ERICSSON LM TELEPHONE CO
Form 6-K
July 21, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

July 21, 2004

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant s name into English)

16483 Stockholm, Sweden

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes ¨ No x

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Announcement of LM Ericsson Telephone company, dated July 21, 2004, regarding Second Quarter Report 2004.

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Second quarter report 2004

July 21, 2004

Ericsson reports solid performance

Second quarter summary

Net sales SEK 32.6 (27.6) b., six months SEK 60.7 (53.5) b.

Gross margin 47.8% (35.1%)[1)]

Operating margin 22.8% (0.8%)[2)], excluding positive non-recurring effect of SEK 0.3 b.

Income after financial items SEK 7.8 (0.2) b.[2)]

Net income SEK 5.3 (-2.7) b., six months SEK 8.3 (-7.0) b.

Earnings per share SEK 0.33 (-0.17), six months SEK 0.52 (-0.44)

	Second quarter			First quarter	
SEK b.	**2004**	**2003**	**Change**	**2004**	**Change**
Orders booked, net	33.1	28.3	17%	33.0	0%
Net sales	32.6	27.6	18%	28.1	16%
Gross margin (%)	47.8%	35.1%[1)]		44.7%	
Operating income	7.7[3)]	0.2[2)]		4.5	
Income after financial items	7.8[3)]	0.2[2)]		4.3	
Net income	5.3	-2.7		3.0	
Earnings per share	0.33	-0.17		0.19	
Cash flow before financing activities	4.3	5.1		2.9	

1) *Adjusted for restructuring charges in the second quarter 2003 SEK 1.1 b.*
2) *Adjusted for restructuring charges in the second quarter 2003, net, SEK 3.8 b.*
3) *Includes positive non-recurring effect of SEK 0.3 b.*

Orders booked in the quarter grew by 17% year-over-year and were flat sequentially at SEK 33.1 (28.3) b. Net sales in the quarter grew by 18% year-over-year to SEK 32.6 (27.6) b. and 16% sequentially as a result of ongoing 3G rollouts, continued GSM capacity expansions as well as upgrades to EDGE. Currency exchange effects negatively impacted sales by 6% year-over-year.

Gross margin increased sequentially to 47.8% (35.1%) due to continued focus on operational excellence, higher volumes and a favorable product mix. The announced operating expense reduction target of an annualized run rate of SEK 33 b., was achieved at the end of this quarter, one quarter earlier than originally anticipated.

Income after financial items was SEK 7.8 (0.2) b. compared to SEK 4.3 b. in the first quarter, including a non-recurring positive effect of SEK 0.3 b. Net currency exchange effects, compared to rates one year ago, have had a negative impact of SEK -0.7 b. on operating income in the quarter.

Cash flow before financing was SEK 4.3 (5.1) b. Continued focus on workflow improvements has kept working capital close to flat despite the sales growth. The financial position improved consequently, with a net of financial assets and liabilities, i.e. net cash, of SEK 31.7 b.

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CEO COMMENTS

Confidence has returned to the industry. 3G rollouts, GSM capacity expansions as well as EDGE upgrades creates momentum for us, says Carl-Henric Svanberg, president and CEO of Ericsson. With new and expansion contracts across all regions we are capitalizing on our technology leadership, our large installed base as well as our particularly strong position in high growth markets. Our competitive services offering is gaining operator recognition with eight new contracts for managed services and hosting.

We show healthy development in all technologies. Our organization s commitment to drive operational excellence creates strong results. Higher than anticipated sales drove an encouraging bottom line performance and it is our continued ambition to deliver best in class margins. We have now reached a point where targeted investments in R&D and customer support should further strengthen our leading position and ability to drive profitable growth.

The pace of 3G network rollout is accelerated by the growing number of handsets available. Experience from the introductory phase of WCDMA/CDMA2000 puts richer consumer offerings and enhanced system capacity in focus. We will leverage our 3G leadership by the introduction of Ericsson WCDMA Evolved, with HSDPA capabilities. This is a logical evolutionary step that will offer true mobile broadband with speeds of up to 14 Mbit/s.

