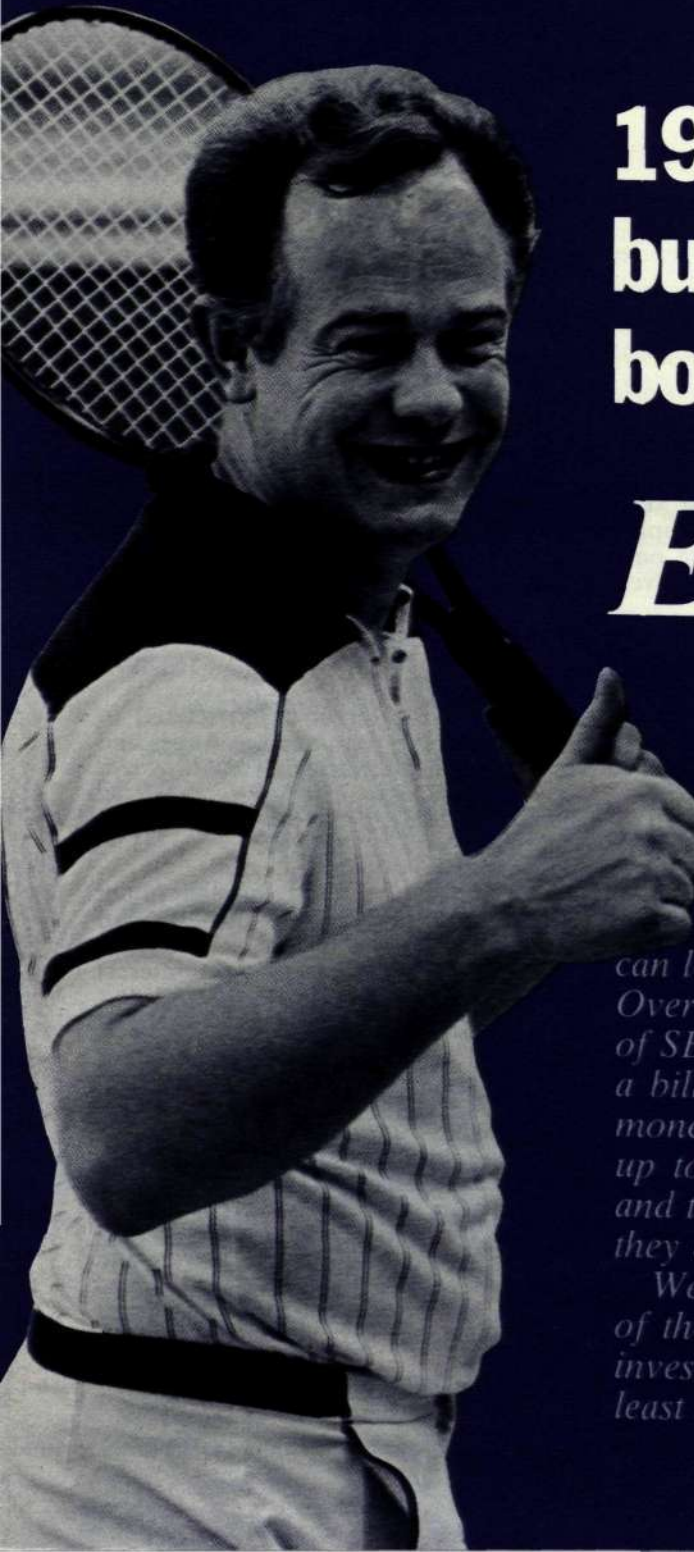


Contact

Economy Special:

1985 a dismal year — but educational spring- board for 1986



Earnings and profitability in 1985 were not satisfactory. That will be obvious to everyone who reads this issue of Contact. But we are not going to begin looking for scapegoats and bog ourselves down in the past. We're already three months into 1986 and it's important that we use what we learned in 1985, to improve results in 1986. We must not make the same mistakes we did last year!

I'd like to bring up some of the lessons we can learn and how they can help to improve earnings. Over the past two years we've had a net cash outflow of SEK 5 billion. Not too many people have ever seen a billion kronor or can even conceive of how much money it really is. This maybe lulls people into giving up too easily, thinking that a thousand kronor here and there won't make any difference. But that's where they are wrong.

We should all make it our job to ensure that because of the expenses we incur every year, every krona we invest in buildings, inventory and so forth return at least 30 öre on the krona.

