ERICSSON LM TELEPHONE CO
Form 20-F
March 23, 2005
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As filed with the Securities and Exchange Commission on March 23, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

¨ **registration statement pursuant to section 12(b) or 12(g) of the securities exchange act of 1934**

or

þ **annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934**
For the Fiscal Year Ended December 31, 2004

or

¨ **transition report pursuant to section 13 or 15(d) of the securities exchange act of 1934**
For the transaction period from __________ to __________

Commission file number 0 12033

TELEFONAKTIEBOLAGET LM ERICSSON

(Exact Name of Registrant as Specified in Its Charter)

LM ERICSSON TELEPHONE COMPANY

(Translation of Registrant s Name Into English)

Kingdom of Sweden

(Jurisdiction of Incorporation or Organization)

SE-164 83 Stockholm, Sweden

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

American Depositary Shares

B Shares

STIBOR 1.5 percent Convertible Subordinated Debentures due June 30, 2003

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

B shares (SEK 1.0 nominal value)	14,823,478,760
A shares (SEK 1.0 nominal value)	1,308,779,918
C shares (SEK 1.0 nominal value)	0

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 x Item 18 ¨

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Letter from the President and Chief Executive Officer

Dear Fellow Shareholder,

A year ago we declared: We ve turned the corner. This year, I can truly say that Ericsson has moved forward.

The telecommunications industry s confidence has returned and our market is expanding again. Our customers are buying more equipment to increase network capacity and introduce new services. This market rebound, combined with changes at Ericsson and the hard work of everyone in the company, fueled our solid performance. Sales rose by 12 percent and our margins returned to healthy levels.

Our challenge now is to secure an enduring competitive advantage in a profoundly changed market. The balance in the market has shifted from being technology driven to consumer driven. Ericsson s strategy for success has five crucial elements:

- Refining our long-term vision
- Reinforcing the importance of meeting customers needs
- Improving our ways of working
- Focusing on consumer-driven technology leadership
- Launching new products and services for operators

Members of the management team will talk about these elements in more detail later in this review. Before they do, I would like to discuss two important themes Operational Excellence, and the profound changes unfolding in our market.

Operational Excellence goes far beyond efficiency and productivity. It also entails how we think about our customers and ourselves. In my view, highly satisfied customers, empowered employees and best-in-class margins are key indicators of Operational Excellence. Over the last year, we have made good progress against these criteria, but we know that sustaining this progress is a challenge.

We have evaluated what our customers and our employees think about the changes we are making. The results are encouraging. We are now ranked as leaders not only in products and services, but also in image, loyalty and importantly in recommendation. This means that we are more likely to be recommended by customers than any of our competitors are. Measured as a percentage of sales, we have reduced our selling expenses by 50 percent over the last two years a dramatic improvement. Having said that, I believe we must become even better at listening and responding faster to our customers needs.

Similarly, our employees were more closely involved in our strategic planning in 2004 than ever before and they made a great contribution. One result is that employees now have a much clearer sense of the mission ahead, which has made their work more productive and more rewarding. Recent employee satisfaction surveys support this assessment.

Financial results also point to significant progress in achieving Operational Excellence. In addition to net income, profit margins are a key indicator for shareholders. Our ambition is to produce best-in-class profit margins and this year we generated the best operating margins ever.

Operational Excellence means we are becoming a sharper, more responsive company. This is vital for success in today s telecoms market, where the consumer is king. Technology remains important, but success is achieved by meeting consumers needs, not by developing technologies in search of a market. Consumers expect better, more affordable and easier to use services which enable them to communicate anywhere, anytime in any way they choose. This is what drives investment by our customers and our job is to ensure that they can competitively offer such services.

I believe that Ericsson has a winning proposition here with our longstanding end-to-end strategy. In other words, we are a one-stop shop offering the full range of telecoms products and services. The combination of mobile broadband networks and mobile devices using Internet technology is compelling: consumers get access to a wide range of services that are more sophisticated, less expensive and simpler to use. With increasingly complex mobile devices and applications interacting within the networks, our customers realize the importance of having all the elements developed in close collaboration, thoroughly tested and based on open standards.

