ERICSSON

March 27, 2002

President and CEO Kurt Hellström's speech at the Annual General Meeting March 27, 2002

Shareholders, Ladies and Gentlemen.

The year 2001 will go down in history as the year when the telecom industry was hit by its deepest crisis ever. An economic downturn such as this compels Ericsson to make major changes and adaptations. This has been a painful process for our employees and for those who have been forced to leave the company, and for you, our shareholders, who also have felt the effects of the crisis.

In brief, the past year can be described as follows:

- We reported a record loss of SEK 30 billion
- We had an extraordinarily large negative cash flow of SEK 17 billion during the first quarter
- We reacted rapidly to the downturn in the economy and implemented an extensive Efficiency Program - a program that we executed as, if not even faster, than planned.
- Last but not least, we succeeded in strengthening our market share in a sharply declining market

At this point permit me to say that we still are unable to foresee the long-awaited turnaround. Nevertheless, there are several reasons to look to the future with confidence – I would like to say, even with optimism.

Ericsson is today a company well equipped for the turnaround, when it comes.

We must not forget that, during the past year, Ericsson has had the help of its employees in implementing our undertaking – the extensive change that we understood was necessary a year ago to ensure that we would remain a competitive and independent company. And we are continuing on this track.

We are working on costs and efficiency every day, so that when the turnaround comes we will be able to retain and strengthen our leading position in the area of mobile infrastructure. The change process and the pursuit of savings will never come to an end. They will be a part of our daily operations for as long as we are active in a competitive market.

Most of you present here today have followed our activities through the reports in the media. Ericsson is discussed in one-way or another every day in the Swedish media. We are a matter of importance for Sweden despite the fact that only 3 percent of our sales are attributable to our domestic market. We have 37,700 employees in Sweden. Our sales from here, of slightly more than SEK 120 billion, accounted in 2001 for more than 15 percent of this country's total exports.

The Swedish media's interest in Ericsson is both relevant and understandable. However, permit me to take this opportunity to also describe our development from a global perspective of the industry. In spite of our importance for Sweden, our competitors are outside of Sweden.

The entire industry is reporting a loss, with one well-known exception, and share prices have fallen by 25 to 75 percent. The Ericsson share price is maintaining a middle position in this context. The developments in the stock market during the past year remind us that it is a market for the allocation of risk capital. An investment to generate future returns also involves a risk for you as shareholders.

We must also remember that over a longer period of time the value growth in the Ericsson share was a subject for rejoicing. And our operations are long-term in nature. Our major development projects are conducted on a 10-year basis and we should not forget that our customers – the telecom operators – assume a very long-term perspective in their investments. In brief, infrastructure, and telecom in particular, has development and investment cycles that do not always function at the same pace as so-called quarterly capitalism.

The status of the market, the weak level of demand, the canceled and delayed investments require rapid adaptation measures by our competitors and us. For our industry – the telecom suppliers – it has meant a reduction in the number of employees by a total of 500,000. An unbelievably high figure. At the same time, consolidation among our customers has continued, with mergers and eliminations, primarily involving new players. In the USA alone, 60 companies in the operator sector have been registered in accordance with Chapter 11, which is equivalent to bankruptcy.

At Ericsson, between March 2001, when we initiated savings measures and year-end, the number of employees declined by 22,000. More than half of this reduction was attributable to divestments and outsourcing. Nevertheless, 10,000 employees had to leave us. In Sweden, notice was served to 3,000 employees, while 1,000 left as a result of natural attrition.

The frustration that often results from having to leave a job, or seeing colleagues made redundant must never be taken lightly. At the same time, there are always justified fears that a company's sustainability will be damaged during a period of rapid adjustments. I will return to how we have handled this difficult balance. However, I want to once again emphasize that our measures are being executed against the background of major changes in our industry and in the world around us.

The dramatic events of 2001 were given intensive coverage in the media. What are the stories behind these headlines? It is not my intention to review news articles, rather let me briefly outline our position in relation to some of the main issues covered.

In the case of personnel reductions and lay-offs in Sweden, as I said, notice was served to 4,000 employees during 2001. Of these, 3,000 were laid off in the end and 1,000 left Ericsson through natural attrition. The lay-offs were based on criteria such as length of employment and the importance of retaining appropriate expertise in the positions that remain within the company. They were accomplished in consultation with the union and we based our actions on the Employment Protection and Labour (Codetermination in the Workplace) Acts.

We have offered redundancy payments, extended periods of notice and individual support in securing new long-term employment. We are cooperating with various staffing companies and the Swedish Employment Security Council. In Stockholm, you are likely to have heard about one of the adjustment programs called Future Forum. I am aware that a relatively small number of people have been dissatisfied. I personally have been in contact with some of them and others are well known in the press. My colleagues have met them and have tried to find solutions.