Cont. back page

Income SEK 3 billion too low

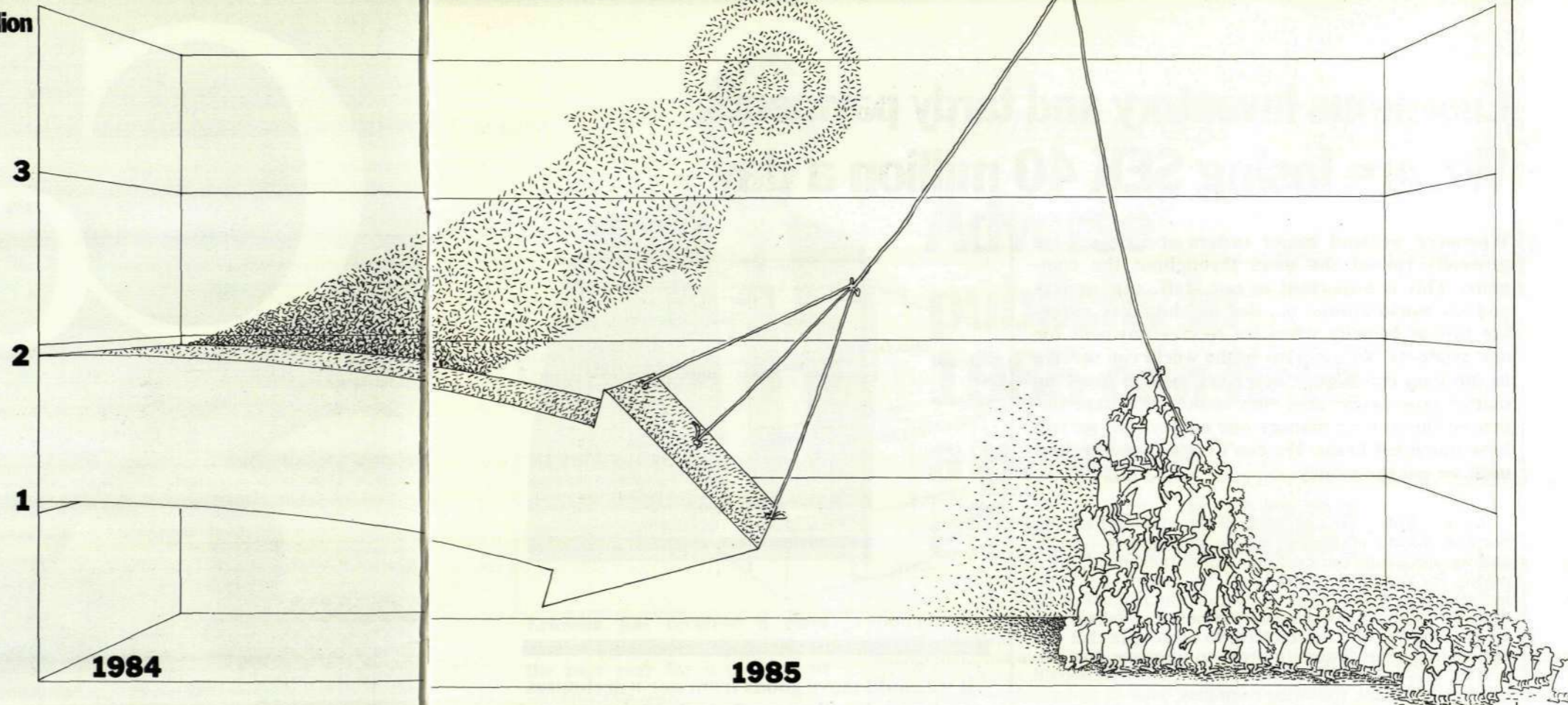
1985 was not a good year for Ericsson. Some individual companies and business areas fared well but on the whole the corporation did poorly. The rest of the world doesn't care whether the decline is caused by Ericsson Radio Systems, Ericsson Telecom or EIS. They see only one thing - Ericsson is not doing near as well as it should. Based on today's assets and liabilities earnings should be between SEK 3 and 4 billion - but are down as "low" as SEK 78 million. Moreover, these earnings include non-recurring gains on the sale of shares and operations of SEK 330 million.

Income Statement	(SEK million)	
	1985	1984
Sales	32496	29378
Costs of products and services sold	-17595	-16070
Other operating revenues	695	321
Costs	-12651	-10387
Depreciation	-1308	-1039
Operating income after depreciation	1637	2203
Financial revenues	1156	1062
Financial expenses	-2109	-1976
Interest in associate companies	35	131
Minority interest	159	149
Income before allocations and taxes	878	1569
Allocations	371	-682
Taxes	-412	-443
Net income for the year	837	444

The income statement presents revenues and costs for 1985. The purpose of the income statement is to show why income developed as it did.

Sales in SEK million	1985	1984
	32496	29378

SEK billion



All of Ericsson's companies sold goods and services worth SEK 32.5 billion in 1985 which is SEK 416000 per employee. Our business areas have done well in selling on most of the various markets but not all of them have increased their earnings to the same degree.

Cost of products and services sold in SEK millions.	1985	1984
	-17595	-16070

From sales are deducted the direct costs, related to what Ericsson sold during the year, such as wages and materials costs in our various factories.

Other operating revenues in SEK million	1985	1984
	695	321

This is money that we have, admittedly, brought in but which cannot be attributed to Ericsson's main lines of business. This sum includes gains of SEK 333 million, derived from the sale of certain operations and interest in other companies.

Costs in SEK million	1985	1984
	-12651	-10387

This money has been used for developing and selling our products and for administering the various companies in the Ericsson corporation. In many cases costs are related to sales and in that way it is possible to see whether we have been as efficient as we could. Our costs rose much faster than our revenues between 1984 and 1985. This was partly the result of a deliberate and planned investment in AXE to adapt it to British and American standards - an investment that won't begin paying off for a few years.

Depreciation (SEK millions)	1985	1984
	-1308	-1039

Depreciation involves costs for the purchase of, say, machines and buildings which are spread over several years. Depreciation rose in 1985 by 26%. We have new and better equipment at our disposal but we have not yet received full value for these investments.

Operating income after depreciation in SEK million	1985	1984
	1637	2203

This is where we get the first indication of how well we did. Here we can see ourselves how well the operation fared in 1985. The result is dismal. Earnings declined by 26%.

Financial revenues in SEK million	1985	1984
	1156	1062

Financial expenses in SEK million	1985	1984
	-2109	-1976

Financial revenues are revenues from interest share dividends and gains on foreign exchange differences. The reason we have high financial expenses is that we have had a tremendous outflow of liquid funds in recent years. It's fine to have heavy interest expenses as long as your earnings are high but they aren't in Ericsson's case.

Interest in associated companies SEK million	1985	1984
	35	131
Minority interest SEK million	159	149

Ericsson has shares in other companies although not a majority holding. This brought in SEK 35 million in 1985, which is a decline of nearly SEK 100 million. In the same way that we had a minority interest in other companies, there are other companies that have interest in our subsidiaries. These companies are entitled to a share of our earnings. However, in both 1984 and 85 they instead had a share in our losses, for which reason this is a plus entry. This mainly applied to Ericsson Inc. in the United States.

Income before allocations and taxes in SEK million	1985	1984
	878	1569

This is the figure people are referring to on the radio and in the newspapers when they say that Ericsson's earnings in 1985 were SEK 78 million which is SEK 11 250 per employee. This level of income is too low. Considering our assets and liabilities it should be SEK 2-3 million higher. But since we have to pare our Balance Sheet even more, there is less need for income.

With SEK 5 billion less on the Balance Sheet, SEK 2.5-3 billion is an acceptable income. It is still SEK 1.5-2 billion more than the income for 1985.

Allocations in SEK million	1985	1984
	+371	-682
Taxes	-412	-443
Net income for the year	837	444

Allocations are various deductions allowed by law before taxes are calculated on our profits. (Compare this with an ordinary personal income tax return where taxes are calculated on your income after deductions.) In 1985, instead of making these deductions, we have reported reserves which were then taxed.

