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Forward-looking Statements

This Annual Report includes “forward-looking statements” about future market conditions, operations and results.

Words such as “believe”, “expect”, “anticipate”, “intend”, “may”, “plan” and similar expressions are intended to identify these statements. Forward-looking statements appear in a number of places including, without limitation, “Letter from the President and Chief Executive Officer”, “Board of Directors’ Report”, “Risk Factors” and “Information on the Company”, and include statements regarding:

- our strategies, goals and growth prospects
- the growth of the mobile communications market
- our liquidity, capital resources and capital expenditures, and our credit ratings
- the growth in demand for our systems and services
- our joint venture activities
- the economic outlook and industry trends
- developments of our markets and competition
- the impact of regulatory initiatives
- our research and development expenditures
- our plans to launch new products, systems and services, and
- expected cost savings from our various cost reduction measures.

Although we believe that the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance that these expectations will materialize. Because these statements involve assumptions and estimates that are subject to risks and uncertainties, results could differ materially from those set out in the forward-looking statements, including as a result of:

- conditions in the telecommunications industry and general economic conditions in the markets in which we operate, and our ability to adapt to rapid changes in market conditions
- political, economic and regulatory developments in the markets in which we operate, including allegations of health risks from electromagnetic fields and increasing cost of licenses to use radio frequencies
- management’s ability to develop and execute a successful strategy, including partnerships, acquisitions, divestitures and ability to manage growth and decline and to execute cost-reduction efforts
- market risks, including foreign exchange rate changes, interest rate changes, credit risks in relation to counterparties and risks of confiscation of assets in foreign countries
- the impact of changes in product demand, pricing and competition, including erosion of sales prices, increased competition from existing or new competitors or new technology and the risk that new systems and services may fail to be accepted at the rates or levels we anticipate
- our customer structure, where the number of customers may be reduced due to consolidation in the industry, and the negative business consequences of a loss of, or significant decline in, our business with such a customer
- the impact of our credit rating
- defaults by our customers under significant customer financing arrangements
- product development risks, including our ability to adopt new technologies and to develop commercially viable systems and services, our ability to acquire licenses to necessary technology, our ability to protect our intellectual property rights through patents and trademarks and to defend them against infringement, and results of patent litigation
- supply constraints, including component or production capacity shortages, suppliers’ abilities to deliver products on time with good quality, and risks related to concentration of purchases from a single vendor or proprietary or outsourced production in a single facility, and
- our ability to recruit and retain highly qualified management and other employees.

Certain of these factors are discussed in more detail elsewhere in this Annual Report, including under “Letter from the president and Chief Executive Officer”, “Board of Directors’ Report”, “Risk Factors” and “Information on the Company”. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or stock exchange regulation.

CEO LETTER

Letter from the President and Chief Executive Officer

Dear fellow shareholder,

Lots of exciting things start with a phone call. Such was the case when I received a call in January 2003, inviting me to become CEO of Ericsson.

This is an extraordinary company. I've always thought so, and I believe it even more now. In my first year as CEO I've found that Ericsson has exceptionally good people – dedicated, well-educated and thoroughly responsible people – and their optimism has impressed me enormously.

I can tell you that the pioneering spirit that helped to lead the world's telecommunications revolution is still very much alive today.

Of course, times have been tough over the past few years and market conditions remain tight. We've had to adapt accordingly, becoming much more efficient, flexible and more responsive to our customers' needs. So when I joined, in April, one of my first actions was to build a management team capable of guiding Ericsson through this period of transition and taking us to the next level.

Last year's annual report stated that 2002 was a year for clarity, decisiveness and action. That was true then, it was true in 2003, and it will remain true in the year ahead. We know where we want to take the company, and we are acting decisively to improve our efficiency, reduce our costs, grow our revenues and increase our margins. These are our priorities.

In this letter I will describe the actions we have taken, and the opportunities we see ahead in a market that has potential for growth.

