

Ericsson raises forecast after strong sales growth and record order intake in first quarter 2000

- *Income before tax more than quadrupled to SEK 6.1 billion*
- *Record order intake, up 67 percent - driven by its largest segment Network Operators and Service Providers*
- *Leadership in mobile Internet with strong order intake for GPRS and 3G - mobile systems now represent 53 percent of total sales*
- *Consumer Products: Sales up 53 percent with operating margin at 3 percent*
- *Outlook 2000: Forecast for revenue growth raised to more than 25 percent, reflecting substantial growth by mobile systems*

SEK b.	Jan-March 2000	Jan-March 1999	Change in percent
Orders	79.5	47.5	67
Sales	59.1	41.6	42
Income before taxes	6.1	1.3	366
Earnings per share (SEK)	2.15	0.49	339
EPS US GAAP (SEK)	2.53	0.80	216
Cash flow	-6.2	-10.7	

SUMMARY

Ericsson today reported income before tax of SEK 6.1 b. for the first quarter of 2000, an improvement of 366 percent over the first quarter 1999, mainly a result of 42 percent higher sales and slower growth in operating expenses. Income also benefited from a gain of SEK 1 045 m. from divestiture of part of Ericsson's stake in Saraïde. Orders increased by 67 percent and reached a new record level. Main drivers were a continued strong demand for mobile telecommunications infrastructure combined with the growing market for mobile Internet systems, applications and devices.

"This quarter shows Ericsson's clear lead in mobile Internet including 3G, which is beginning to take off. I am particularly pleased that profits in our largest segment, Network Operators, again improved sharply," said Kurt Hellström, president of Ericsson. "We have captured more than 50 percent of the strategically important GPRS orders both in terms of number of contracts and subscribers." Kurt Hellström continued: "The overall very good results for the period have been achieved by another outstanding effort from our entire personnel."

All segments show improved operating margins. Network Operators, representing two thirds of total sales, increased sales by 36 percent. This reflects the acceleration of the market for infrastructure. Ericsson grew faster than the market, taking advantage of its leadership. Operating margin improved substantially from 7 to 15 percent of sales.

Consumer Products increased sales by 53 percent. While production was on track, financial performance is still inadequate. A strong shift toward entry level phones affected the gross margin. The operating margin improved to 3 (0) percent.

Enterprise solutions developed favorably and reached break-even compared to -6 percent operating margin for last year's first quarter. The improvement was mainly due to successful consulting business.

Sales and orders grew very strongly in all market areas except the sales in China, due to low order intake last year. During the quarter, Ericsson won the largest GSM order ever placed in China, which confirms a strong recovery in the Chinese market.

Ericsson is now raising the sales forecast for the full year 2000 from at least 20 percent to more than 25 percent, due to the strong growth of mobile systems. Ericsson continues to expect substantial growth in earnings, driven by mobile systems. Second quarter sales is expected to be up more than 25 percent, and income before taxes in the second quarter to double, compared to the second quarter last year.

ORDERS AND SALES

Orders increased by 67 percent to SEK 79.5 b.. This is a record level for Ericsson. This growth was mainly driven by a strong development for mobile systems, where orders increased by 86 percent, and by a favorable development also for wireline systems with orders up 47 percent.

Ericsson's sales increased by 42 percent to SEK 59.1 b. Main contributors to the strong growth are mobile systems with increased sales of 49 percent and mobile phones with sales up 53 percent, compared to first quarter of the previous year. Microelectronics and Defense systems also showed strong sales growth.

OPERATING INCOME AND MARGINS

The operating income improved to SEK 6.4 b., up 257 percent from 1.8 b. in the first quarter 1999. This is a result of higher sales and a slower growth in operating expenses.

In the first three months of 2000, an operating margin at 10.8 (4.3) percent was achieved, which is in line with Ericsson's long-term financial objectives.

The gross margin declined to 41.3 (43.0) percent, primarily caused by lower gross margins on mobile phones.