We intend therefore to be the prime driver in an all-communicating world where mobility and ease of use are the main attractions for consumers. We have come far in completing the first phase of this vision. There are 1.7 billion mobile subscriptions in the world and almost 650 million of them are connected via Ericsson technology. Now it s time to expand this by bringing mobile broadband to existing users while making mobile voice communications available and affordable for the rest of the world s population. By focusing on both new services and expanded coverage, we will create fresh growth areas for operators and ourselves.

With restructuring and downsizing behind us, spirits are up throughout the company. Our business is growing again, with end-to-end solutions as a central differentiator. We have leading technology bolstered by one of the industry s largest research and development programs. We have our global brand name and pole position with the world s leading operators. And we have a clear strategy for profitable expansion as well as development of Operational Excellence.

All in all, it s a strong foundation on which to build. I invite you to read on as other senior managers discuss our progress and strategy for continued success.

With best regards,

Carl-Henric Svanberg
President and Chief Executive Officer

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OPERATIONAL OVERVIEW

Operational Overview

From Torbjörn Nilsson, Head of Group Function Strategy and Product Management:

REFINING OUR LONG-TERM VISION

Our vision is to help create a world where people can communicate with each other regardless of where they are or which telecommunications technology they use.

I think it s fair to say that we have completed the first phase of that vision. For the over 20 percent of the world s population who carry a mobile phone, communication has become a personal thing. You address a person, not a place. For those people, the second phase is to get broadband into their pocket. The second phase is also about making telecommunications simple and more affordable, delivering on the promise to make telecoms available to everyone.

Broadband access is definitely becoming mobile, and with that we see new areas of growth for operators. High capacity 3G mobile systems enable people to access the Internet and other information at speeds similar to that of wireline connections in homes and offices, but with the added advantage that you can do it on the move. We now enjoy easier handling of e-mail and other office applications using our mobile devices, and even more important we see the introduction of true mobile multimedia. With the development of mobile broadband services, mobile TV may soon become a very important service for mobile operators.

Voice, data and video over fixed and mobile connections will ultimately be handled by the same kind of technology. The maturity of IP has created a surge in demand for unified solutions. There are clear benefits for both consumers and operators: convenience and a cost efficient combination of voice, text, pictures and video services give users a richer experience, and create new revenue streams for the operators.

IMS is the standard that will help both wireline and mobile operators move to all-IP networks. Ericsson is a major contributor to this standard and has a leading position in the market for IMS-based solutions.

The convergence to IMS and all-IP puts us in a strong position. We provide broadband to homes and offices through our Ethernet Broadband Access portfolio. We provide broadband to mobile devices through 3G and High Speed Downlink Packet Access (HSDPA). Whether you are at home, in your office or traveling, we are there, managing the complexity so that communications can be simple and seamless.

It may sound strange that the drive for simplicity for the user makes everything more complex for the operators and for ourselves. But just look at mobile phones. They are becoming digital Swiss Army knives that might include a regular phone, e-mail, radio, mp3-player, PDA, GPS-positioning, game console, camera, television or credit card.

It s a great challenge to make all these functions work together as a whole. Only a few companies can do this. Our handset platform licensing business is one of our ways of ensuring that we can make services work, all the way from one person to another, regardless of what device they are using and which network they are with.

New services, new devices, new ways of communicating with each other: service and network convergence is creating a dynamic telecoms market. When it comes to broadband and mobile communications, this is just the beginning.

From Bert Nordberg, Head of Group Function Sales and Marketing:

REINFORCING THE IMPORTANCE OF MEETING CUSTOMERS NEEDS

My job was created in 2003 and my mission was to strengthen our market position while reducing sales and marketing costs. We have reduced our selling expenses by 50 percent over the last two years. And despite spending less money on selling, in 2004 we increased sales by 12 percent, and maintained or increased our share in all of our key markets.

We achieved these figures because we invested time and money in a painstaking overhaul of our entire sales process. We implemented a new incentive system and a new sales training program, creating a better structured, more motivated and more effective sales force. All of our sales teams can now provide customers with immediate knowledge of the entire Ericsson portfolio of products and solutions. Our new Web-based automatic ordering system further increases the speed and efficiency of the sales process.