In particular, I'll discuss three fundamentally important points about Ericsson today:

- We kept our promise to return to profit
- We have a clear strategy for continued margin improvement and sustainable growth
- We are strengthening our leadership position

WE KEPT OUR PROMISE TO RETURN TO PROFIT

Ericsson's cost reduction programs were having positive effects before I arrived. This challenging work was initiated by my predecessor, Kurt Hellström, and led by Deputy CEO Per-Arne Sandström. In April, we expanded and accelerated these programs to further reduce cost of sales and operating expenses, creating a profitable cost basis, going forward.

Our commitment was rewarded when we returned to profit, before restructuring charges, ahead of plan in the third quarter of 2003.

We ended the year achieving one of the strongest fourth quarter performances in the industry.

We've achieved this thanks to the exceptional motivation and loyalty of all of our employees. They understood that far reaching change was necessary, and responded with incredible energy. The management team and I are truly impressed by their dedication. We have reduced our workforce from 107,000 to 51,600 employees in just three years. Of course, this meant that many talented people had to leave us, but firm measures were required and our decisive actions mean that Ericsson is now well positioned for the future.

Putting more of our time, energy and money behind our most valuable products and services has paid off. We have concentrated our research and development activities from 85 development centers to 25, and reduced the number of technology platforms we use. These measures, together with effective management of working capital, have created a dramatic improvement in cash flow.

We're now well funded, with a net cash position of SEK 27 billion. Our focus on reducing capital employed has been far more successful than first anticipated. As a result, we have conserved most of the proceeds from our 2002 stock issue, giving us a much greater financial flexibility. I believe this is an important strength, given the challenges and opportunities ahead.

While restructuring and cutting back, we also managed to reach our operational goals. We have remained on schedule with the development and rollout of new products and services. We have also strengthened our leading position in mobile systems and successfully defended our market shares. We continue to hold the largest market share in both GSM (2G) and WCDMA (3G), and in certain strategically important areas of wireline technology.

I'm pleased to report that the Sony Ericsson joint venture also transformed loss into profit in 2003. Their increased focus on the GSM and Japanese markets improved sales and streamlined costs. They attained one of the highest average sales prices in the industry, demonstrating the attractiveness of their advanced mobile phones.

Sony Ericsson's success is good news for us as co-owner. Not only has the company through hard work and cost adjustments returned to profit. Sony Ericsson has also improved their product portfolio, and are aiming for a leading position in high end products. Together we are creating unique customer experiences by combining telecom technology, attractive handsets and exciting content.

With telecommunication services becoming more sophisticated, and systems more technically complex, there is a growing interdependency between networks, applications, services and handsets. Together with Sony Ericsson and through our licensing of handset technology (Ericsson Mobile Platforms), we are involved in all four areas. This means we can assure operators that their entire network will work effectively, all the way from the consumer to the back office.

Ericsson has been on an arduous journey over the past few years and, as promised, we have done what was needed to return to profit.

However, we are determined to create an even more competitive company by focusing on operational excellence with simplicity and clarity in all that we do.

WE HAVE A CLEAR STRATEGY FOR CONTINUED MARGIN IMPROVEMENT AND SUSTAINABLE GROWTH

Our objective is to generate sustainable growth and provide competitive returns to our investors regardless of day-to-day market developments.

Our cost-cutting enabled us to return to profit in 2003, but returning to profit is simply not enough. To ensure sustained profitability and growth we set the goal high - to become world leaders in efficiency and the way we operate as a company.

For example, as market leader in mobile systems we should be generating more benefits from our economies of scale. We are a supplier to 18 of the world's 20 largest mobile operators. These operators provide services to some 65 percent of all mobile subscribers. We're developing new ways to benefit from our scale by separating standardized, high-volume products from more complex, customized products. This approach will produce cost-savings across the entire sourcing, manufacturing and installation chain.

We're also working to get more from our common product platforms.

For example, our GSM/WCDMA and CDMA2000 products were once entirely different from one another, but today they use the same software and hardware in many areas of the core network and service layer. We're also developing access products, such as radio base stations, capable of working with both CDMA2000 and WCDMA, the main 3G technologies. In essence, the main difference between a CDMA2000 and a WCDMA radio base station will be the software inside.

