

ERICSSON LM TELEPHONE CO
Form 6-K
April 23, 2004

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

April 23, 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 Form 40-F

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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

Announcement of LM Ericsson Telephone company, dated April 23, 2004, regarding first quarter report 2004.

First quarter report 2004

April 23, 2004

Ericsson reports good development in profitability, orders and sales**First quarter summary***Net sales SEK 28.1 (25.9) b., up 9% year-over-year**Gross margin 44.7% (34.1%)¹⁾ up 3.1%-points sequentially**Operating margin 16.1% (-10.8%)²⁾**Income after financial items SEK 4.3 (-2.8) b.²⁾**Net income SEK 3.0 (-4.3) b., up SEK 2.9 b. sequentially**Earnings per share SEK 0.19 (-0.27)*

SEK b.	First quarter			Fourth quarter	
	2004	2003	Change	2003	Change
Orders booked, net	33.0	27.1	22%	29.5	12%
Net sales	28.1	25.9	9%	36.2	-22%
Gross margin (%)	44.7%	34.1% ¹⁾		41.6% ¹⁾	
Operating income	4.5	-2.8 ₂₎		6.3 ₂₎	
Income after financial items	4.3	-2.8 ₂₎		5.9 ₂₎	
Net income	3.0	-4.3		0.1	
Earnings per share	0.19	-0.27		0.01	
Cash flow before financing activities	2.9	0.7		4.6	

¹⁾ Adjusted for restructuring charges in the first quarter 2003 SEK 1.8 b. and in the fourth quarter 2003 SEK 0.8 b.

²⁾ Adjusted for restructuring charges in the first quarter 2003, net, SEK 3.2 b. and in the fourth quarter 2003 SEK 4.0 b.

Orders booked in the quarter grew by 22% year-over-year and by 12% sequentially to SEK 33.0 (27.1) b. Net sales in the quarter grew by 9% year-over-year to SEK 28.1 (25.9) b. and declined 22% sequentially due to seasonality. Currency exchange effects have had a negative impact on sales of 8% year-over-year.

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Gross margin improved sequentially by 3.1 percentage points to 44.7% (34.1%), mainly attributable to the benefits of cost of sales reduction activities and a favorable product mix. Operating expense reductions are on track, with an annualized run rate of SEK 35 (47) b. in the quarter. Income after financial items was SEK 4.3 (-2.8) b. compared to SEK 5.9 b. in the fourth quarter. Net currency exchange effects, compared to rates one year ago, have had a negative impact of SEK 0.8 b. on operating income in the quarter.

Cash flow before financing was SEK 2.9 (0.7) b. with positive effects from improved earnings. Cash flow was however also affected by increased work in progress as a result of the higher business activity. The financial position remained strong, with a net of financial assets and liabilities, i.e. net cash, of SEK 26.8 b.

CEO COMMENTS

We have clearly strengthened our market position since last summer, says Carl-Henric Svanberg, President and CEO of Ericsson. Our year has started well with a number of contracts in key growth areas. A stronger customer focus, including our commitment to operational excellence, is clearly contributing to this achievement.

We also continued to improve operating results. Gross margin development exceeded our earlier expectations. We are benefiting from our restructuring efforts and going forward we will continue to strive for best-in-class cost efficiency. Our financial position is now one of the industry's strongest.

The rollout of 3G continues. We are a major supplier in close to 50 networks that will be or have been commercially launched by year-end. EDGE plays an important complementary role and continues to grow quickly. Over time we expect most GSM networks to be upgraded with EDGE. In addition, the new Ericsson Expander has been well received as an enabler for communication in rural areas in developed as well as in high-growth markets.

The long-term growth drivers of the industry remain solid. The business environment is becoming more multifaceted, with new business models and more advanced solutions. The vendor's ability to support operators with total solutions that combine technical know-how with consumer awareness is quickly growing in importance. As a result, our traditional role as vendor is transforming more into the role of a strategic partner, concludes Carl-Henric Svanberg.

MARKET VIEW

Last year saw considerably improved financials among operators and an increased need for investments in capacity and network quality. This is a result of the underlying growth in mobile communications, driven by increased voice and mobile data traffic and operator investment into capacity enhancements of both 2G and 2.5G. Increased competition among operators is likely to continue to stimulate traffic growth, especially in Western Europe.