How are customers responding to all this? They tell me they re seeing a whole new Ericsson. We don t just try to sell what we have off the shelves, they say; we listen carefully and work to meet their requirements for solutions.

The ten largest operators represent almost 50 percent of world-wide operator revenue, and every one of the top ten is an Ericsson customer. With further consolidation taking place amongst operators, it is a strategic priority to ensure that we meet the needs of these customers.

In 2004 we identified several significant new business opportunities. For example, many markets with good potential for growth are held back because they have dispersed or low-income populations, which increases the costs involved in the initial launch of services. We introduced our Expander solution to address this. Expander came about because we listened to the words of a high-ranking telecoms official in a developing country. He said to me: You probably don t realize how important telecoms are to rural areas. A village that is connected exists; an unconnected village doesn t exist. This is a common opinion among the governments in the developing world. Connected versus not connected is becoming as serious as educated versus uneducated, or rich versus poor.

With the number of mobile phone users in the world approaching two billion, we asked ourselves: How can Ericsson provide services to the rest of the world s population? We started by looking at scaled-down solutions. But we soon realized that people in these areas need the same services as everyone else. So we analyzed the real costs involved in building a mobile network. Typically, base stations represent less than 25 percent of an operator s total cost for a cell site. Land, construction, maintenance and so on make up the other 75 percent. We searched for ways to reduce the 75 percent, and came up with a combination of existing Ericsson base station and antenna technology that gives far better coverage using fewer sites. This is Expander.

Expander provides operators with a more cost effective way to introduce voice and data services in areas where you have few subscribers. Once established, the network can be developed to meet changing patterns of demand, just like any other network. By lowering the initial investment required to launch services we are increasing the potential for sales of our equipment and services in the future.

This is Operational Excellence in practice. It s about thinking ahead and taking into account our customers whole business not just the bits that we provide.

From Marita Hellberg, Head of Group Function Human Resources and Organization:

IMPROVING OUR WAYS OF WORKING

When I accepted the challenge of heading up Human Resources for Ericsson in September 2003, the company was nearing the completion of the most extensive restructuring in its 128 year history. Naturally, it was with a sense of great relief that, in 2004, we could leave the ordeal of the severe cutbacks behind us. After such dramatic changes, we had to assess what needed to be done going forward and how to do it in such a way as to ensure we stay on the right course.

Ericsson s fundamental business strategy has remained solid for years. But while the essence of the strategy may stay the same, how we implement it and turn our ideas into actions must evolve in response to market developments.

In 2004 we involved our employees in discussions about strategy, and their views helped to shape our strategic priorities. These priorities were defined at our Global Management Conference in 2004, and within weeks of the conference the current thinking of management had been communicated throughout the entire company. This is the first time that Ericsson has involved so many employees in the strategy process.

We know that to be competitive we must inspire and enable our people to contribute as much as they can. That means they must feel they re part of something special. Culture will defeat strategy every time so, in parallel with the strategy work, we also reinforced our core values and ways of working through a major program of employee workshops. Our values and working methods are now a real priority for managers. By discussing matters openly we are shaping a strong culture that will help us to achieve our business goals.

We also carried out an extensive analysis of competence in 2004, and an employee satisfaction survey. Nine out often employees contributed to the survey. The results and my own experiences of talking to people here underline the motivation and loyalty of our people in the midst of so much change. Spirits are up as everybody feels that the company is on the move again.

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OPERATIONAL OVERVIEW

From Håkan Eriksson, Head of Research and Development:

FOCUSING ON CUSTOMER-DRIVEN TECHNOLOGY LEADERSHIP

My challenge has been to strengthen our technology leadership while getting more from our R&D organization, despite the radical scale-backs of recent years. Although we have streamlined our approach, with fewer centers and employees, our commitment to R&D has never wavered. Almost a third of our employees are involved in this area, and we remain a leading contributor to the most important technologies in mobile communications, such as GSM, GPRS, EDGE, WCDMA and CDMA standards. But these days, it s not just about creating technology, it s about how to apply it to meet our customers needs better than any of our competitors. Music-to-the mobile, M-USE, is a good example of a customer-driven solution.

