

Kurt Hellström's speech at the Annual General Meeting April 8, 2003

Shareholders, Ladies and Gentlemen,

This is the fourth, and last time, I will be reporting as President and CEO about Ericsson's operations at an ordinary shareholders' meeting. On those previous occasions, I have been obliged to inform you about declining demand, an uncertain market, and cost savings measures.

These have been the most difficult years in Ericsson's 127-year history and a time that has tested all Ericsson employees and myself. Throughout this period, however, I have never doubted the soundness or the long-term growth of the telecommunications industry. Communication is a fundamental human need. People want to share their experiences, and, fundamentally, that is what the telecommunications industry is about.

Let us now look at what we achieved last year.

- Losses amounted to a dizzying 23 billion crowns, compared to 30 billion the previous year
- Our cost-savings measures, however, are beginning to show up on the balance sheet and the goal is to return profit at some point during 2003
- Thanks to skillful internal efforts with our accounts receivable and inventories, we achieved a positive cash flow during the last quarter of 2002
- We managed to do this while maintaining our world-leading position in the all-important GSM/WCDMA market. We have a market share of approximately 40 per cent
- Last but not least, last year we carried out the largest rights offering in Sweden's history. Thanks to your strong support, we raised approximately SEK 29 billion

I would like to thank all of you for the confidence you have shown in us. Prior to the rights offering, our solidity was 29 per cent. Following successful completion of the rights offering, our solidity is 37 per cent. We now have the financial strength we need on this market. We also gained 137,000 new shareholders in conjunction with the rights offering, proving that confidence in Ericsson and in the telecommunications branch is strong.

When we saw the dramatic downturn in the market in the beginning of 2001 and realized we were in an extremely acute financial situation, we were met with skepticism. In regards to both the gloomy picture for demand we painted and the drastic cost savings measures we initiated. But now, two years later, we can conclude that Ericsson might not have existed as an independent company today if we had not sounded all alarms and immediately begun reducing our costs.

The maximum number of employees we have had was 107,000, at the end of March 2001. As we have said previously, our intention is to reduce operating expenses by a total of SEK 50 billion and, to have them down to SEK 38 billion by the end of this year. By then, the number of employees in the company will be less than 60,000. We had approximately 64,000 employees and had reduced operating expenses by SEK 37 billion by the end of last year.

As you can see, we are going in the right direction, but, by no means, is the work finished. This is an enormous turn-around and it is completely unique in Swedish industry. We have demonstrated that we can control the controllables. We have now created an Ericsson that is more flexible and that can quickly adapt to changing market conditions. And this only has been possible thanks to the loyalty and understanding of our employees.

I have met many employees who have lost their jobs and who, because of their deep belief in the strength of our industry and our company, regret they cannot remain in the company. But they understand the need for reductions and respect the decisions that have had to be made, and I am very pleased that in Sweden we have been able to offer generous compensation and support, beyond that required by law and agreements, to those who have been made redundant. Without doubt, the redundancies that have drawn the most attention from outside the company are those carried out last year in our development organization.

Allow me first and foremost to make clear that in our research operations, which are the very heart of our company, we have not made more than marginal reductions. This is where we develop the technologies and solutions upon which Ericsson will live in the future. There are those, primarily within media and the financial markets, who criticize Ericsson for being a so-called engineering company and for our investments in research and development. I would remind everyone that it is this advanced activity that is the key to our position on the telecommunications market. Without research and development, we have no business being there. We quickly would be reduced to a second or even third tier player. I would maintain that, throughout the years, it is our engineers who have laid the foundation for our success, and who provide our excellent sales force with the potential to satisfy customer needs.

What we have done is create more efficient development operations. We have been able to achieve this by reducing the number of development centers. Today, we have development centers in 16 countries around the globe. In addition, we do not see the need to continue development of mature products, such as TDMA and PDC. Nor have we touched the important part of the development of 3G. This technology still requires a good deal of development resources.

Of course, we also have reduced in a number of other areas. I would dare say that there is no community or place where Ericsson is present that has not been effected by the reductions in one way or another. Throughout all of the cost-reduction work, we have carefully evaluated our measures to ensure that our core business is not weakened.

What is causing the weak market, then? Why did it go so bad? Well, it is not because of the new 3G technology.

We have technology and we have solved technological problems that up until now have been challenges. Last fall, for example, we were the first supplier to demonstrate what is called a hand-over between GSM and the 3G technology, WCDMA. That is, one could make calls in both networks using the same phone. And a little less than two months ago, at the large telecommunications trade show in Cannes, we showed what is known in the industry as interoperability. What this means is that calls can be made from various suppliers' phones, independent of which vendor has supplied the network. This is a pre-requisite for a mass market.

3G phones also are now available. Both through our joint venture company Sony Ericsson and through our so-called platform company in Lund that sells licenses for 3G phones to other manufacturers.

And it isn't the demand for telecommunications services that is causing the difficult market situation. The number of mobile subscriptions is increasing at a rate of 380 every minute. This means that almost 4,000 new subscriptions have been added just during the time I have been talking.

The answer to the question as to why the market is so bad is in part, because we have gone through a correction of the IT bubble, and in part, because the financial markets are today very nervous and cautious.

The financial markets are nervous about operators' balance sheets following the 3G license auctions and the many acquisitions that were made up to and including year 2000. Operators' revenues and cash flows generally are good and balance sheets in some cases have improved. However, psychological uneasiness remains and continues to hamper operator opportunities for investments, which directly impacts us.