Other operating revenues include capital gains of SEK 361 m., mainly from outsourcing of real estate management activities and the sale of Private Radio Systems.

Operating expenses improved to 32 (39) percent of sales. Operating expenses were positively affected by an operational gain from the divestiture of part of Ericsson's stake in Saraide by SEK 1,045 m. and from results relating to the restructuring program.

Total R&D expenses (including SEK 0.2 b. of costs related to customer orders) increased by 15 percent to SEK 7.2 b., which corresponds to 12 (15) percent of sales. Other technical expenses were up 28 percent to SEK 1.0 (0.8) b. Total R&D and other technical expenses amounted to SEK 8.3 (7.1) b. or 14 (17) percent of sales.

A refund of pension premiums to Ericsson companies in Sweden totaling SEK 1.3 b. has not yet been included in income, but is expected to be included in the second quarter.

FINANCIAL NET AND EARNINGS PER SHARE

Financial net at SEK -180 (-294) m. improved due to the relatively favorable cash position at the beginning of the year.

Net income increased to SEK 4,246 (905) m. Earnings per share on a fully diluted basis was SEK 2.15 (0.49).

Income per share in accordance with US GAAP for the first quarter was SEK 2.53 (0.80). The major difference between Swedish GAAP and US GAAP is the capitalization of development costs for software products.

Changes of currency rates had a positive net effect on income of approximately SEK 0.3 b. compared to the first quarter of 1999, due to stronger Japanese yen and US dollar.

The equity ratio improved to 36.5 percent from 35.2 percent at year-end 1999.

Cash flow before financing activities was SEK -6.2 (-10.7) b. Positive income effects were offset by increased working capital in inventory (SEK -9.3 b.) and customer financing (SEK -1.8 b.). The increased inventory is mainly related to GSM systems (-3.5 b.) and mobile phones (-2.8 b.). The company prepared for higher sales volumes with increased inventories and pre-stocking of certain critical components. A negative impact from component shortages due to increased lead-times and lower than anticipated sales of high-end phones was also experienced. Inventory turnover improved, however, to 4.6 times from 3.4.

EMPLOYEES

The number of employees decreased during the quarter by 967 to 102 323, mainly a result of the outsourcing of production in Sweden and France and divesting of Private Radio Systems.

BUSINESS SEGMENTS

The growing demand for mobile communications, driven by increased subscriber growth, increasing usage per subscriber and investments to develop and prepare the infrastructure for mobile Internet is reflected in Ericsson's orders and sales.

Segment results first 3 months ended March 31, 2000

Segment	Net Sales SEK m.	Growth %	Operating Income SEK m.	Operating Margin %	Employees
Network Operators	38,718	36	5,760	15 (7)	63,616
Consumer Products	14,794	53	457	3 (0)	17,290
Enterprise Solutions	3,858	12	29	1 (-6)	9,130
Other Operations	5,343	61	543	10 (4)	11,257
Unallocated costs			-414		1,030
Inter-segment sales	-3,628				
TOTAL	59,085	42	6,375	11 (4)	102,323

As shown in the table above, operating margins improved from last year's figures in all segments in combination with substantially increased sales.

Network Operators and Service Providers segment again experienced a very successful quarter, with an increase in sales of 36 percent compared to first quarter last year. Orders were up 76 percent reflecting continued very strong demand for network capacity. Operating margin improved to 15 from 7 percent showing the segment's role as the prime generator of income. The improvements in operating income were the result of the continuous improvement process and economies of scale from increased volumes.

Orders increased by 86 percent for mobile systems and 47 percent for wireline systems. Corresponding figures for sales were 49 and -3 percent.

Mobile systems now account for 53 percent of Ericsson's sales.

During the quarter, Ericsson expanded its leadership in the new mobile Internet market. Important orders in GPRS (packet data) were awarded from operators Orange and Telia. Ericsson has won more than 50 percent of the GPRS market to date, both in number of contracts and subscribers. Several of the field trials announced last year have now been converted into commercial contracts.

In the 3G market, Ericsson has been chosen as supplier in all four 3G agreements secured so far – and as the main supplier in three of the four agreements.