Net income is used to pay dividends to our shareholders and is carried over to next year's operations.

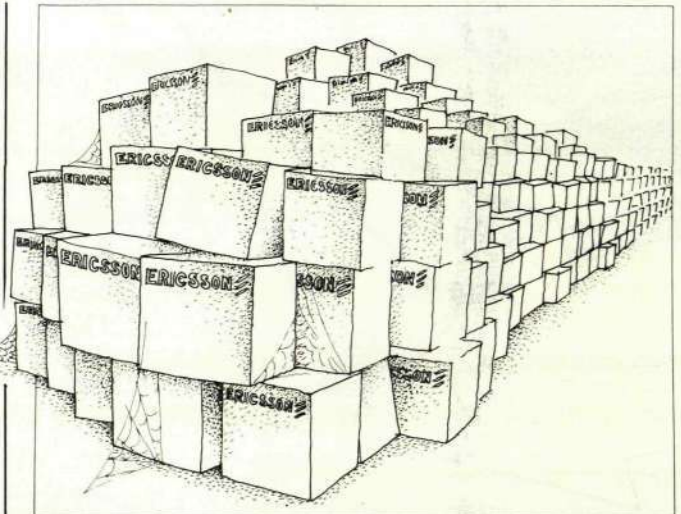
Enormous inventory and tardy payments

We are losing SEK 40 million a day

Whenever we land major orders at Ericsson we generally spread the news throughout the company. This is important to our staff, our owners and the world around us. But we should be cheering just as heartily when we receive payment for our products. No company in the world can survive in the long run if they don't get paid in time, no matter how many sales they make. We have improved the way we manage our money, but we still have much left to do. We can't hope to secure jobs until we get the money.

We are losing tons of money everyday at Ericsson because we are letting our inventories grow too large and we are letting our customers drag their heels when paying for the goods we deliver. The normal situation in Sweden is to pay a supplier after a maximum of 30 days. In some other countries payment can take up to six months. We at Ericsson have to make sure that our customers pay us faster. In order to illustrate how important it is to manage our assets efficiently we would like to present the following examples:

What it boils down to is that every krona tied up represents 30 öre in expenses.

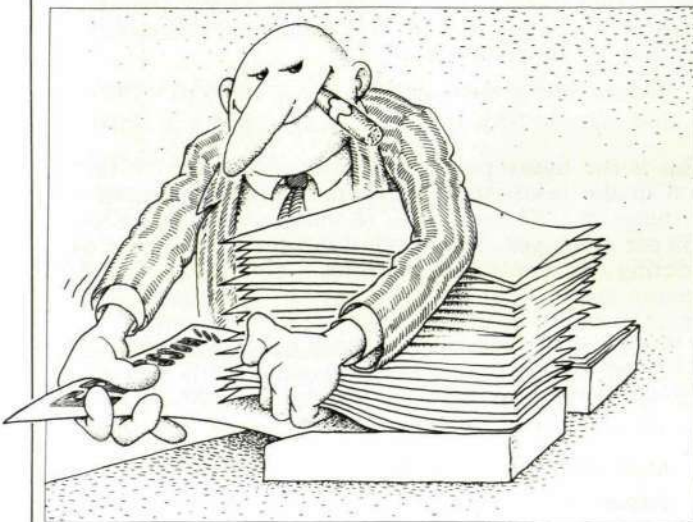


If we could move goods from our warehouses one day earlier than we do and obtain payment from our customers one day faster, we would boost our earnings by SEK 40 million a year!

What can you do for Ericsson 1986?

Ericsson's financial statements from 1985 are dismal reading on many points. Income is far too low, we have far too much money tied up in inventory and our level of accounts receivable is too high. Having capital tied up costs money, a good deal of money. We are suffering from major problems in certain areas while others are generating profits. Nevertheless, Ericsson is a corporation and that is how we want to be regarded and the figures give us no alternative: We must improve!

It's obvious that it is up to management to make sure that earnings increase in coming years. There are good chances that we can already see an improvement this year by boosting income and reducing the level of tied-up capital. But this is not the responsibility of management alone. Every Ericsson employee must do his share. Together we can make a good company better. Think for a minute! What can you do to improve your part of Ericsson in 1986?



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Björn Svedberg:

Adverse publicity in 1985 can have a positive effect in 1986!

Ericsson has received a good deal of attention in the media in the past year for a number of obvious reasons:

1985 was not a good year for the Ericsson corporation. Earnings were SEK 2-3 billion too low and Information Systems' slide did not turn around as everyone had expected. Ericsson is in the spotlight again but for far different reasons than before. Most of the publicity has been adverse but president Björn Svedberg still believes that this negative publicity can be transformed into something positive.

"In view of what happened in 1984 and 1985 I would just like to say that on all essential points we have been treated fairly. I admit it's tough to see your own company become the object of massive criticism. Nevertheless I'm convinced that this negative publicity we are getting can be turned into something positive. It has opened up many people's eyes to the need for greater efforts and in some cases unpleasant decisions. It also helps staff members understand and support the moves we have to make in order to survive in a tough business.

"We are not living in a world where the market grows at a slow and steady pace and where we know what our rivals are going to do next. On the contrary, the situ-

ation can change suddenly, making special demands of us in the management but also of all personnel. The swiftness of these changes is something we are going to have to live with. Our ability to cope with them and lead developments is what will decide our future. The success that we have enjoyed in Radio Communications and Cable are two examples of how it is possible to reverse a slide.

Will we meet our goals and objectives for 1986?