It is clear that consumers want to use the same services irrespective of whether they are accessing them from a fixed or mobile network. Our end-to-end solutions, based on converged services and networks, support our customers in meeting these consumer demands. Our long experience in wireline, our leading wireless technology and our IP knowledge, are essential components in driving the convergence necessary to achieve ease-of-use and reachability for private as well as professional users.

We will reinforce our position as the leading infrastructure provider in the telecom industry through understanding of consumer needs, continued R&D leadership, operational excellence and by being the most innovative and responsive partner to our customers, concludes Carl-Henric Svanberg.

MARKET VIEW

Drivers for growth in both developed markets and in high growth markets continue to be positive. The traffic is steadily increasing as a result of new and richer services being offered and more competitive tariff schemes besides the continuously growing number of subscribers. Operators are increasing their focus on business development and activities aimed at growing revenues.

In developed markets, which are primarily capacity driven, continued 3G deployments, upgrades of GSM networks and rapid build-out of broadband access are driving the development. In addition there is a clear trend toward wireless/wireline convergence based on all-IP technologies. This will create efficiency gains, but equally important enable the new seamless services demanded by consumers.

In high growth markets we see continued strong development both in subscriber additions and in usage. Investments in low cost coverage in these markets continue to be a strong driver. The cost efficient Ericsson Expander solution has been positively received and opens new business opportunities primarily in developing areas with a number of contracts signed in several countries around the world. In these markets there is also an often underestimated number of advanced users demanding services equivalent to those in developed markets.

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In Europe commercial launches of 3G is ongoing. By year-end WCDMA will be commercially launched across all of Western Europe. In addition, most operators in Europe are in the process of deploying EDGE. Though average minutes of use are substantially below the rest of the world, more attractive tariff schemes and an increasing number of new services should stimulate traffic growth.

The North American market shows healthy development. Along with convergence, operators in North America early on recognized the need to meet consumer demands for seamless services and the benefits of 3G technology. The consolidation among operators continues. The Cingular/AWS merger will create a strong player, however, the regulatory process is creating a normal temporary slow down in the AWS investments.

The subscriber growth in the Asia Pacific region continues, led by China and India, where India is on track to become the world s second largest market in number of mobile subscriptions. In parallel with the ongoing 3G license discussions in China, demand for coverage and capacity expansions in 2G and 2.5G networks remains strong. 3G is being rolled out in a number of markets in South East Asia along with continued demand for 2G and 2.5G.

Ten new WCDMA networks were commercially launched during the quarter, reaching a total of 37. During the quarter the number of WCDMA subscriptions grew from 4.4 million to almost 7 million. The number of CDMA2000 1X subscriptions has now reached more than 100 million.

Worldwide subscription penetration is 24% with a total of 1.5 billion subscriptions, of which close to 1.1 billion is in GSM. The global number of subscriptions has been estimated to pass two billion early 2007 with most of the increase coming from high growth markets. Worldwide subscription penetration in 2007 is estimated to reach 30%.

OUTLOOK

The traffic growth in the world s mobile networks should generate a slight to moderate growth in the global mobile systems market. In addition to this underlying growth there is an effect from operators catching up on previous years limited investments. This effect continues but should abate over time. All estimates refer to 2004 compared to 2003 and are measured in USD.

In the first quarter report 2004 we stated we estimate that the global mobile systems market in 2004, measured in USD, will show slight to moderate growth, compared to 2003. There is also an element of operators catching up on previous years limited investments.

We maintain our view that the addressable market for professional services, also measured in USD, is expected to continue to show good growth.

With our technology leadership and global presence we are well positioned to take advantage of these market opportunities.

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CONSOLIDATED ACCOUNTS

FINANCIAL REVIEW

All comparative numbers are stated excluding restructuring charges.