Consumer Products showed a sales increase of 53 percent and an operating margin of 3 percent. While production was on track, financial performance is still inadequate. There was a strong shift toward entry level phones, which affected margins in this segment. The new management is reviewing the mobile phone strategy to better achieve the financial objectives. The financial target of a double-digit operating margin will however not be reached this year.

Unit volume at 10.5 million was up 57 percent from first quarter last year. The unit volume for entry level phones grew even faster, reflecting the overall market's development. This resulted in an unfavorable product mix for Ericsson that offset operating margin gains from volume leverage.

The introduction of new generation models with emphasis on high-end devices and more cost competitive low/mid-range phones should improve the product mix during the second half of 2000.

Ericsson is committed to continue R&D investments in Consumer Products. Today, much of the R&D efforts in this segment are focused on mobile Internet products supporting our mobile systems business.

Enterprise Solutions showed a good growth in both orders and sales during first quarter, increasing 29 percent and 12 percent respectively.

The segment has seen a particularly favorable development in demand for business consulting services focusing on mobile Internet, where Ericsson assists enterprises in developing applications and services.

Continued efforts are made regarding reorganization of the distribution channels for the PABX and wireless office business. In the US, the sales and service activities regarding cordless office were sold to Ericsson's main distributor.

Other operations. Defense systems, cables and microelectronics showed good performance with orders up 54 percent and sales 61 percent.

MARKET AREAS

The sales growth was driven by a very strong demand for mobile communications in all market areas. North America is still showing the fastest growth worldwide with 105 percent increase in sales. Latin America increased by 58 percent in sales, Western Europe by 36 percent, Market Area Central and Eastern Europe, Middle East and Africa increased by 53 percent and Asia Pacific by 15 percent.

External sales by market area/by segment in first quarter 2000

SEK b.	Network Operators	Consumer Products	Enterprise Solutions	Other	TOTAL	% of Total
Western Europe	12.1	7.1	1.8	2.6	23.6	40
CEEMA	5.4	1.5	0.2	0.2	7.3	12
North America	5.7	2.4	0.1	0.3	8.5	15
Latin America	6.2	1.0	0.3	0.3	7.8	13
Asia Pacific	8.9	2.5	0.3	0.2	11.9	20
TOTAL	38.3	14.5	2.7	3.6	59.1	100

*) *Internal sales between segments are excluded*

Western Europe

The market area is characterized by a continued strong subscriber growth and early preparation for 3G and mobile Internet. Ericsson's sales grew by 36 percent during the period and several strategic orders in GPRS, the first step toward 3G with packet switched data, were taken. Examples are agreements with Orange and Telia Mobile. Western Europe has also taken a lead in early allocation of 3G licenses. The auction of five licenses in the UK is finalized and licenses have already been issued in Spain and Finland.

Central and Eastern Europe, Middle East and Africa

Sales grew by 53 percent in the region, and Ericsson won orders for several new GSM markets. The strong growth of the largest market in the area, Turkey, continued, and Ericsson won the largest order ever of SEK 7.2 b.

North America

Sales in North America increased by 105 percent compared to the first quarter of the previous year, reflecting the continued strong growth of the wireless market driven by subscriber growth and tariff changes.

Latin America

The positive development continued in the market area with sales up 58 percent. The highest increase in sales was shown in Mexico and Argentina with 280 and 394 percent respectively. Brazil continued to show a strong development.

Asia Pacific

At the end of the quarter, Guangdong Mobile Communications placed the largest GSM order ever awarded in China. The SEK 5.4 b. order is an indication that the Chinese market is turning around. In the region, sales increased by 15 percent. Excluding China, sales grew by 73 percent.

Japan continued to report a very strong growth. Sales increased by 159 percent, reflecting the strong demand for mobile communications, in particular for mobile Internet services.

