

## © Telecommunications and Information Highways

### Ericsson (LM Ericsson)

#### 1. SYNOPSIS

Ericsson supplies operators and service providers around the world with end-to-end solutions in mobile and broadband Internet. This includes solutions for all existing mobile systems, including future 3G mobile systems, as well as broadband multi-service networks and broadband access. The solutions include network infrastructure, access equipment and terminals, application enablers and global services to support both business and private communications. It is present in more than 140 countries. Details of the Australian operations are given. Due to the industry downturn, Ericsson is suffering financial difficulties. Company analysis was updated in January 2003.

#### 2. COMPANY INFORMATION

##### Exhibit 1 – Ericsson at a glance

CEO	Carl-Henric Svanberg
Established	1876
Revenue 2002	SEK 146 billion (€16 billion)
R&D 2001	15.8% of net sales.
Major export countries	United States, China, United Kingdom, Italy, Brazil, Sweden, Australia, Spain
Partnerships, joint ventures	Texas Instruments, Hewlett-Packard, Ascom, Bang & Olofsen, Marconi, Microsoft, Novell, Intel, IBM, SUN, CDP.
Headquarters	Stockholm, Sweden
No. of Employees Dec 2002	64,600

(Source: Paul Budde Communication, based on company data)

Ericsson specialises in the manufacture and supply of exchanges for fixed and mobile communications in public and private networks, and IT&T solutions. Ericsson has supplied GSM systems to 44 countries and is the largest supplier of telecommunication equipment (mobile and fixed network systems and related equipment such as terminals) in the world.

Ericsson implemented a new organisational structure in 1999, with the previous business areas being replaced by four business segments based on customer categories:

- Network operator and service providers;
- Consumer products;
- Enterprise solutions;
- Other operations – defence, and cables and components which remain as independent units.

The operations are divided into five market areas:

- Western Europe;
- Eastern and Central Europe, Middle East and Africa;
- North America;
- Asia Pacific;
- Latin America.

For further information on telecommunication activities in Sweden, see separate section: [Sweden](#)

#### 2.1 RESULTS FOR 2002

Revenue declined 31% to SEK146 billion (€16 billion). Due to a change in the method of accounting for subsidiaries, the reported revenue for the previous year was changed from SEK232 billion to SEK211 billion.

The operating loss was SEK12.5 billion (SEK 18.2 billion in 2001) and the net loss was SEK19.0 billion (SEK 21.3). The improved bottom line was due to continuing cost reductions. There was an uptrend in sales throughout the year, but it was felt that this was mainly due to seasonal factors. Nevertheless, the company reports that its results have stabilised.

**Table 1 – Revenue for years ending December – 1994-2002**

Year	(SEK billion)
1994	83
1995	99
1996	124
1997	168
1998	184
1999	215
2000	274
2001	232 (€25.1)
2002	146 (€16.0)*

(Source: Paul Budde Communication, based on company data)

\* note changed accounting methods.

**Table 2 – Revenue by segment – 2001**

Segment	Proportion	Annual change
Systems	81%	-4%
Phones	10%	-58%
Other	9%	-14%

(Source: Paul Budde Communication, based on company data)

**Table 3 – Revenue by region - 2001**

Region	Proportion	Annual change
Western Europe	31%	-29%
Rest of Europe, ME, Africa	15%	-5%
North America	14%	-11%
Latin America	15%	-22%
Asia Pacific	25%	+5%

## 2.2 COMPANY ANALYSIS – UPDATED JANUARY 2003

### 2.2.1 *Good and bad*

Ericsson failed to meet expectations in the preliminary annual report presented in January 2003. The good news was that the levels of orders coming into the firm were improving. Another positive development was the strategy to expand its systems business through increased sales of professional services.

### 2.2.2 *Astute to market developments*

Ericsson has successfully recognised slowly developing trends among telecom operators. It has refocussed on customers and have begun outsourcing network management to independent contractors. Ericsson's recognition of this saw its Global Services grow 29% last year and amounted to 17% of the total system sales of €14.3 billion. The sales growth stems from a total of 35 contracts around the world, including the networks of Brasil Telecom, 02 in the Netherlands (owned by the global operator mm02) and Wipro in India. This makes Ericsson the world's leading company within the sector, including network and business development consultancy.

### 2.2.3 Product vs services

Ericsson was a manufacturing producer in the 1990s, focussing exclusively on making telecoms systems and mobile phone handsets. This heritage is a key factor in its recent problems. Changing its strategy into managing systems and business consultancy is a positive move because of growth in this services sector, and entrenches Ericsson's strength in the telecoms systems market from production and management sides.

The strategic shift mirrors IBM's successful change in the 1980s from PC maker to consultancy, while maintaining its great PC, servers and software manufacturing business. Ericsson's experience in systems and handset manufacturing ensures a relatively stable revenue base. It also gives the company a good base from which to launch its management and consultancy services for the telecoms sector.