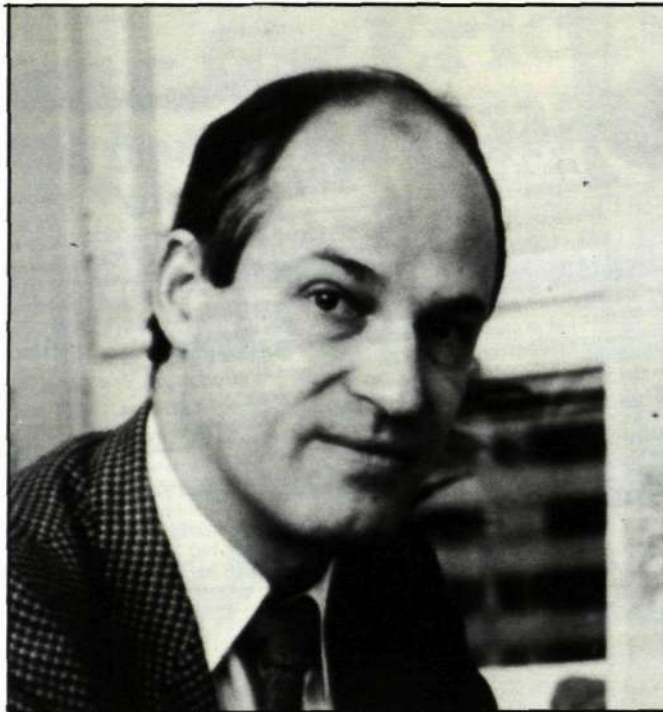
Björn Svedberg: "Yes, we have to, and we will. 1985 was an extremely tough year, but it was also extremely educational. We made a lot of high-cost investments in order to achieve a stable and improved product range and more effective production. Our level of tied-up capital is a major headache. We have launched a campaign to lower it and as a result both customer receivables and inventory were reduced somewhat towards the end of the year.

"We were hit by major losses in Information Systems in 1985. The losses were both the result of huge non-recurring expenses and of weak market growth. They are also the consequence of planned investment in development that will eventually yield dividends. We have also spent enormous funds to transform AXE to American and British standards. This makes conditions for 1986 completely different than those for 1985. The situation has changed, and the company has assumed a different structure. We have also reinforced the

management team in several of our operations."

Many people questioned the competence of Ericsson's management in 1985. We were described as a company constantly in the process of restructuring and replacing managers. Is that phase over now?

Björn Svedberg: "There is no such thing as a definitive organizational solution on a market constantly in a state of flux. The management groups now operating within Ericsson are fully aware of our strategies and have been reinforced where it is necessary. I have complete faith in their ability to do the work necessary to make 1986 a good year for Ericsson."



Cable:

The restructuring done in 1983/84 has doubled our profits

1985 was an excellent year for Cable. A doubling of earnings on a 10% rise in sales is something that Lars Berg, who was appointed head of this business area in 1985, must be more than satisfied with:

“Yes, I’m definitely satisfied. We are now seeing the fruits of the enormous restructuring that was done in 1983-84. The purpose of that was to shut down head office and instead set up three profit-accountable divisions: Telecommunications, Power and Special. Meanwhile, those sections that had been at head office, such as technical developments, marketing administration were moved out to their own offices.

“I would like especially to point out the gratifying developments of the power cable division in Falun and in SELGA, which is the division’s key marketing channel,” says Lars Berg.

Fibreoptics quadruples

The optics section of the telecommunications cable division has more than quadrupled its sales over the year. And a major order from the Swedish telecommunications administration in late 1985 will help sustain healthy sales through 1986-87.

Optic cable also scored well in the United States:

“We are now the number three supplier after the two giants, AT&T and SIECOR in terms of optic cable, which accounts for a sharply increasing share of our operations in the United States,” continues Lars Berg.

Meanwhile, he can also point with pride to the fact that during the year we managed to contract all the RBOCs (Regional Bell Operating Company) as buyers of

conventional telecommunications cable.

Great capital turnover

The Cable Business Area has also worked actively during the year to bring down the level of inventories and accounts receivable in order to achieve a faster turnover of capital.

“Having capital tied up is expensive and to generate healthy earnings you need a high rate of capital turnover,” says Lars Berg. He is happy that there seems to be a strong awareness within Cable of the importance of these matters and he feels this is the result of earlier problems.

Crisis mentality a strength

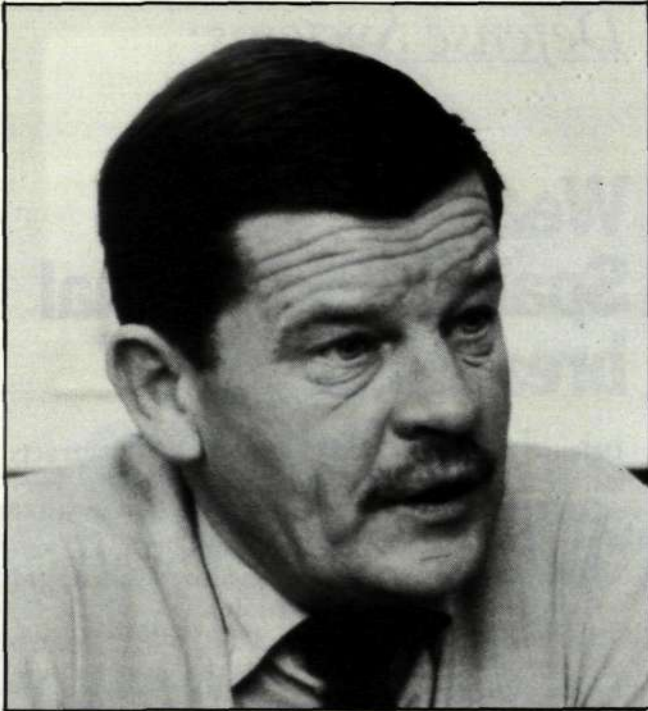
“Because Cable was having troubles with profits in the early 1980s, my predecessor, Jan Stenberg, introduced a crisis mentality among his staff. As a result, this area focussed earlier than others on the importance of profitability and streamlining of capital.

“What’s interesting is that our staff, at all levels, are accustomed to thinking in terms of profitability, and so I see good potential to continue working in that direction,” says Lars Berg, head of the Cable Business Area and Ericsson Cables AB.

Cable manufactures and sells power cables for electrical supply (40% of sales), telecommunications cable for transmission of telecommunications (50%), as well as special cables for the computer industry and others (10%).

Cable operations also include a majority stake in a wholesale electrical firm, Selga, as well as involvement in the cable and wire industry with automobile wiring as the main product.