The 3G rollout is a reality with a large number of initial commercial launches expected by year-end. In addition, more than 75 operators in 50 countries are committed to deploy EDGE. The number of WCDMA subscriptions grew 57% in the quarter to 4.4 million subscriptions. The number of CDMA2000 1X subscriptions grew 35% to 95 million.

Demand for seamless services will drive the convergence of mobile and fixed networks, including voice over IP. This will have a positive impact on advanced mobile services and applications. Consumer mobility behavior will drive demand and traffic patterns in such converged seamless networks.

The service market segment continues to show good growth potential. In the more complex business environment operators show growing interest in services enabling them to focus on business development, how to attract and retain customers as well as driving cost efficiency.

Today, worldwide subscription penetration is only 23% with a total of 1.4 billion subscriptions. The global number of mobile subscriptions has been estimated to reach 2 billion during 2008 with particularly strong growth in emerging markets. The favorable reception of the Ericsson Expander solution in coverage-driven markets indicates that growth should develop beyond these projections.

OUTLOOK

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We estimate that the global mobile systems market in 2004, measured in USD, will show slight to moderate growth, compared to 2003. This improved outlook is mainly driven by growing traffic, network expansions and continued 3G rollout. There is also an element of operators catching up on previous years' limited investments.

Our previous estimate of the global mobile systems market was to be in line with, or show slight growth, compared to 2003.

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

Through our technology leadership and global presence we are well positioned to benefit from the market opportunities.

CONSOLIDATED ACCOUNTS

FINANCIAL REVIEW

All comparative numbers are stated excluding restructuring charges.

Income

Orders booked were SEK 33.0 (27.1) b., an increase by 22% year-over-year, driven by generally strong development in Asia-Pacific, Central Europe, Middle East and Africa. Sequentially, orders booked increased by 12%.

Sales were SEK 28.1 (25.9) b., an increase by 9% year-over-year. High-growth markets such as China, Brazil and Mexico, were main contributors to this development. Currency exchange effects were 8%. Due to seasonality sales declined by 22% sequentially.

Gross margin improved to 44.7% (34.1%), a sequential increase from 41.6%. The main reasons for the improvement were better than anticipated benefits from cost of sales reductions activities and a favorable product mix.

Operating expenses amounted to SEK 8.7 (10.8) b. The annualized run rate was SEK 35 (47) b., down from SEK 37 b. in the previous quarter. The earlier announced reduction target of an annualized operating expense run rate of SEK 33 b. by the third quarter 2004 remains.

Operating income was SEK 4.5 (-2.8) b. compared to SEK 6.3 b. the previous quarter. Income after financial items was SEK 4.3 (-2.8) b. compared to SEK 5.9 b. in the fourth quarter.

Net effects of currency exchange differences on operating income compared to the rates one year ago were SEK -0.8 b. in the quarter. Excluding effects from currency hedging the effects would have been -1.0 b.

Net income was SEK 3.0 (-4.3) b. for the quarter.

Earnings per share were SEK 0.19 (-0.27).

The number of employees amounted to 50,650 (60,940) at the end of the quarter. Excluding some 2,000 employees added through managed services contracts as well as employees notified but still included in the company's payroll, the original headcount target of 47,000 has been reached.

Balance sheet and financing

The financial position remained strong with net of financial assets and debt, i.e. net cash, at SEK 26.8 b. compared to SEK 27.0 b. at year-end 2003. Cash improved by SEK 1.2 b. sequentially to SEK 74.4 b.

Days sales outstanding (DSO) for trade receivables were 102 (109), an increase by 23 days sequentially, mainly due to seasonality. Inventory, including work in progress, increased by SEK 3.5 b. sequentially to SEK 14.4 (14.5) b., due to the higher business activity.

Gross customer financing exposure decreased sequentially by SEK 1.0 b. to SEK 11.2 (20.1) b. Net customer financing credits on balance sheet were reduced sequentially by SEK 0.1 b. to SEK 3.9 (13.6) b.

Effective from 2004, Ericsson has adopted Swedish accounting principles, RR29 Employee benefits, in its financial reporting. The effect of this accounting change has been reported as increased pension provisions of SEK 1.8 b. and decreased equity, net after taxes, by SEK 1.3 b.

The equity ratio was 35.0% (34.9%) compared to 34.4% at the end of the previous quarter. Excluding the change in pension accounting principles the equity ratio would have been 35.7%.