Clearly, strengthening our R&D is no easy task, so I m very happy to report that our commitment to Operational Excellence has enabled us to make real improvements this year. We are now much more precise about the management of development projects. We are offering customers significantly more advanced products and platforms, while providing the assurance that they will be delivered on time, and reach their performance specifications faster than before. This is not about transporting a box from the factory to the customer; it s about developing, installing, testing and enhancing a technically complex solution made up of evolving technologies. And getting that solution to deliver revenue-generating services for our customer on time and on budget.

To really understand the scale of our challenge you must consider the complexity of the business we are in. Ericsson thrives on technology leadership, and we are in the middle of a major transition, from 2G to 3G. A challenge in itself, this profound change in technology coincided with the recent market crisis, and the resulting turbulence really has made it tough for operators and suppliers.

These have been difficult times, but we have focused on learning from our experiences and making ourselves stronger. In 2004, for example, we consolidated our position as world leaders in radio technology by setting an industry speed record in High Speed Downlink Packet Access (HSDPA). This technology enables a subscriber to download files to a 3G mobile device at speeds comparable to an office wireline connection. HSDPA is a major breakthrough that will change the way we think about 3G. Videos, music and web pages can be downloaded in seconds, and even high quality mobile TV is possible.

Technology leadership is vital for us. By contributing effective solutions based on emerging standards we can influence the standardization process and file for patents at an early stage. We have one of the industry s largest portfolios of granted patents 16,000 with another 15,000 pending. Controlling patents and leading the standardization process gives us a head start in product development, and this is one reason why we command the largest market share in 2G and 3G infrastructure equipment.

We also develop and license the technology platforms used inside handsets. These platforms integrate the complete inner workings of the handset, such as software and chipset design. In a world of increased complexity, with more advanced technologies and service applications, our focus on making everything from base stations to handsets work together is key to our customers.

This strategy has worked. Today, our mobile platforms business holds a 30 percent market share of WCDMA handsets and there is excellent potential for growth. The success of our Sony Ericsson joint venture also demonstrates how our approach has created value.

But there is an even more important reason why our end-to-end strategy is right. While communications technologies and standards are increasingly complex, customers require complete working solutions. Our expertise ensures that our products and services work seamlessly with other suppliers hardware and software. This means that a network can function properly and interact with other networks despite the vast array of equipment and standards employed. In other words, operators and handset manufacturers know that buying from Ericsson minimizes potential interoperability issues, reducing cost, time-to-market and risk.

This ability to work across a wide range of technologies is an invaluable asset for Ericsson.

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OPERATIONAL OVERVIEW

From Björn Olsson, Head of Business Unit Systems and Hans Vestberg, Head of Business Unit Global Services:

LAUNCHING NEW PRODUCTS AND SERVICES FOR OPERATORS

Björn Olsson: Ericsson s business success is to a large extent built on our ability to provide complete systems solutions to our customers. They expect new services to be fast to introduce and their networks more efficient to operate while evolving towards all-IP.

Our new service delivery solutions greatly reduce the time required for launching consumer services down to just one week. Improving speed-to-market supports revenue growth and improves operators competitiveness. The base for these solutions is our market-leading position in multimedia messaging, charging, subscriber databases and systems integration.

Softswitching is an important development. This technology can radically improve the efficiency in operating mobile and fixed networks, and introduces IP into the telecom network. Using our softswitching solutions, operators can halve the number of core network sites and reduce the need for transmission capacity. We have implemented our softswitch solutions in more than 50 mobile and fixed networks.

Consumers want convenience, so the introduction of IP into telecommunications networks is good news for them. The standardized system for IP multimedia services, IMS, will ensure high levels of quality and reliability in IP-based services. Two examples are IP Telephony and Combinational Services, which enable consumers to share images, videos, etc, while having a conversation. Ericsson has signed 25 IMS contracts for fixed and mobile systems, making us one of the market leaders in IMS.