	1985	1984
Sales (SEK million)	4409	4022
Operating income after depreciation	336	89
No. employees	5750	5473



Public Telecommunications:

Earnings for 1985 too low

Jan Stenberg succeeded Ove Ericsson as head of Public Telecommunications midway through 1985. He has this to say about the past year:

"In terms of sales 1985 was a great year. We almost attained our budget despite a sagging market. Earnings, however, were disappointing."

"**T**he healthy sales we enjoyed are proof of the value of the important contracts we signed. When British Telecom chose us last spring to deliver their AXE stations we took an enormous step forward. We won the contract in tough international competition. We also made key inroads through the contracts we signed with telecommunications administrations in Holland, Mexico and Spain.

"In terms of profits we did not do as well as we expected. With our sales and level of invested capital at year-end, we should have had earnings of at least SEK 2 billion."

What happened then? 1984 was an extremely healthy year.

Jan Stenberg: "Developments cost money and we had to build up our expertise to a professional level in order to cope with the ever-toughening competition. In fact, simply adapting the AXE to the British and American markets involved substantial costs in 1985.

"However, we expect these costs to begin paying dividends in 1986. For instance, the first AXE station will be delivered to Sevenoaks outside of London on July 1st.

How does 1986 look so far? What are we doing to improve earnings?

Jan Stenberg: "The market is always shifting but right now there is a general decline. We have experienced and are now experiencing a very uneven sales situation on certain stable markets which means that our actual number of

orders has dropped. The fall in the exchange rate of the dollar has also had and is still having an adverse effect. This forces us to intensify our efforts on the sales and development sides in order to compensate for the shortfall. Meantime, we are also in the throes of an internal streamlining campaign. We have to make better use of our resources and improve our ability to adapt to sudden changes in the market."

Finally, what will you be saying in a year's time when we ask for your comments on 1986?

Jan Stenberg: "That 1986 was a tough year for us but even tougher for our rivals!"

The Public Telecommunications business area designs, manufactures and installs telephone stations for public telephone networks (73% of sales), transmission equipment (14%), telex and computer equipment (3%), and offers telephone operations (5%) as well as service (5%).

The AXE system defended its position admirably as one of the world's largest telecommunications systems and has now been sold to 64 countries. Eight million lines have been installed and we had 7.5 million on order at the end of 1985.

	1985	1984
Sales (SEK millions)	10593	9718
Operating income after depreciation	1282	1930
No. employees	29594	28352



Defense Systems:

Weather radar to Spain international breakthrough

Defense Products landed several key contracts last year, both in Italy and in Sweden. In Sweden, they brought home a massive extra order for the JAS project. The Swedish military defense also ordered test equipment for airborne radar systems and encoding equipment.

On the international scene the order for weather radar systems for Spain is the most exciting news and definitely an important breakthrough.

“We have done well. We have achieved almost all our goals in terms of sales and we have kept our level of tied-up capital down low,” says Ulf H. Johansson, head of Defense Products.

One point of frequent discussion is delivery precision. Is your business area good at delivering on time and at the right quality?

U H Johansson: “Our customers are extremely satisfied with the quality of our products. On the other hand, we should improve our capacity for delivering on time, in order to make them truly happy. Most of our contracts are long-term, so we have a tendency to be a little lax about keeping track of developments in the early stages of a project. We have to strive much harder to stay on schedule at the beginning of a project too. Getting behind a month at the beginning of a project can often cause major delays at the end.

“And the plans that our customers make are also based on a schedule that entails our making deliveries on a given deadline. If we’re late with our deliveries then it’s going to cause disruptions and expenses for our customers.

“Our customers come to us because they rely on us, and every contract is an important reference for future business. We have substantially improved precision in Kista and in Italy. Now we’re going to do the same in Mölndal.

Better control of costs

What’s your forecast for 1986?

U H Johansson: “Things are looking extremely good. 1986 will be a year in which we further consolidate our position as suppliers of highly advanced electronics for defense systems.

“Nevertheless, if we are going to meet our earnings targets for 1986 we have to do a better job of controlling costs. Our costs for technical development have skyrocketed lately, which, admittedly, is only natural, considering that we are working with more and more advanced projects than before. We’ve taken on several new staff members in the past year, and it always takes time before you get into a new job. But now we have to make sure to more effectively utilize the expertise we have built up. It is largely a question of leadership, in other words our ability to plan and control the work. We have to work intensively to achieve more uniform workloads over the entire year, so that the final months of the year won’t be as hectic as they were for many of our people during the fall of 1985. By introducing better planning and control, we can look forward to a healthy 1986.

Defense Products actually encompasses four product areas: Aircraft and robot electronics, Defense communications, Local mobile defense systems and computer-based control systems. The largest market is Sweden which accounts for 45% of all sales.

	1985	1984
Sales (SEK millions)	2161	1831
Operating income after depreciation	178	172
No. employees, December 31, 1985	4746	4247

Information Systems:**“After our major cleanup we have to survive 1986.”**

“Our costs are unacceptably high. That’s why it is entirely necessary for us to go through with the staff cutbacks we planned to give the company a chance for the future.”



Stig Larsson, head of Information Systems, deeply regrets that layoffs may be necessary in some regions but efforts are continuing to find alternatives.

A future exists

Stig has no doubts that a future does exist for Information Systems but it’s going to take continued supreme efforts to succeed. Why, then, is Stig Larsson still so optimistic?

“Well, because a good deal of last year’s loss can be attributed to huge non-recurring costs incurred to correct previous errors. These are items that will not crop up again,” he says and mentions a few examples:

“Our personal computer debacle in the United States was an enormously expensive mistake, involving major shut-down costs. There were also huge sums involved in correcting product design faults.

“Also in 1984 components were ordered and capacity built up to handle far more sales than were budgeted. This tied up substantial capital and forced us to charge our earnings with interest. And with depreciation when the value of our inventory dropped.

“All this involved enormous non-recurring costs in 1985 which explains the decline from 1984.”

Planned improvement

It was in late 1984 that Stig Larsson was given the task of cleaning up Information Systems. The initial plan laid had to be revised in the

spring of 1985 when it became obvious that the market for personal computers in the United States had petered out, but since then work has largely gone as planned according to Stig:

“The first step involved correcting the faults in product design during the first part of the year. This was done while we were in the midst of a massive campaign to cut costs and we were totally revamping our administrative routines.