Top 10 Markets in Orders and Sales

Market	% of Total Orders	% of Total Sales
United States	11	14
China	10	5
Turkey	10	4
Italy	7	6
Japan	5	7
United Kingdom	5	8
Brazil	5	5
Spain	5	6
Mexico	4	4
Sweden	4	4

TO THE SHAREHOLDERS

The overall strong market trends continue. The growth of mobile subscribers and the demand for mobile Internet develop even faster than we originally expected in our forecasts 1999. We are now expecting 1 billion mobile subscribers in 2002. In 2004, the number of mobile Internet users will exceed 600 million, according to our forecast. The mobile Internet has indeed started. More than 80 licenses for 3G are expected to be issued within the coming 12 months. In Finland and Spain, 3G licenses were issued already, while in the UK the auction is going on.

The development during the first quarter, with income before taxes up 366 percent, record levels for orders and Ericsson's leadership in GPRS and 3G orders, shows Ericsson's unique position in the marketplace for mobile Internet. Our position has strengthened. Almost 80 percent of our business is directed toward the fastest growing segment of the entire industry, mobile communications.

Due to the rapid growth in our orders and sales and the overall industry we will however have to handle increasing challenges in manufacturing, sub-supply and components. With the ramp-up of our business, there will be strong demand on cash-flow, but our objective remains to have a positive cash-flow for the year.

Overall, we are pleased with the results for the first quarter, record order intake, improved operating margins in all segments and a strengthened position in the marketplace, and we look forward to a continued success for infrastructure systems, services and applications.

OUTLOOK

We believe in continued strong market growth where Ericsson gains benefits from its leading position in mobile telephony. Our long-term financial targets remain unchanged: We intend to grow faster than our market, which means growing by more than 20 percent, and with a return on capital employed of 20-25 percent with positive cash flow before strategic acquisitions, and an operating margin of at least 10 percent.

For the full year 2000, we now expect sales to increase by more than 25 percent and we continue to expect substantial growth in earnings, mainly driven by mobile systems. We intend to achieve this with a positive cash flow.

For the second quarter isolated, we expect sales to increase by more than 25 percent compared to the second quarter 1999. Income before taxes is expected to be in the range of double that of the second quarter 1999. Operating income is expected to include gains from divestitures in the same magnitude as those in the first quarter. The pension premium refund of SEK 1.3 b. and gains from non-recurring structural divestitures, such as Energy Systems and real estate activities, are not included in this outlook.

Stockholm, April 28, 2000

Lars Ramqvist

Kurt Hellström

Chairman and CEO

President

(Unaudited)

Uncertainties in the Future.

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

Some statements in this interim report are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results are product demand, the effect of economic conditions, exchange-rate and interest-rate movements, the impact of competing products and their 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 (unaudited)

SEK millions	Jan-March 2000	Jan-March 1999	Changes in %	Jan-Dec 1999
Net sales	59,085	41,571	42%	215,403
Cost of sales	-34,674	-23,708	46%	-125,881
Gross margin	<u>24,411</u>	<u>17,863</u>	37%	<u>89,522</u>
Gross margin as percentage of net sales	41.3%	43.0%		41.6%
Research and development and other technical expenses	-7,986	-6,926	15%	-33,123
Selling expenses	-7,769	-6,624	17%	-31,205
Administrative expenses	-2,874	-2,827	2%	-10,078
Operating expenses	<u>-18,629</u>	<u>-16,377</u>	14%	<u>-74,406</u>
Operating expenses as percentage of net sales	31.5%	39.4%		34.5%
Other operating revenues	610	220	177%	2,224
Share in earnings of associated companies	- 17	80	-121%	250
Operating income	<u>6,375</u>	<u>1,786</u>	257%	<u>17,590</u>
Operating margin as percentage of net sales	10.8%	4.3%		8.2%
Financial income	777	623	25%	2,273
Financial expenses	- 957	- 917	4%	-2,971
Income after financial items	<u>6,195</u>	<u>1,492</u>	315%	<u>16,892</u>
Minority interest in income before taxes	- 129	- 190	-32%	- 506
Income before taxes ¹⁾	<u>6,066</u>	<u>1,302</u>	366%	<u>16,386</u>
Taxes	-1,820	- 397	358%	-4,256
Net income ¹⁾	<u>4,246</u>	<u>905</u>	369%	<u>12,130</u>
¹⁾ Including capital gains/losses, net	361	78		1,843