I've been greatly impressed with the technical innovations achieved by Ericsson over the years. However, yesterday's successes mean little if we're not able to offer the best solutions today, and tomorrow. R&D is an extremely important part of our competitive advantage. About one-third of our employees are engaged in this area, making it one of the largest programs in the industry. We are now placing greater emphasis on the commercialization of our innovations, and we have established a more disciplined, customer-driven approach to our investments in R&D.

Along with improvements in operations and technology, we've analyzed our sales processes and found ways to improve our performance. For example, our regional market structure has been replaced by a simpler approach, enabling us to close the gap between our sales and technology functions. We involve operators more in our R&D process, and that's helping us to respond faster and to prioritize what we offer.

Looking at our market, we can confirm that it has stabilized and we are starting to see signs of return to growth. Having said that, financial stability remains a priority for many operators. We expect that the operator emphasis on operational excellence is here to stay, as well as a strong focus on financial returns.

Market conditions have not been easy and a number of operators are grappling with the new services and business models made possible by 3G. It's imperative for operators, and for us as their business partner, to understand what consumers want, what they are willing to pay and how to adapt our business models accordingly. We must be as good at delivering what consumers need as we are at developing technology.

Going forward, we believe that telecommunications will continue to be a growth business. Only 20 percent or so of the world's population have a mobile phone, and every day, about 500,000 consumers sign up for mobile services.

I think it's too simplistic to talk in terms of one market, however. Operators in emerging markets make very different demands from those in developed markets.

To meet the needs of customers in emerging markets, we have launched the Ericsson Expander program, designed to lower the cost of introducing mobile communications. Industry predictions show that it is likely to reach the second billion mobile users within the 2008 time frame, as services become more affordable. With more people subscribing, and with existing subscribers making voice calls more often, solutions for both coverage and capacity will be important opportunities for us to address.

Of course, developed markets have higher mobile penetration, but mobile calls still represent less than 20 percent of total voice traffic in these markets. Clearly, there is enormous potential for mobile operators to win a larger share of voice traffic.

Mobile data services also represent a significant opportunity for operators. The growth potential in this area is remarkable. More than one billion text messages are sent every day, and sales of camera phones have surpassed those of traditional and digital cameras. In Japan and South Korea some operators are

CEO LETTER

already generating up to 20 percent of their revenue through data services such as text messages and pictures. This is a trend we expect to see repeated in other parts of the world as mobile multimedia services are introduced.

We see good prospects for growth within our markets. As operators feel more secure financially, we expect them to invest more in capacity and new services, in 2G as well as 3G.

Having said that, our objective is to ensure that we can prosper independent of short-term fluctuations on the market. Our efforts in terms of efficiency, flexibility and customer focus are moving us towards sustainable profitability and growth.

WE ARE STRENGTHENING OUR LEADERSHIP POSITION

We are thoroughly convinced that people will use mobile devices more and more for listening to music, taking pictures, and, for example, reading e-mails while riding the bus to work. We will surf the web, buy products, and get stock market reports, weather forecasts and news. We will check maps to find the closest pharmacy, or a good meeting place. Delivering all of these new types of services in a cost-efficient way demands increasingly sophisticated networks. This is where Ericsson's greatest competitive strengths come into play.

For example, Ericsson has proven expertise in every one of the dominant technology standards within both mobile and fixed telecommunications. This is one of our true competitive strengths, and one reason why the world's largest operators choose to work with us.

Indeed, since I joined the company I have been very impressed by the exceptionally long-term and very strong relationships we have with our customers. They trust us with critical areas of their operations, and look to us to guide them through the fast-changing and technically complicated telecommunications environment.

Today's solutions are dependent on many aspects of an operator's total business. Old systems must work with new, and with products from other suppliers. So, skills such as network planning, systems integration and solutions for network evolution are essential parts of what we provide. Such services also enable us to further strengthen our relationships with customers.

We are leading the introduction of layered architecture into mobile networks. This is all about building networks in a smarter way, and making things simpler for the operator. Our approach structures a network into independent functional areas of connectivity, control and services, and keeps the core elements within the network independent of one another. In this way, when the operator wants to introduce new services or equipment into one layer it is not necessary to re-engineer the entire network or completely replace the hardware. This gives the operator much greater flexibility than conventional networks, which are designed as a giant monolithic system, from top to bottom.