“The second stage was last summer when the entire organization was restructured. We ended up with three new divisions instead of the seven that we had before and much more clear-cut areas of responsibility. Unconventional operations were sold and we concentrated on fewer products and fewer markets.

“The next stage was adapting the staff organization to this new situation. We planned to reduce our personnel from a total of 22 000 to about 20 000, but this cutback has taken longer than expected. As a result, we are unfortunately, forced to speed up the staff reductions.”

Will there be more changes?

“No, we do not plan any more changes. Now we have carried out the major consolidated moves we planned and we are going to work even harder on the product areas we have left. Any other changes we make will be normal for any business operation.

“One way of grabbing bigger shares of the market is by entering

into joint ventures. The negotiations we’re commencing with Digital within the bank systems field is a good example of this.

“Together we can offer exceptionally competitive solutions while we also take over parts of each other’s markets. The development venture we are getting into is especially important since it can lead to more work in the future,” concludes Stig Larsson.

Information systems is divided into three divisions:

- Communications systems
- Data systems
- Office equipment

Communications systems are involved in the manufacture of the large MD 110 PABX, Eri-pax data network, modems, smaller PABXs, intercom systems and telephone units.

Data systems are involved in the manufacture of data terminals, personal computers, corporate systems, mini-computers and systems for banks.

Office equipment manufactures printers, typewriters, calculators and office furniture.

	1985	1984
Sales (SEK million)	10561	9295
Operating income , after depreciation	-806	-217
No. employees	20785	21703



Network Engineering and Construction:

Oil became hard currency

The Network Engineering and Construction Business Area is in some ways much different from the other Ericsson business areas. Sales in 1985 rose to more than SEK 2 billion, but only a small percentage stemmed from the sale of products. Network Engineering and Construction markets primarily services, in other words expertise in constructing networks and signalling systems. The know-how of the staff is without a doubt the area's biggest asset.

What are your comments on 1985?

Björn Linton, head of Network Engineering and Construction: "We had healthy earnings but sales could be up more. Looking at the bright side of things first, our huge network engineering project in Malaysia progressed extremely well. We are in charge of a project worth more than SEK 2 billion and so far it has been very successful.

"The contract we signed with Oman, worth about SEK 220 million, is also an excellent deal. What was most gratifying was that with this contract we are returning to a market where we have not been involved for ten or so years.

"Otherwise sales were not that good last year. The main reason is that many of our customers in Asia have put off making any new investments. This is mainly the case in Thailand and Saudi Arabia but we are hoping, however, to land contracts there this year instead."

You have major operations in Italy. How are they developing?

Björn Linton: "Extremely well. Both Sielte and Telca increased their earnings substantially last year."

How about operations in the United States?

Björn Linton: "Unfortunately we suffered a heavy loss there. We did a lot poorer than we had expected and we have had to learn the hard way that it is not easy to start up an operation in the United States. Nevertheless, 1986 will be a better year."

You were having a problem with

capital before. Have things improved at all?

Björn Linton: "We have lowered our level of tied-up capital by a good margin. Within Sielte alone we brought it down by about SEK 100 million. We did this by turning over our accounts receivable to an Italian bank for collection.

"Operations in Sweden have also improved considerably in terms of capital. However, it means coming up with unconventional solutions. For instance, we managed to substantially bring down our level of accounts receivable from Libya by accepting payment in oil."

How has Signal systems fared?

Björn Linton: "In the case of Signal systems we have succeeded in achieving a sharp turnaround. We suffered a loss there in 1984 and now Signal systems is operating at a solid profit.

"In 1985 we succeeded in delivering a fully-automated switchgear to the Swedish railway systems in Hallsberg in central Sweden. The market for this equipment is considerable and we have a good chance of landing several similar contracts.

"We also signed important contracts with the railway authorities in Italy for the delivery of signal and telecommunications equipment.

The Network Engineering and Construction Business Area consists of two product sectors: network engineering which encompasses planning and construction of telecommunications networks, computer networks and telecommunications facilities, and Signal systems, which embraces signal and security systems for rail-bound traffic as well signal systems for street and highway traffic.

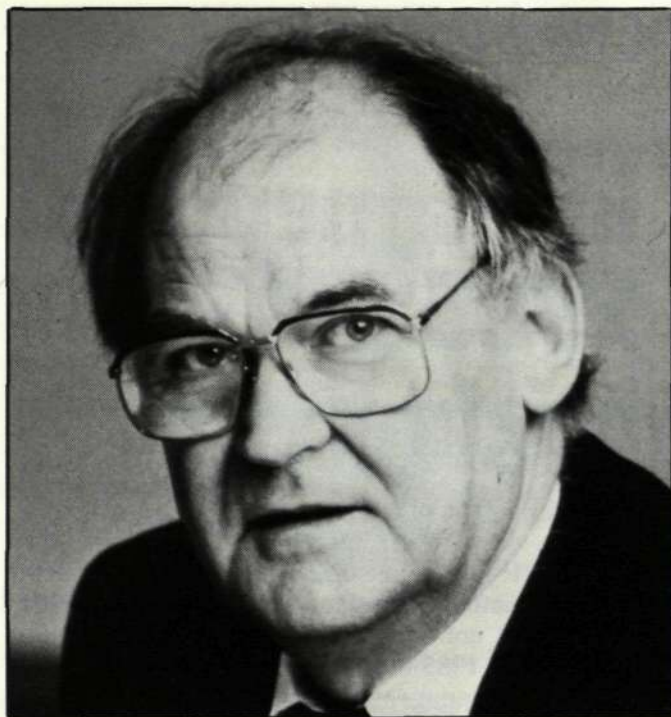
Network engineering accounts for 75% of sales and Signal Systems for 25%.

	1985	1984
Sales (SEK millions)	2113	1970
Operating income after depreciation	154	111
No. employees December 31, 1985	5945	5289

Radio Communications

Profits much more important than volume

Ericsson Radio Systems is No. 1 in the world in mobile telephones. With contracts in 22 countries they're now increasing their capacity in Kumla for production of mobile telephones. The telephones will be marketed for the NMT system (Nordic Mobile Telephone System). They're faced with tough competition, especially from the Japanese in the long run, but company management feels that their own technology is extremely strong.