CONSOLIDATED BALANCE SHEET

SEK millions	March 31 2000	Dec 31 1999	March 31 1999
Fixed assets			
Intangible assets	10,545	10,548	6,336
Tangible assets	25,056	24,719	21,994
Financial assets			
Equity in associated companies	2,706	2,712	2,759
Other investments	1,675	1,751	1,507
Long-term customer financing	7,541	6,657	5,228
Other long-term receivables	3,520	4,972	3,200
Total fixed assets	51,043	51,359	41,024
Current assets			
Inventories	34,764	25,701	28,909
Receivables			
Accounts receivable - trade and short-term customer financing	66,422	65,333	53,477
Other receivables	32,778	31,227	24,951
Short-term cash investments, cash and bank	23,787	29,008	16,457
Total current assets	157,751	151,269	123,794
Total assets	208,794	202,628	164,818
Stockholders' equity	74,037	69,176	62,560
Minority interest in equity of consolidated subsidiaries	2,234	2,182	1,996
Convertible debentures	5,209	5,453	6,072
Interest bearing provisions and liabilities	40,514	39,567	27,570
Non-interest bearing provisions and liabilities	86,800	86,250	66,620
Total stockholders' equity, provisions and liabilities	208,794	202,628	164,818

CONSOLIDATED STATEMENT OF CASH FLOW

SEK millions	Jan-March 2000	Jan-March 1999
Cash flow from operating activities	-5,829	-8,787
Investments	<u>-332</u>	<u>-1,943</u>
Cash flow before financing activities	-6,161	-10,730
Financing	1,002	8,018
Effect of exchange rate changes on cash	<u>-62</u>	<u>936</u>
Net change in cash	<u><u>-5,221</u></u>	<u><u>-1,776</u></u>

TREND OF OPERATIONS IN BRIEF

SEK millions	Jan-March 2000	Jan-March 1999	Changes in %
Net sales	59,085	41,571	42%
Operating margin as percentage of net sales	10.8%	4.3%	
Income before taxes	6,066	1,302	366%
Net income	4,246	905	369%
Average number of shares after full conversion and options, million	2,004	1,997	
Earnings per share, SEK	2.15	0.49	339%
Earnings per share in accordance with U.S. GAAP, SEK	2.53	0.80	216%
Equity ratio	36.5%	39.2%	
Cash flow before financing activities	-6,161	-10,730	
Additions to tangible fixed assets	2,458	1,576	56%
Total depreciation on tangible and intangible assets	2,011	1,592	26%
- Of which goodwill	155	124	25%
Number of employees, end of period	102,323	101,217	1%
Orders booked	79,474	47,461	67%
Capital turnover	2.0	1.7	18%

NET SALES BY SEGMENT BY QUARTER

(SEK m.)

Year-to-date

	1999				2000	Change %
	9903A	9906A	9909A	9912A	0003A	03A
Network Operators & Service Providers	28,505	64,314	99,208	149,943	38,718	36%
Consumer Products	9,696	20,064	29,797	46,444	14,794	53%
Enterprise Solutions	3,446	7,841	11,949	17,345	3,858	12%
Other operations	3,312	7,301	11,326	16,750	5,344	61%
Less: Intersegment sales	-3,388	-7,137	-10,632	-15,079	-3,629	7%
Total	41,571	92,383	141,648	215,403	59,085	42%

Isolated quarters

	1999				2000	Change %
	Q1	Q2	Q3	Q4	Q1	Q1
Network Operators & Service Providers	28,505	35,809	34,894	50,735	38,718	36%
Consumer Products	9,696	10,368	9,733	16,647	14,794	53%
Enterprise Solutions	3,446	4,395	4,108	5,396	3,858	12%
Other operations	3,312	3,989	4,025	5,424	5,344	61%
Less: Intersegment sales	-3,388	-3,749	-3,495	-4,447	-3,629	7%
Total	41,571	50,812	49,265	73,755	59,085	42%

NET SALES BY MARKET AREA BY QUARTER

(SEK m.)