Cash flow

Cash flow from operations remained strong at SEK 3.2 b. Cash flow before financing activities amounted to SEK 2.9 (0.7) b. Cash flow from investing activities was SEK -0.3 b. net. The cash flow is affected by increased work in progress as a result of the higher business activity.

Payment readiness increased sequentially by SEK 3.1 b. to SEK 78.4 (66.5) b., mainly due to improved earnings.

Cash outlays of SEK 5 b., with regard to restructuring, are expected during 2004. Of this SEK 2.1 b. was paid in the first quarter.

SEGMENT RESULTS

SYSTEMS

SEK b.	First quarter			Fourth quarter	
	2004	2003	Change	2003	Change
Orders booked	31.1	25.0	24%	27.6	13%
Mobile Networks	24.9	17.5	43%	20.5	22%
Fixed Networks	1.2	2.0	-41%	1.1	4%
Professional Services	5.0	5.5	-10%	6.0	-17%
Net sales	26.1	24.0	9%	33.6	-22%
Mobile Networks	21.1	17.6	19%	25.7	-18%
Fixed Networks	0.9	1.9	-53%	2.2	-60%
Professional Services	4.1	4.4	-7%	5.7	-28%
Operating income	4.2	-1.5¹⁾		5.8¹⁾	
Operating margin (%)	16%	-6%¹⁾		17%¹⁾	

¹⁾ Adjusted for restructuring charges in the first quarter 2003, net, SEK 3.1 b. and in the fourth quarter 2003 SEK 3.6 b.

Systems orders increased sequentially by 13% to SEK 31.1 (25.0) b. Year-over-year Systems orders increased by 24%. Systems sales decreased 22% sequentially to SEK 26.1 (24.0) b. due to seasonality. Year-over-year Systems sales increased by 9%.

Mobile Networks orders increased both sequentially and year-over-year by 43% and 22% respectively, mainly driven by GSM and 3G. Sales decreased sequentially by 18% due to seasonality. WCDMA equipment and associated network rollout services share of total Mobile Networks sales were stable at 12%.

The business development trend for Professional Services continues with an increasing number of managed services and hosting contracts. Sales can however vary between quarters and were flat year-over-year, adjusted for currency exchange effects. Professional Services represents 16% of total Systems sales.

OTHER OPERATIONS

SEK b.	First quarter			Fourth quarter	
	2004	2003	Change	2003	Change
Orders booked	2.4	2.6	-8%	2.3	2%
Net sales	2.4	2.4	4%	3.2	-23%
Operating income	0.0	-0.5 ₁₎		0.3 ₁₎	
Operating margin (%)	2%	-20% ¹⁾		8% ¹⁾	

¹⁾ Adjusted for restructuring charges in the fourth quarter 2003 SEK 0.8 b.

Orders booked showed a slight sequential increase. Sales decreased sequentially mainly as a result of seasonality and effects of prior restructuring activities. Ericsson Mobile Platforms had strong sales growth both year-over-year and sequentially.

SONY ERICSSON MOBILE COMMUNICATIONS

Sony Ericsson Mobile Communications (Sony Ericsson) reported a strong increase in shipments and record profits for the first quarter 2004. Ericsson's share in Sony Ericsson's income after financial items was SEK 0.5 b. compared to SEK 0.3 b. in the previous quarter. In an overall strong mobile phone market, shipments from Sony Ericsson reached an all-time high as its product offering in the mid- and entry-level segments continued to gain momentum. Units shipped in the quarter posted a 63% increase compared to the same period last year. As average sales price also increased slightly, sales were up 66% compared to the same period last year.

Market share is estimated to have increased during the quarter thanks to strong demand and increased operational excellence. Sony Ericsson has increased its estimates for the global market for 2004 from approximately 520 million units to over 550 million units.

Transactions with Sony Ericsson Mobile Communications

SEK m.	First quarter 2004	First quarter 2003
Sales to Sony Ericsson	504	576
Royalty from Sony Ericsson	140	56
Purchases from Sony Ericsson	334	265
Shareholder contribution		1,384
Receivables from Sony Ericsson	45	541
Liabilities to Sony Ericsson	124	115

PARENT COMPANY INFORMATION

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Net sales for the first quarter amounted to SEK 0.5 (0.5) b. and income after financial items was SEK 0.9 (1.2) b. Restructuring costs are excluded in income after financial items for 2003.