Ake Lundqvist is head of the Radio Communications business area. He looks extremely satisfied when we bring up the subject of how well he and his staff did in 1985.

"One major reason that we did so well, of course, is that the market has exploded in recent years. In 1981 we sold SEK 20-30 million worth of mobile telephones. Last year it was something like SEK 1400 million!! We decided that we were going to enter the mobile telephone market and that we would grow in pace with our profits, which is what we have done.

Profits more important than volumes

"The key to our success was re-vamping our priorities in 1984. Up until then we had focussed too much attention on sales growth. But in 1984 we realized that it wasn't volumes that were essential but the profit we made on each deal. Based on that premise we couldn't continue working as we did before. We coined a new phrase: 'Profits, not growth the key'."

Does this mean that you did not bother about new orders?

Ake Lundqvist: "Naturally we didn't stop trying to bring in new contracts. But we concentrated much of our efforts on achieving profitability in each individual deal, no matter how big or small it was. Because of that, we had to turn down some contracts, and we decided that it would be better to accept one less deal than to sign a

contract that was not profitable enough."

Unpleasant decisions

"We also managed to extricate ourselves from some contracts that we had already signed but which we felt were not going to be profitable. We were forced to make a number of unpleasant decisions. It's not always easy to understand and accept the fact that your area of work dropped in priority or was eliminated altogether when you have worked so hard to develop it. One thing that made our work a little easier was that the market was expanding.

Mobile telephone fresh goods

You have a saying that "mobile telephones are fresh goods". What do you mean by that?

Ake Lundqvist: "It's important to keep up the pace in this business. If your production is down for one week you lose your market shares. The market is filled with competitors ready to pounce and our customers will leave us if we don't provide them with our products when they want to buy them".

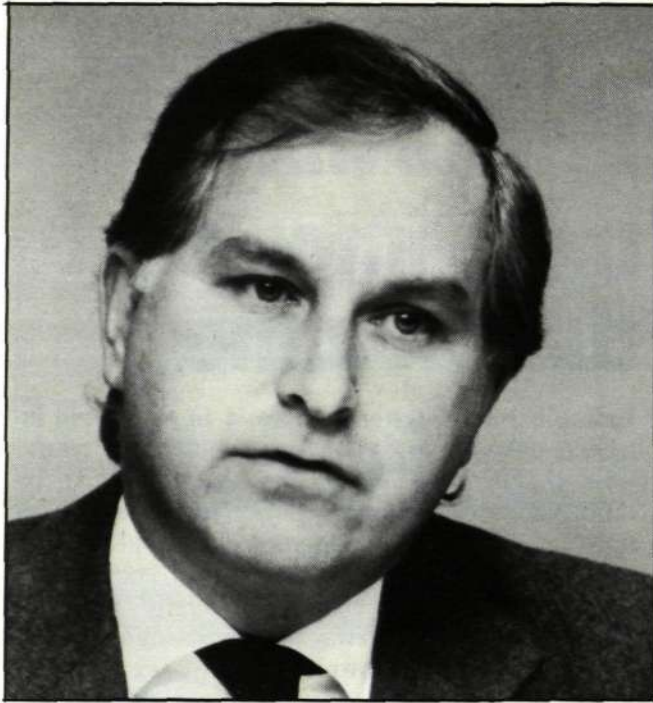
How do developments look to you in 1986?

Ake Lundqvist: "We're working hard to maintain the position we have achieved so far. We're constantly on the lookout for weaknesses and areas where we can improve ourselves. So we can't be lulled by our successes and simply continue selling more of what we already do."

Radio Communication's areas of production include mobile telephones including base stations and terminals (50% of sales), land-based mobile radios with permanent and portable stations, control equipment and monitoring units (15%), personal pagers for local networks (15%), radio transmission including radio links and satellite operations (12%) while the rest of the business accounts for 8% of all sales.

Mobile telephones accounted for the biggest boost with an almost 100% increase in sales.

	1985	1984
Sales (SEK mill.)	2656	1992
Operating income after depreciation	253	-32
No. employees	5122	4144



Components:

Investments in 1985 will brighten 1986

1985 was a year of challenge for the Components Business Area where most of the operations are run by RIFA AB. A sudden drop in the capacitor and standard product market together with widespread non-budgeted product development costs turned 1985 into a tough year for both personnel and management:

“**A**nd yet we still handled it all and we would have attained our forecasted earnings if we hadn't also been burdened with an SEK 44 million loss as a result of operational exchange rate differences from our power operations in Mexico,” says Lars Ramqvist, head of Components.

“So that was something that we couldn't predict since it was the result of changes in exchange rates, in this case between Sweden and Mexico.”

Satisfied anyway

On account of all this, Lars Ramqvist is satisfied with earnings for 1985 although the SEK 24 million in profits is lower than for the previous year. “By making major investments in developments, we paved the way for improvement in 1986,” he says, continuing:

“Part of this was for development of optical components for the 565 megabit system which was then installed in the transmission network in the United States where Ericsson was the first company to do so. RIFA developed both the hybrid and IC technologies.

“The second investment was for development of an entirely new line circuit, the SLIC as well as ETC circuits for the AXE stations to be delivered to British Telecom. For that we have to thank the staff of our M Division who worked so hard. Through their fantastic efforts we managed to deliver the ETC circuits in December. The third major development package was for CMOS processors, which

obviously cost enormous sums but which are an investment for the future.”

Rapid changes

“Working with components is being involved in Ericsson's leading-edge technology. Components are developed and put out on the market at a terrific pace and so we have had to cope with enormous peaks and valleys in production during the year,” continues Lars Ramqvist.

“The major change we experienced was when the market for capacitors and standard products dropped by at least 35% within the space of a few months in late 1985, for us and our competitors.

“We had to decide right away whether to cut back production, both in Sweden and other countries. In 1985 alone we laid off about 350 people and the decline may still continue.

How does 1986 look?

“The biggest challenge we face is to continue to play a strategic role within Ericsson with the enormous investments we have made primarily within the microelectronics sector. At the same time we have to be market-oriented and produce a good return. This is balancing act unique to our business area,” concludes Lars Ramqvist.