This is a global phenomenon. Although it began in Europe, it has now spread to most parts of the world. Even in countries where operators have sound balance sheets, they are infected by the financial market's caution and are being forced to reduce their investments. Unfounded or not, nevertheless, this is what is shaping our reality.

I do not know how many times I have said this during the past few years, but, in any case, this will be the last time I say it as President of Ericsson: "We do not yet see any signs that the market is turning around."

The nervousness in the financial markets has undeniably hit the telecommunications industry very hard. In spite of this, every day we are seeing evidence that our customers are beginning to roll out 3G technology.

3G is happening now – if you want to see it:

- 112 licenses for UMTS, so-called 3G licenses have been awarded to operators.
- Of these, half are planning to launch commercial services this year.
- More than 27,000 3G base stations have been delivered, and Ericsson has shipped more than 10,000 of these.

- MMS usage, that is to say, sending pictures with a phone, is growing strongly.
- Ericsson today has more than 50 commercial MMS agreements.
- And Vodafone now has over one million users of its MMS service, Vodafone Live!.

In Italy, Hutchison has started its 3G net, which has been supplied by Ericsson. You can sign up for a mobile subscription and immediately get your 3G phone over the counter.

These are clear signs that 3G is being rolled out in an ever-increasing tempo. And this is not just because of an increasing demand to be able to send pictures and large amounts of data over the phone, but because the current networks also are beginning to reach the limits of their capacity to handle normal voice traffic.

Permit me to return to the need of people to communicate with each other. People today wonder why it is so important to communicate with pictures. People say to me, "I don't need to send pictures with my phone."

Remember how we reasoned when TV came? Many questioned if it was necessary to have moving pictures because we already had sound from the radio and pictures in the newspapers.

And what did the skeptics say when we presented the mobile phone? Do people really have a need for a phone in their pocket or purse so that they can always be reached?

Do you know what they estimated the market to be when Lars Magnus Ericsson started his telephone manufacturing business in Stockholm at the end of the 1800's? Well, they predicted that the total demand for the whole of Stockholm was some ten pairs of telephones. So, I am not surprised when I hear that people don't need to send pictures with a phone. I am convinced that time will show that our judgment has been correct.

Let me give you some examples of how our new technology can be used.

Here you see a number of pictures and a simple video such as a news broadcaster. These have been sent with 2.5G or what we call GPRS.

3G is required if we want to see precise moving pictures. It can be everything from following the puck in a fast-moving hockey match to enjoying a music video with dancers in the background. With 3G we can send moving pictures on our mobile phones.

We can then share each other's moments, instantaneously. And not a half year later when we remember to take the film out of the camera and have it developed. Or several weeks after returning from vacation when we remember to mail the postcards.

But it isn't just a matter of being able to share personal experiences and happenings in real time. It also is about important communication solutions for the business community and within health care services.

In Denmark there is an on-going trial to nurse and monitor patients with arrhythmic heart problems in the home. This is possible thanks to a GPRS transmitter that sends the patients' EKGs to the hospital, where they can continuously be monitored. It is anticipated that this monitoring solution, the development of which is being driven by Ericsson, will be placed in service at Aalborg Hospital at the end of 2003.

Our vision, however, is not to steadily be developing ever more advanced technology. Rather, we are driven by the vision that people should be able to communicate with each other where and when they want to do so. Today there is a total of 1,1 billion mobile phone subscriptions in the world. 51 million of these subscriptions were added in just the last quarter of 2002, alone. And the pace is not slowing down.

We estimate that within three years there will be 1,5 billion mobile phone subscribers in the world. That is a very good rate of growth. In spite of these impressive figures, the fact is that only 18 of 100 people in the world have a mobile phone subscription. In other words, 82 out of every 100 persons do not have a mobile phone subscription. There is an enormous potential. And Ericsson has a winning strategy.

Our strategy has not changed during these latest harsh years. It would be naive to believe that changing our strategy would result in changing the market conditions. The plug has been pulled on the market and in a turbulent market it is more important than ever to know your course and stay on it. On the other hand, we must be flexible and fast to adapt to market conditions.

Ericsson's strategy is to offer its customers complete solutions, so-called end-to-end solutions. We offer everything from network equipment to services and network management and we offer phones through our joint venture with Sony. And we have one of the industry's absolutely strongest patent portfolios.

- The ten largest operators in the world are our customers and, together, they, in turn, account for about 50 per cent of the world's mobile subscribers.
- We will continue to hold our leadership in technology and stay in the forefront of research and development.
- We will defend and strengthen our market position. But the challenge is to be profitable again and to earn money on our technology leadership.

Ladies and gentlemen, this is the last shareholder meeting for me in my role as President and CEO of Ericsson. I have been in the company almost 19 years and been President and CEO these latest dramatic and tumultuous years in our company's history. These 19 years have in many ways been fantastic. I have gotten to know many people; I have been able to see many parts of the world, and been able to learn about other cultures. But what I value the most is having been able to participate in the transition from fixed to mobile telephony.

During my years in Ericsson I also have been able to participate in laying the foundation for a paradigm shift within telecommunications. We soon will be leaving the stage where we can only talk and send short text

messages over the mobile network. We are entering into the next generation of mobile communication where we can send voice, data, and moving pictures over the mobile network. The ways in which we use the mobile phone will change radically and it will change our business.

Carl-Henric, I want to extend my warmest best wishes to you in your new role as President and CEO of Ericsson. I will remain in the company until the end of the year and will support Carl-Henric as needed. I will however never leave this business completely. I will continue to follow Ericsson and developments in this industry. Telecommunications is namely the most exciting branch there is and Ericsson is one of the world's finest companies.

Thank you.