In the service layer, which functions like an open market place, we help operators to catch revenues from a whole range of data services. We're a world-leading supplier within service layer solutions. For example, more than 50 percent of MMS subscribers are using our solutions when sending and receiving multimedia messages. Our charging solutions enable more than 270 operators to charge for the services they deliver.

This position builds on our broad networking competence and range of solutions, including our integration skills and specialist products developed by us. We also support independent application developers and content providers through our Mobility World centers. We select valuable new innovations and transform them into working solutions for our customers.

Greater technical complexity is increasing demand for our Global Services expertise. We have provided services such as designing, building, integrating, optimizing and supporting networks for many years. This is becoming an even more valuable part of our business. We are already one of the largest suppliers of services to network operators, with more than one-quarter of our people working in this area. These experts are operating in 140 countries around the world and support networks that provide telecommunications for more than 500 million subscribers worldwide.

During 2003 we expanded our managed services business with eight new contracts, making us a market leader. Under these agreements, operators outsource all or some of their network operations to us, enabling them to reduce their operating expenses and devote greater time and resources to establishing new services and attracting more customers.

So, what about 3G? What role will the next generation of mobile technology play in our future? For me the business case is simple and powerful - 3G is more cost-efficient and faster than 2G. The need for more capacity at lower cost is evident, because operators must cope with traffic growth and be able to expand their markets.

It also enables operators to offer new forms of higher value multimedia services to subscribers. Ericsson works at the heart of the industry and we see that 3G is gaining momentum. Indeed, it now accounts for more than 15 percent of our mobile systems sales.

3G is a major step forward in technology, but it is not a revolution.

GSM (2G) and WCDMA (3G) both use the same core network, so that 2G applications can work seamlessly with WCDMA technology. Similarly, applications based on 3G versions of CDMA2000 can work with their cdmaOne forerunners. This means that operators can test the market with new services such as multimedia messaging without having to invest too much or too soon in their radio network.

GSM is still developing, and our leading position has been strengthened, not least by our contribution to the development of EDGE. As a 3G radio technology, EDGE complements WCDMA and allows operators to significantly enhance the data

speeds and capacity of their existing GSM networks with moderate investments.

I've been talking about the sophistication of today's services, technologies and networks. Of course, it's inevitable that the telecommunications environment of the future will be even more complex. There is a simple consumer-led reason for this. People are on the move more and more, yet we always need to communicate with one another. As consumers, we like to be connected in the best possible way, wherever we are. We don't want to worry about whether it's technically possible, or whether our connection is called 2G, 3G, wireless LAN, fixed wireless or whatever. So the natural evolution of telecommunications is towards one seamless network, where we can all reach whoever we need, in whatever way we prefer.

The technology may be sophisticated and complex, but ease of use by the consumer is essential for market success. Only services that are easy to understand and simple to apply will be accepted and used. This requires all of the various ways to connect to work together in a transparent way. Consumers must be able to reach and to be reached, any place, any time, quick and simple.

We're developing mobile networks that can handle the enormous range of traffic this demand generates. In addition to 3G and mobile networks, fixed line multiservice networks also have an important role to play in an increasingly integrated world. This creates attractive opportunities for companies like Ericsson that can combine telephony and mobility with IP/Ethernet technology to deliver powerful multiservice solutions.

One seamless global telecommunications service is a simple and wonderful idea. It is also a major technical challenge, and one that suits our strengths as a company.

Our comprehensive experience with all relevant technologies and our commitment to develop open standards and initiatives such as layered architecture, will enable us to be our customers' best business partner.

We can help them to thrive. And if our customers thrive, so will we.

I would like to end my letter by acknowledging how important the support of our shareholders has been in recent years. As I said earlier, conditions have been tough, but we're heading in the right direction.

I believe the efficient, robust and highly competitive Ericsson we are building confirms the faith you've shown in us. I hope you share my enthusiasm for our future.

Yours sincerely,

Carl-Henric Svanberg,
President and Chief Executive Officer