In implementing such measures as these, it is important to ensure that operations are not damaged and that affected individuals are treated as fairly as possible. This work takes time and it is unavoidable that some people become anxious and frustrated before information can be provided. But one must have respect for the fact that this is a delicate task that must be conducted as correctly as possible.

Today, we know that the majority of participants in the adjustment programs are satisfied.

Another subject that is often discussed in the media is the payment of variable salary, or bonus, as it is popularly known. And in recent weeks, interest has focused on remuneration and pensions paid to company executives. However, a large number of misconceptions or errors have circulated in the media, and I would now like to explain the facts without becoming embroiled in pension terminology. Firstly, Ericsson's Board of Directors has appointed a committee with responsibility for remuneration and benefits. My salary is decided by the Board.

In the case of executives' pensions, we have applied a premium plan for the past three years. This means that the company pays a premium consisting of 25-30 percent of the pension-qualifying salary per year. The expense to the company is thereby predictable. The outcome for the individual depends on how the money is managed and it is the individual who takes the risk and not the company.

The premium plan that I have described is now standard practice among Swedish companies and normally generates about 50 percent of the pension-qualifying salary. In 2001, the total costs for these pensions amounted to SEK 9 million for Ericsson. This applies to executives born after 1944. For some persons who are older, including myself, the system has a different structure. However, in this case the expenses are also predictable and there is a ceiling for the size of the pensions. This information can also be found in our Annual Report.

Let us now address the occasionally dizzying debate surrounding bonuses and the terms on which this variable salary component in 2001 was based.

For many years, we have had a salary system for executives and key employees that has involved a variable salary component linked to the fulfillment of certain goals. This system applies to 3,000 persons worldwide. It is a much-appreciated system for setting salary as well as direction. Other programs, such as bonus programs offered to 18,000 employees in Sweden in 2001, complement the variable salary system.

In 2001, against the background of the strained financial situation, I required an instrument to encourage the entire organization to turn around the negative cash flow. It really was a matter of the company's long-term independence and survival. Accordingly, the bonus conditions were changed to make positive cash flow the prerequisite for any payment of the variable salary portion.

The significant and gratifying aspect is that we succeeded in achieving a positive cash flow. The hard work and persistent efforts of thousands of workers resulted in this achievement. This positive outcome led to payment of a limited amount of the variable salary. The employees had reached our goal.

The variable part of salaries paid out to managers and key employees during 2001 amounted to approximately one hundred million kronor. This corresponded to considerably less than 1 percent of our total salary costs and can, for example, be compared with the share dividend in 2001, which totaled SEK 4 billion. This year, we plan to extend these variable salary systems to include all employees in Sweden, since it is a model in which we believe.

The overriding thought is that committed employees should be aware of when the company is performing well, but also feel the effects of difficult times.

To eliminate any misunderstandings, I now want to underline that a number of measures were implemented to strengthen cash flow. The aim was to turn around the trend and not to manipulate the payment of bonuses, in case any such suspicion existed.

By now, our earnings trend is well known and I will not devote any more time to that here and now. Our cash flow was redirected through a number of measures. Note that the effects have been achieved through work on accounts receivable, inventory and other working capital. Solely by reducing the time for outstanding receivables by 14 days, it was possible to strengthen the cash flow by SEK 9 billion.

What significant business events are concealed behind these figures?

During the year, we strengthened our position as the leader in mobile infrastructure. One source of satisfaction is that we actually increased our GSM sales by 9 percent in this weak market situation.

Another source of satisfaction is the trend in the USA, where leading mobile phone operators, such as AT&T and Cingular have now selected the GSM track to 3G and where we have had substantial market success.

During the year, we shipped 3G equipment for commercial networks throughout the world. Coverage is being extended, which is the first step towards the mass market that can become established during 2003. Third-generation networks will be needed to meet the operators' needs for new network capacity. And this is capacity to handle voice traffic, which we call standard phone calls, and multimedia communications. I have no doubts about this. It was not lack of confidence in technology that hit our industry in 2001, but a recession.

One of Ericsson's strengths is that we have operated in this industry for decades and have built strong customer relations. The world's ten largest operators serve 52 percent of the world's mobile subscribers and we are a supplier to all of them.

In the modern telecom world, standardization efforts are the key factor. It is crucial that leading customers and suppliers can agree on world standards to create a mass market and facilitate global communications. Ericsson has the world's largest portfolio of patents for second- and third-generation mobile telephony.

Ericsson's work has led to us being responsible for 30 per cent of the standardization activities, which in turn are based on our R&D work. There is an obvious connection between leadership in the standardization of a new technology and large market shares. It is not only in the case of 3G that this can be seen. We believe in our strategy – it is tried and proven.

Let us now move on to an important step taken during the past year – the formation of the joint venture company, Sony Ericsson.

Third-generation mobile telephony will create an entirely new playing field for mobile telephone manufacturers. New skills will be required and I am not only referring to services. It is likely that we will see many new alliances and forms of cooperation emerge during the next few years.