Major changes in the company's financial position for the first quarter include decreased current and long-term commercial and financial receivables from subsidiaries of SEK 5.3 b. Short- and long-term internal borrowings decreased by SEK 6.5 b. At the end of the quarter, cash and short-term cash investments amounted to SEK 69.4 (68.4) b.

In accordance with the conditions of the Stock Purchase Plans and Option Plans for Ericsson employees, 2,072,000 shares from treasury stock were sold or distributed to employees during the first quarter. The Annual General Meeting decided, as previously announced, to amend one parameter in the Stock Purchase Plan 2003 (SPP 2003) by removing the SEK 50,000 annual restriction on individual investments in shares under SPP 2003, while retaining 7.5% of annual salary as the maximum for investments in shares. The holding of treasury stock at March 31, 2004 was 304,067,953 Class B shares.

OTHER INFORMATION

The Annual General Meeting decided, as previously announced, in accordance with the proposal from the Board of Directors that no dividend will be paid for 2003. The Annual General Meeting also decided to implement a long-term incentive plan 2004 directed at 4,700 senior managers and key contributors.

For more information regarding the long-term incentive plan 2004 and changed accounting principles regarding pensions see Accounting policies and reporting.

Stockholm, April 23, 2004

Carl-Henric Svanberg

President and CEO

Date for next report: July 21, 2004

AUDITORS REPORT

We have reviewed the report for the three-month period ended March 31, 2004, for Telefonaktiebolaget LM Ericsson (publ.). We conducted our review in accordance with the recommendation issued by FAR. A review is limited primarily to enquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements for interim reports in the Annual Accounts Act.

Stockholm, April 23, 2004

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Safe Harbor Statement of Ericsson under the Private Securities Litigation Reform Act of 1995;

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All statements made or incorporated by reference in this release, other than statements or characterizations of historical facts, are forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Forward-looking statements can often be identified by words such as anticipates, expects, intends, plans, predicts, believes, seeks, estimates, may, will, should, would, potential, continues, or variations of these words, and include, among others, statements regarding: (i) strategies, outlook and growth prospects; (ii) positioning to deliver future plans and to realize potential for future growth; (iii) liquidity and capital resources and expenditure, and our credit ratings; (iv) growth in demand for our products and services; (v) our joint venture activities; (vi) economic outlook and industry trends; (vii) developments of our markets; (viii) the impact of regulatory initiatives; (ix) research and development expenditures; (x) the strength of our competitors; (xi) future cost savings; and (xii) plans to launch new products and services.

In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements speak only as of the date hereof and are based upon the information available to us at this time. Such information is subject to change, and we will not necessarily inform you of such changes. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Important factors that may cause such a difference for Ericsson include, but are not limited to: (i) material adverse changes in the markets in which we operate or in global economic conditions; (ii) increased product and price competition; (iii) further reductions in capital expenditure by network operators; (iv) the cost of technological innovation and increased expenditure to improve quality of service; (v) significant changes in market share for our principal products and services; (vi) foreign exchange rate fluctuations; and (vii) the successful implementation of our business and operational initiatives.

A glossary of all technical terms is available at: <http://www.ericsson.com/about> and in the Annual Report.

To read the full report, please go to: <http://www.ericsson.com/investors/3month04-en.pdf>

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ERICSSON

CONSOLIDATED INCOME STATEMENT

SEK million	Jan-Mar			Jan - Dec
	2004	2003	Change	2003
Net sales	28,111	25,859	9%	117,738
Cost of sales	-15,544	-18,862	-18%	-78,901
Gross margin	12,567	6,997		38,837
Research and development and other technical expenses	-4,792	-6,897	-31%	-27,136
Selling expenses	-2,232	-3,449	-35%	-15,115
Administrative expenses	-1,710	-1,804	-5%	-8,762
Operating expenses	-8,734	-12,150		-51,013
Other operating revenues and costs	164	-86		1,541
Share in earnings of JV and associated companies	517	-742		-604
Operating income	4,514	-5,981		-11,239
Financial income	932	1,164	-20%	3,995
Financial expenses	-1,133	-1,218	-7%	-4,859
Income after financial items	4,313	-6,035		-12,103
Taxes	-1,243	1,847		1,460
Minority interest	-77	-124		-201
Net income	2,993	-4,312		-10,844
Other information				
Average number of shares, basic (million)	15,749	15,820		