modernize and coordinate commercial processes and IS/IT (Information Systems/ Information Technology) within Ericsson. Costs are being taken as ongoing selling expenses over a period of two to three years. We foresee substantial improvements in lead times and productivity as a result of these investments. These investments will, concerning internal systems, substantially contribute to solving the millennium issue, which has high priority within Ericsson.

During the first six months several new operators in major markets have selected Ericsson as their supplier both for fixed and mobile systems. Our customers' confidence is based on their belief in our ability to provide systems and solutions that will meet tomorrow's requirements for leading edge technology in fixed and mobile data- and telecommunications services.

Our customers trust our innovation capacity to stay in the frontline with new technology and new products as has once again been demonstrated during the period. Our mission is to support our customers to capitalize on the explosive market growth in the new telecoms world.

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**CONSOLIDATED INCOME
STATEMENT**

(unaudited)

SEK millions	Apr-June 1998	Apr-June 1997	Jan-June 1998	Jan-June 1997
Net sales	43,894	41,505	82,250	72,210
Cost of sales	<u>-24,414</u>	<u>-23,981</u>	<u>-46,872</u>	<u>-41,957</u>
Gross margin	19,480	17,524	35,378	30,253
Research and development and other technical expenses	-6,905	-6,252	-12,842	-11,398
Selling expenses	-5,780	-5,330	-11,086	-9,147
Administrative expenses	-1,752	-1,890	-3,768	-3,548
Other operating revenues ^{*)}	201	194	378	485
Share in earnings of associated companies	<u>10</u>	<u>190</u>	<u>63</u>	<u>268</u>
Operating income	5,254	4,436	8,123	6,913
Financial income	539	377	1,106	816
Financial expenses	<u>-496</u>	<u>-360</u>	<u>-994</u>	<u>-932</u>
Income after financial items	5,297	4,453	8,235	6,797
Minority interest in income before taxes	<u>-363</u>	<u>-378</u>	<u>-664</u>	<u>-702</u>
Income before taxes	4,934	4,075	7,571	6,095
Taxes	<u>-1,554</u>	<u>-1,287</u>	<u>-2,385</u>	<u>-1,947</u>
Net income	3,380	2,788	5,186	4,148
^{*)} Including capital gains/losses net	106	- 30	86	- 21

CONSOLIDATED BALANCE SHEET

SEK millions	June 30 1998	Dec 31 1997	June 30 1997
Tangible assets	19,763	19,225	18,603
Equity in associated companies and other investments	3,314	4,077	4,062
Long-term customer financing	5,095	2,000	2,826
Other fixed assets	<u>5,095</u>	<u>4,113</u>	<u>5,038</u>
Total fixed assets	33,267	29,415	30,529
Inventories	25,252	23,614	24,481
Accounts receivable - trade	48,904	46,151	40,401
Other receivables	22,072	19,133	14,519
Cash, bank and short-term cash investments	<u>22,878</u>	<u>29,127</u>	<u>17,608</u>
Total current assets	119,106	118,025	97,009
Total assets	<u>152,373</u>	<u>147,440</u>	<u>127,538</u>
Stockholders' equity	54,501	52,624	44,212
Minority interest in equity	4,273	4,395	3,835
Convertible debentures	6,100	6,034	963
Interest bearing provisions and liabilities	19,824	17,112	18,912
Non-interest bearing provisions and liabilities	<u>67,675</u>	<u>67,275</u>	<u>59,616</u>
Total stockholders' equity, provisions and liabilities	<u>152,373</u>	<u>147,440</u>	<u>127,538</u>

TREND OF OPERATIONS IN BRIEF

SEK millions	Jan-June 1998	Jan-June 1997	Changes in %
Net sales	82,250	72,210	14
Income before taxes	7,571	6,095	24
Net income	5,186	4,148	25
Average number of shares outstanding, million	1,997	1,971	1
Income per share, SEK	2.66	2.12	25
Equity ratio (percent)	38.6	37.7	
Additions to tangible fixed assets	3,414	2,891	18
Depreciation	2,667	2,287	17
Number of employees, end of period	103,328	96,520	7

SALES BY BUSINESS AREA

SEK millions	Apr-June 1998	Apr-June 1997	Jan-June 1998	Jan-June 1997
Mobile Systems	20,126	17,200	36,126	30,100
Infocom Systems	11,724	12,191	22,340	21,470
Mobile Phones and Terminals	10,834	10,763	21,879	18,387
Other operations	4,665	4,305	8,592	7,879
Less: Intersegment sales	<u>-3,455</u>	<u>-2,954</u>	<u>-6,687</u>	<u>-5,626</u>
Total	43,894	41,505	82,250	72,210

SALES BY GEOGRAPHIC AREA

SEK millions	Apr-June 1998	Apr-June 1997	Jan-June 1998	Jan-June 1997
Sweden	2,381	2,298	4,439	4,244
Europe (excl. Sweden)	17,569	15,560	33,264	28,264
USA and Canada	3,743	5,038	8,074	8,710
Latin America	6,771	4,921	12,348	7,990
Africa	966	645	1,592	1,184
The Middle East	1,438	1,227	2,524	2,058
Asia	9,875	9,971	17,551	16,543
Oceania	<u>1,151</u>	<u>1,845</u>	<u>2,458</u>	<u>3,217</u>
Total*	43,894	41,505	82,250	72,210
* Of which EU	16,633	15,295	31,400	28,081

Closing exchange rate SEK/USD = 7.9800