### 2.2.4 Year 2001 industry downturn

During Q1,2001, Ericsson made a net loss of US\$487 million, a major reversal from its profitable operations in 2000. The company also forecast continuing losses for the second quarter. With some warning of the coming downturn in the industry, Ericsson took some important restructuring decisions during early 2001.

In January 2001, Ericsson announced that it has changed its emphasis in mobile telephony, and would divest itself of its mobile phone manufacturing activities. It would now focus on R&D, development, design and sales and marketing. R&D will be concentrated in Lund and Kista (Sweden), Raleigh (US) and Basingstoke (UK).

To achieve this aim, Ericsson formed a strategic alliance with Flextronics, whereby Flextronics would take over all related Ericsson facilities in Brazil, Malaysia, Sweden (Linköping and Pilängen), UK (Carlton and Scunthorpe) and parts of the US plant in Lynchburg/Virginia, effective April 2001. The existing Joint Ventures in China were not affected.

In addition to the Flextronics agreement, Ericsson signed an agreement with the Taiwanese electronic manufacturer GVC, complementing its existing partnership with Arima. This cooperation includes outsourcing of product development and production.

In March 2001, further cost-cutting measures were announced. These were expected to reduce operating expenses by at least US\$1.9 billion annually, beginning in 2002. These savings were to be achieved by:

- a blanket recruitment freeze and 50% reduction of the number of consultants;
- reduction of staffing by 2,600. This had been increased to 22,000 (US\$3.5 billion saving) in June, as profitability continued to slide;

In May, Ericsson had commenced talks with Scandinavian banks SEB and Nordea on the possible sale of up to 50% of its non-essential property portfolio in Scandinavia and Europe in order to reduce debt. Ericsson's property portfolio is estimated to have a value of US\$2 billion. The company hoped to sell half of its European property portfolio (US\$300 million) to Servus, the property investment subsidiary of Nomura International.

In a move that is very different from the American experience, Ericsson successfully raised €2 billion and £250 million in a discounted bond sale. This issue was oversubscribed several times.

In June, Morgan Stanley downgraded its valuation of Ericsson, and forecast continuing profit decline for 2001 and 2002. At the same time, Lehmann estimated a loss of US\$ 570 million for the company for 2001, compared with previous estimates of US\$800 million positive.

Also in June, Ericsson decided to outsource its European information technology operations to Electronic Data Systems Corp, EDS.

During the restructure, Ericsson has stated that it does not intend to increase sales by discounting. It would rather sell fewer products at a profit. During the restructuring, it has lost its position of world's number three handset maker to Siemens, behind world leader Nokia and number two Motorola.

The situation during 2002 was even worse than in 2001. Sales for the first six months were down nearly 40% on the previous year, with the operating loss still standing at SEK 7.2 billion for the six months. Sales for the year end were 35% down on the previous year, with only minor signs of recovery. During this time its credit rating was further downgraded. In view of this result, Ericsson renewed its efforts to further reduce costs.

### 3. SONY ERICSSON

Sony Ericsson Mobile Communications was established in 2001 by Telefonaktiebolaget LM Ericsson and Sony Corporation to provide mobile communications products. It combines Ericsson's expertise in telecommunications and Sony's expertise in consumer electronics products.

Sony Ericsson specialises in mobile multimedia communications. It is based in London, and has 4,000 employees across the globe working on research, development, design, sales, marketing, distribution and support.

### 4. MAJOR PRODUCTS AND SERVICES

- **Mobile systems** - a range of 2G and 3G Mobile Systems, providing end to end system elements - infrastructure, terminals, applications and expertise.
- **Multi-service networks** - a broadband multi-service network infrastructure based on packet-switching and routing technologies, and designed for real-time services.
- **Enterprise** - helps to create new opportunities and enhance clients' market value.
- **Transmission and transport technologies** - end-to-end solutions with combined microwave and optical systems giving capacity anywhere at any time. Wireless Broadband Access (LMDS) is a multi-service access solution for high-speed IP applications and voice services.
- **Microelectronics** - microelectronic components for wireless applications, broadband communications, fixed access and communication via fiberoptics.
- **Network technologies** - network infrastructure that combine telecom, datacom and power technologies.
- **Microwave systems** - Ericsson Microwave Systems is Ericsson's company for radar sensors and information networks primarily acting on the defence market.

### 5. RESEARCH & DEVELOPMENT

Approximately 23,000 employees in 23 research establishments around the world are active in company research and development programs.