Income

Orders booked were SEK 33.1 (28.3) b., an increase by 17% year-over-year, driven by generally strong development, especially in Italy, Russia, South East Asia and Brazil. Sequentially, orders booked were flat reflecting continued good demand in Western Europe, Asia Pacific and Latin America. However, North America showed a weaker development both year-over-year and sequentially due to operator consolidation affecting short-term investment plans.

Sales were SEK 32.6 (27.6) b., an increase of 18% year-over-year. All regions were strong, especially high growth markets such as India, China and Mexico. Currency exchange effected sales negatively by 6%. Sequentially, sales increased by 16% driven by overall strong demand.

Gross margin increased sequentially by 3.1 percentage points to 47.8% (35.1%), due to continued focus on operational excellence, higher volumes and a favorable product mix.

Operating expenses amounted to SEK 9.2 (9.7) b. The annualized run rate was SEK 34 (42) b., down from SEK 35 b. in the previous quarter. The announced operating expense reduction target of an annualized run rate of SEK 33 b., was achieved at the end of this quarter, one quarter earlier than originally anticipated.

Operating income was SEK 7.7 (0.2) b. compared to SEK 4.5 b. the previous quarter, including a non-recurring positive effect of SEK 0.3 b. due to the closure of a subsidiary. Operating margin was 23.7% (0.8%). Income after financial items was SEK 7.8 (0.2) b. compared to SEK 4.3 b. in the first quarter.

Net effects of currency exchange differences on operating income compared to the rates one year ago were SEK -0.7 b. in the quarter. Excluding effects from currency hedging the effects would have been -0.5 b.

Net income was SEK 5.3 (-2.7) b. for the quarter.

Earnings per share were SEK 0.33 (-0.17).

The number of employees amounted to 50,700 (57,600) at the end of the quarter of which 22,400 (27,700) in Sweden.

Balance sheet and financing

Numbers within brackets indicate year-end 2003.

The financial position remained strong with net of financial assets and debt, i.e. net cash, at SEK 31.7 (27.0) b. compared to SEK 26.8 b. at the end of the first quarter 2004. Cash improved by SEK 3.6 b. sequentially to SEK 78.0 (73.2) b.

Days sales outstanding (DSO) for trade receivables were 88 (79), an improvement of 14 days sequentially, mainly due to better collections. Inventory, including work in progress, increased by SEK 0.4 b. sequentially to SEK 14.8 (11.0) b., due to the higher business activity. Inventory turnover was 5.1 (6.1), up sequentially from 4.9.

Gross customer financing exposure decreased sequentially by SEK 1.8 b. to SEK 9.4 (12.3) b. Net customer financing credits on balance sheet were reduced sequentially by SEK 0.9 b. to SEK 3.0 (4.0) b.

The equity ratio was 37.5% (34.4%) compared to 35.0% at the end of the previous quarter.

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Cash flow

Cash flow from operations remained strong at SEK 6.5 (5.7) b. Cash flow before financing activities amounted to SEK 4.3 (5.1) b. Cash flow from investing activities was SEK -2.2 (-0.6) b. net. The cash flow is affected by increased work in progress as a result of the higher business activity.

On April 26, Ericsson announced its intention to make a public cash offer for the 28,44% of the shares in its Italian subsidiary Ericsson S.p.A., not already owned by Ericsson. The cash offer has affected cash flow by SEK 1.3 b. during the quarter. Ericsson now holds 88,32% of the shares. Although no final decision to this effect has been taken by the competent bodies, Ericsson intends to proceed with the delisting of the Ericsson S.p.A. shares from the Milan Stock Exchange through the merger between Ericsson S.p.A. and a fully owned unlisted Italian company, in the absence of the conditions for making the residual offer or for exercising the squeeze-out right.

Payment readiness increased sequentially by SEK 4.7 b. to SEK 83.1 (68.8) b., mainly due to improved earnings.

Cash outlays of SEK 5.0 b., with regard to restructuring, are expected during 2004. Of this SEK 1.5 b. was paid in the second quarter.

SEGMENT RESULTS

SYSTEMS