There will be demand for moving images, video, the highest quality of audio and image resolution, to name but a few areas. For this, Sony's knowledge of audio and video, as well as its experience of the consumer market, will create a very interesting combination with Ericsson. We are contributing radio expertise, long experience of relations with operators and the ability to integrate infrastructure and phones. It is vital that the entire chain functions – otherwise there will be no volume market.

I have a feeling that few people have understood the power that lies in this Sony-Ericsson combination. The goal is to have a leading position within five years and generate a profit this year. Nobody has failed to note the market success of the T68. And this is only the start.

We foresee that the mobile telephony market will undergo a change similar to the one seen in the personal computer industry. A number of companies will manufacture consumer products, but only a few specialists will develop and sell the core technology. Our strategy for the future mobile telephony market, with the exception of Sony Ericsson, means that we will position ourselves as a supplier of core technology. A number of transactions have already been announced by our company, Ericsson Mobile Platforms, in Lund.

In saying this, I want to make it clear that we have not departed from the mobile telephony market. Ericsson's overall strategy is to be able to supply the entire chain – from infrastructure to telephones, or whatever we will call them in the future.

Now and then we hear voices that are skeptical about 3G. Do we need it? Who wants it? Voice transmission and a bit of SMS is sufficient.

We are faced not only by a technological leap from the second- to third-generation of mobile telephony, but a paradigm shift, as it is usually referred to in the cultural pages of the newspapers. We are on the threshold of a more basic change in our way of thinking and the way in which we relate to one another. Such shifts are difficult to distinguish when they occur, but are all the more distinct afterwards.

We can discern several of these during Ericsson's 126-year history. In our first 100 years, we worked exclusively with voice communication over the telephone network – conventional telephony. Nearly 30 years ago, the next major shift occurred, when, with the help of first- and second-generation mobile technology, we began to be able to reach one another regardless of location.

The next phase is now starting, in which we can suddenly send and receive large amounts of information in real time. This is the Mobile Internet and it will change our way of communicating and the way we relate to one another.

History shows that new technology is always met by skepticism. It is difficult to imagine in advance how our need to talk and share our experiences can be changed through new technology. Who could have envisaged today's dependency on cars when the first Model-T Fords rolled out of the plant in 1908?

In 1878, LM Ericsson sold 22 pairs of phones in Stockholm. They were sold in pairs because it was envisioned that communication would take place between two predetermined parties. It was assessed that the market potential for phones in Stockholm at the time was a few hundred users. In 1987, we launched the Hotline mobile phone. The estimated global market potential was a few hundred thousand users. Today the number of mobile phone subscribers tops one billion.

Who would have guessed two years ago that in 2002 a billion SMS messages per day would be sent? I could continue the list that demonstrates how seldom the correct assessment has been made when it comes to technical breakthroughs.

The convincing aspect of the new technology is that high transmission speeds will reduce complications. Simple mobile transmission of voice and moving images will be possible. When a ten-year-old scores a goal during a soccer match, it will only require two or three clicks on a mobile phone to send this momentous event to a family member who is not present. It may sound trivial, but we must not underestimate the human need to share experiences. It might involve advanced information for negotiations or a crucial goal in a local soccer match.

Until now, we have been accustomed to the transmission of voice and a little text via mobile phones. Today, it is already possible to send MMS with the help of a small camera on the mobile phone. With slightly higher transmission rates we can send and view TV news broadcasts directly in the mobile phone. The speed in today's GPRS networks is almost sufficient for the relatively low bandwidth required to view a stationary news reporter. If we use even higher bit rates, we can send and watch music videos. Now that is really 3G!

To view ice hockey and focus on the puck requires high capacity. This is 3G – and it is within reach. This kind of service can be offered at costs that are not significantly higher than those for today's SMS. A more concrete way of explaining my optimism for the long term is:

The degree of penetration for mobile phones globally shows the Nordic countries are leading developments and that there is strong progress in the USA. Overall, however, there is still fantastic potential for better communications. Those who currently have a mobile phone actually only constitute 15 percent of the world's population, and I am convinced that we will see this figure continue to rapidly grow for many years to come.

My long-term optimism has been reinforced by the fulfillment of our forecast for the growth in the number of mobile subscribers in 2001, despite the recession. We will shortly reach one billion. We will also come to a point at which networks must be built out, operators must invest and we must supply, in order to satisfy the consumers' demands for service and functioning telephone traffic.

To summarize:
- We are in a serious economic recession. Our industry and our customers have been shaken.
- We cannot yet foresee a turnaround.
- For Ericsson, the arduous task of adapting to the situation continues. At the same time, we are safeguarding our leading position and achieving new market successes.
- In a long-term perspective, I have – as I hope has been apparent – strong optimism for Ericsson and for the 3G market.

Thank you.