The company's research is focused on products and systems that are a part of Ericsson's core business. Ericsson's strategy in a number of important areas is to form joint ventures with other leading companies. In the field of special components, Ericsson works in a far-reaching cooperative venture with Texas Instruments. Comparable joint venture programs are being conducted with Hewlett Packard with respect to the development of operating support systems. Ascom, Bang & Olufsen, Marconi, Microsoft, Novell, Intel and IBM are examples of companies with which Ericsson is cooperating in specific areas of technology.

The two main Research and Development laboratories are:

- The Computer Science Laboratory (CSLab) acts as a link between advanced university research and application projects in Ericsson's design departments. CSLab's aim is to make Ericsson software activities as efficient as possible through the purposeful exploitation of modern technology.

- The Ericsson Media lab in Stockholm is a part of Ericsson's organisation of distributed laboratories for applied research. They specialise in interactive multimedia applications for the office and home.

In 2001, the major areas of research were:

- 3G Mobile Telephony - combining high-speed access with Internet Protocol (IP)-based services.
- General Packet Radio Service (GPRS) - enables high-speed (115 kilobit per second) wireless Internet and data communications.
- Enhanced Data for Global Evolution (EDGE) - technology that gives GSM and TDMA networks the capacity to handle 3G mobile telephony services. EDGE enables the transmission of large amounts of data at 384 kilobits per second.
- Wireless Application Protocol (WAP) - makes it possible to access Internet from a mobile phone or other wireless device.
- Bluetooth wireless technology - makes it possible to transmit signals over short distances between phones, computers and other devices.
- Voice Over Internet Protocol (VoIP) - technology for transmitting ordinary telephone calls over the Internet using packet-linked routes.

## 6. AUSTRALIAN ACTIVITIES

Ericsson Australia was established in 1962. It manufactures and distributes telephone, radio, television and other communications equipment. It also produces associated electronic parts and equipment. The company is the main supplier of Vodafone GSM system. Mobile switching and mobile phones represent sales of more than AU\$400 million annually. Ericsson estimates that up to 80% of all Australian calls are switched using its equipment.

In 2002, Ericsson closed its R&D operations in Australia.

### 6.1 PRODUCTS AND SERVICES IN AUSTRALIA

#### 6.1.1 Networks

- **3G** - third-generation telecommunication - broadband, multimedia, data telecom networks.
- **Multi-Service Networks** - robust, broadband multi-service network infrastructure based on packet-switching and routing technologies, and designed for real-time services.
- **Mobile Systems** - 2G and 3G Mobile Systems, providing end-to-end system elements.

#### 6.1.2 Solutions

- **Mobility World** - a global program bringing together leading innovators to accelerate the growth of the Mobile Internet.
- **Transmission and Transport** - solutions such as transmission networks, optical networking and wireless broadband access.

#### 6.1.3 Services

- **Global Services** - provision of consultancy, education, optimisation, management and integration solutions to meet client needs.
- **Educational Services** – services to maximise customer profitability by globally delivering innovative and interactive Competence Development Solutions.

### 6.1.4 Defence Systems

Ericsson Defence Systems provides total solutions for advanced defence electronics in the areas of sensors, communications and electronic warfare.

## 6.2 EXPORT FROM AUSTRALIA

Exports contributed approximately 20% to Ericsson's revenue in 2001. Export products include network and telecommunications equipment, cellular mobile phones and network management. Ericsson Australia's export efforts in the South East Asian and Pacific regions have been successful. One of the factors influencing this success is the Ericsson/Telstra Strategic Alliance.

Ericsson Australia exports to over 27 countries including:

- New Zealand;
- Sri Lanka - Ericsson Australia is supplying further equipment for the jointly owned Telstra and Sri Lankan Telecom AMPS operator Mobitel;
- The United Kingdom;
- Vietnam;
- Philippines;
- Fiji;
- Pacific Islands - Ericsson Australia will also supply the AMPS infrastructure for Western Samoa's first national cellular network. The network is to be built and operated by Telecom New Zealand and Telecom Samoa.
- People's Republic of China.

## 7. OTHER DEVELOPMENTS

### 7.1 YEAR 2002

#### April

- Ericsson sold its 16.4% holdings in imGO, a venture capital company based in Hong Kong.
- Ericsson completed the Proof of Concept trial with Telstra for Ericsson's ENGINE multi-service network solution.

#### October

- Telecom New Zealand extended the length of its contract with Ericsson to manage its TDMA network to 2007.
- Ericsson announced plans to shut down its R&D activities in Australia.

#### November

- Brasil Telecom outsourced its fixed network operations to Ericsson in the region of Rio Grande do Sul (southern Brazil) for a period of three years.

For information relating to:

- worldwide activities in the telecommunications industry, see [Global Overviews](#).
- the global telecommunications industry, see [Technologies, Terminology and Glossary](#).
- telecommunication companies in Europe, see [Companies in Europe](#).
- activities in Europe, see [Europe](#).
- equipment supply companies, see [Equipment suppliers](#).

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