The Components Business Area develops, manufactures and markets components and power equipment for the electronics industry. The operation is mainly run within Rifa AB and encompasses three product sectors: Microcircuits made up of IC and hybrid circuits Power systems and capacitors and standard components.

It is vital that we develop and make components ourselves. The Components Business Area develops mainly customer-adapted components which can strengthen the competitiveness of the other business areas.

	1985	1984
Sales (SEK million)	1461	1225
Operating income after depreciation	22	34
No. employees	4343	4231



We are all jointly responsible for making Ericsson a highly profitable company again. And we in the union can't just sit there, doing nothing, waiting for miracles out of the blue. We have to speak frankly so that everyone realizes how bad the situation is. We have to solve Ericsson's problems together.

Stanley Oscarsson is chairman of the joint organization of union locals at Ericsson and he represents about 18 000 union members at our various companies throughout Sweden.

Most people are fully aware of Ericsson's problems and why they have

Union comments:

Don't be blinded by poor business

come about. There's not much to add about profits apart from the fact that they are poor.

"One of the most important matters the union has to deal with is to safeguard employment." That's why Stanley Oscarsson feels that we must make use of every means available to try to prevent the planned cutbacks in Blekinge and Delsbo.

"Information Systems has staked out their course for 1986 and now we have to boost volumes. Development of the MD 110 PABX and the banking systems is now set and the next step is to sell them. The marketing and sales people at EIS have important responsibilities in 1986," says Stanley Oscarsson.

Another key question is cooperation between the different companies at Ericsson. Today people feel too often like there are impenetrable barriers between the companies here. It is also too easy to go to companies outside of Ericsson to get something done.

"In future we mustn't contract out work without first checking to see if one of our own companies can do the

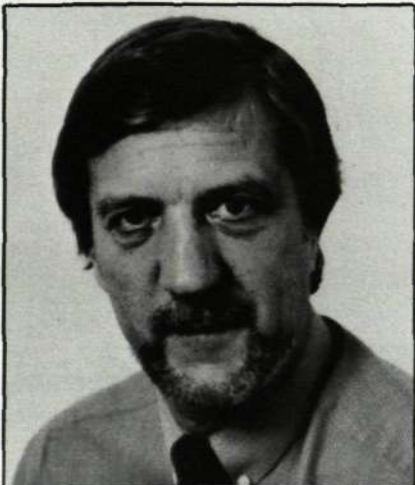
job. This is definitely an employment question. Our primary concern must be to make sure our members have jobs."

Everyone is aware that profits in 1985 were not good. But Stanley Oscarsson feels that there are a number of reasons for optimism. One is the new management of Ericsson, Inc. in the United States.

"It's wonderful that we finally have a more market-oriented management in the United States. Now I believe we can make it there and that is vital to us. Another positive aspect is the formation of Ericsson Telecom. Merging production, design and marketing together is a wise move that will be very favourable for Ericsson."

Amid all the troubles it's also important to remember that there are parts of Ericsson that are doing very well.

"We can't be blinded by the ailing sides of the business. Cable, Network Engineering and Construction and Radio Communications have proven that you can turn things around. And if they can do it, everyone else can too!"



Although earnings dropped by half in 1985, the biggest danger for Ericsson is if shortsighted measures are taken to correct the situation without any thought behind them. That's the opinion of Paul Kvamme who represents the 20 000 odd office workers at Ericsson in Sweden.

There is no cause for panic

"The worst thing management can do is to try to recover what we have lost within a very short space of time, for instance over the rest of the year. This would be highly unwise and have disastrous consequences.

Without trying to sound overoptimistic Paul Kvamme feels that the situation today at Ericsson is under control.

"The knowledge and awareness we have today didn't exist here six months ago. I'm not the kind of person who sees gloom everywhere. I'd rather look on the bright side of things and I feel that we have reason to do so here. The past year has taught us a lot about our shortcomings. And now we're actually doing something about the problems."

Paul Kvamme says that the steps taken to lower the level of tied-up capital and speed up inventory turnover are the result of this "sickness awareness".

One thing that Paul Kvamme is worried about is that various people in management at Ericsson will resort to

measures to achieve a swift improvement in profits that in the short term may seem justifiable but in the long term could be dangerous.

"Nobody is denying that you can cure an infection by amputation but it's not exactly a sensible thing to do and it will only create new problems in the long run."

What's important is that personnel, management and other people around us realize that we cannot solve our profitability problems in time for our interim report for 1986. The solution is farther in the future - but it will arrive. That's one thing we can be certain about.

Paul Kvamme says that both owners and management must keep cool heads.

"Ericsson has always been a stable and secure employer. I'm convinced that we can continue feeling secure working at Ericsson in the future too. And the 'real' profits will return - you can be sure of that!"

That's why it's easy to understand why we have to sell some of our assets. It's a way to immediately boost profitability. What we have to realize now is that we must meet our capital needs ourselves by generating healthy earnings and by managing our capital resources better.

It's easy to be deceived by our sheer size. Some of our business sections are involved in a very few, but huge, business deals while others have a steady stream of small ones. Everything we do to bring down costs, no matter how trivial it may seem, will have an impact.

We have to be more open and alert so that we are not caught unawares when situations change or delays occur. We have to stick to our plans and budgets and make sure information gets out in time if we see a change coming. It is enormously important, both to ourselves and to our clients, to prove that we keep our promises, no matter whether they have to do with budgets, budget forecasts, deliveries to customers or just arriving on time for meetings. Everyone has to make it their personal responsibility to obtain the information necessary.

We also discovered in 1985 how important it is to have several operations to fall back on. Earnings would have been much worse if Radio Communications, Defense Systems, Network Engineering and Construction, and Cable hadn't had such good years. Everyone working in these business areas deserves to feel proud of their achievements.

Those people working in other parts of Ericsson should be happy about these business areas. Moreover, the successes of these business areas confirm something essential for the corporation as a whole: the fact that it is possible to make a change in a branch of the business by simply deciding you're going to do it and systematically working at resolving the problems.

I may not have been working here at Ericsson very long, but I have worked long enough to come to the realization that we have enormous potential for success in the company. I'm convinced that 1986 will bear me out.

Stockholm, March 13, 1986



C W Ros

Executive Vice President and Chief Financial Officer