Year-to-date

	1999				2000	Change %
	9903A	9906A	9909A	9912A	0003A	03A
Western Europe*	17,350	36,374	55,890	85,329	23,578	36%
Central- and Eastern Europe, Middle East & Africa	4,779	12,621	19,528	29,736	7,323	53%
North America	4,179	11,387	17,610	25,175	8,549	105%
Latin America	4,920	12,186	18,916	30,263	7,781	58%
Asia Pacific	10,343	19,815	29,704	44,900	11,854	15%
Total	41,571	92,383	141,648	215,403	59,085	42%
* Of which Sweden	1,685	3,868	5,461	7,551	2,380	41%
* Of which EU	16,261	34,299	52,411	80,345	22,052	36%

Isolated quarters

	1999				2000	Change %
	Q1	Q2	Q3	Q4	Q1	Q1
Western Europe*	17,350	19,024	19,516	29,436	23,578	36%
Central- and Eastern Europe, Middle East & Africa	4,779	7,842	6,907	10,208	7,323	53%
North America	4,179	7,208	6,223	7,565	8,549	105%
Latin America	4,920	7,266	6,730	11,347	7,781	58%
Asia Pacific	10,343	9,472	9,889	15,196	11,854	15%
Total	41,571	50,812	49,265	73,755	59,085	42%
* Of which Sweden	1,685	2,183	1,593	2,090	2,380	41%
* Of which EU	16,261	18,038	18,112	27,934	22,052	36%

OPERATING INCOME AND OPERATING MARGIN PER SEGMENT PER QUARTER
(SEK m.)

Year-to-date	1999				2000	As % of Net Sales				2000
	9903A	9906A	9909A	9912A		1999				
						0003A	9903A	9906A	9909A	
Network Operators & Service Providers	2,108	5,758	10,919	19,637	5,760	7%	9%	11%	13%	15%
Consumer Products	-23	-56	-675	253	457	0%	0%	-2%	1%	3%
Enterprise Solutions	-222	-216	-382	64	29	-6%	-3%	-3%	0%	1%
Other operations	128	342	139	75	543	4%	5%	1%	0%	10%
Unallocated costs	-205	-666	-1,098	-2,439	-414					
TOTAL	1,786	5,162	8,903	17,590	6,375	4%	6%	6%	8%	11%
Isolated quarters	1999				2000	As % of Net Sales				2000
	Q1	Q2	Q3	Q4		1999				
						Q1	Q2	Q3	Q4	
Network Operators & Service Providers	2,108	3,650	5,161	8,718	5,760	7%	10%	15%	17%	15%
Consumer Products	-23	-33	-619	928	457	0%	0%	-6%	6%	3%
Enterprise Solutions	-222	6	-166	446	29	-6%	0%	-4%	8%	1%
Other operations	128	214	-203	-64	543	4%	5%	-5%	-1%	10%
Unallocated costs	-205	-461	-432	-1,341	-414					
TOTAL	1,786	3,376	3,741	8,687	6,375	4%	7%	8%	12%	11%

Unallocated costs consist mainly of costs for corporate staffs, certain goodwill amortizations and non-operational capital gains and losses.

NUMBER OF EMPLOYEES PER SEGMENT PER QUARTER

	1999				2000	Change %
	9903A	9906A	9909A	9912A		
Network Operators & Service Providers	65,530	65,909	65,359	64,695	63,616	-3%
Consumer Products	14,116	14,053	14,970	16,446	17,290	22%
Enterprise Solutions	9,856	10,329	10,262	9,615	9,130	-7%
Other operations	11,046	11,278	11,474	11,525	11,256	2%
Non allocated	669	809	712	1,009	1,031	54%
Total	101,217	102,378	102,777	103,290	102,323	1%