This year we also pursued opportunities in the fast-growing market for home broadband connections. The Triple Play trend, where operators offer telephony, TV and Internet services from the same wall-socket using digital subscriber line (DSL) technology, has added momentum. Our Ethernet DSL offering makes Triple Play possible, and we are one of the top suppliers of this solution.

The majority of our customers operate both mobile and fixed networks. We believe there will be very few operators providing mobile or fixed services only, so we have maintained our commitment to both areas. We are being rewarded for this approach, as customers seek suppliers able to integrate their fixed and mobile networks into one network based on IP. This puts us right where we want to be providing solutions at the heart of the convergence towards all-IP networks.

Hans Vestberg: Global Services has over 15,000 Ericsson employees out there working alongside customers, and in many respects these people are the day-to-day eyes, ears and voices of Ericsson. How we meet customers needs is vital to our success, whether it s integrating a new radio base station, solving an intricate network-planning problem or managing an entire network. Operators all over the world are increasingly considering different forms of outsourcing. Our managed services offering enables operators to reduce cost, focus on customer care and new business, while trusting us to manage their network. Through our current managed services contracts, excluding hosting, we now manage networks that together serve more than 35 million subscribers worldwide. This makes us the market leader in managed services.

A market leader cannot stay still, however, and in 2004 we were the first to introduce managed capacity and hosting services to the market. These are an evolution of our managed services offering, and were developed at our customers request.

Managed capacity means that we operate a network according to the pay-as-you grow principle. We provide capacity when and where it is needed. Operators then pay accordingly, reducing the need for large up-front investments. In 2004 we signed a landmark managed capacity deal with Bharti, one of India s leading operators.

With hosting, we own and operate servers and platforms on which, for instance, multimedia and messaging services are stored. This flexible, on-demand model suits operators that want to quickly introduce mobile services, such as picture messaging, music and games downloads, video, or try out new services. We announced 17 hosting contracts in 2004.

We track our performance carefully, and I am very pleased with the way we have improved this year. On average we improved the response time 10 percent for some 160,000 customer service requests, ranging from general consultations to more complex issues. These requests come from our customers operators that together serve over 550 million subscribers.

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FIVE - YEAR SUMMARY

Five-year Summary

SEK million	2004	2003	2002 [5]	2001 [5)6]	2000 [5)6]
Net sales	**131,972**	117,738	145,773	231,839	273,569
Operating income	**28,938**	11,239	21,299	27,380	30,828
operating margin	**21,9%**	9.5%	14.6%	11.8%	11.3%
Financial net	**540**	864	1,536	1,744	1,189
Net income	**19,024**	10,844	19,013	21,264	21,018
Year-end position					
Total assets	**183,040**	182,372	209,113	257,521	263,282
Net assets	**78,356**	62,780	76,076	72,240	94,587
Working capital	**70,494**	58,873	73,026	104,998	97,261
Capital employed	**111,999**	108,989	137,539	162,119	154,014
Tangible assets	**5,845**	6,505	9,964	16,641	23,104
Stockholders equity	**77,299**	60,481	73,607	68,587	91,686
Minority interests	**1,057**	2,299	2,469	3,653	2,901
Interest-bearing provisions and liabilities	**33,643**	46,209	61,463	89,879	59,427
Other information					
Earnings per share, diluted, SEK [3)4]	**1.20**	0.69	1.51	1.94	1.91
in accordance with US GAAP, diluted [3)4]	0.91	0.68	1.58	2.27	2.12
Cash dividends per share, SEK	**0.25** [1]	0	0	0	0.36
Stockholders equity (SEK per share)	**4.88**	3.82	4.65	8.67	11.59
Earnings per share, basic, SEK [3]	**1.20**	0.69	1.51	1.94	1.93
Number of shares (in millions)					
outstanding, at end of period	**15,832**	15,826	15,820	7,909	7,909
average, basic [3]	**15,829**	15,823	12,573	10,950	10,896
average, diluted [3]	**15,859**	15,841	12,684	11,072	11,100
Additions to tangible assets	**2,452**	3,493	2,738	8,726	12,643
Depreciation on tangible assets	**2,434**	3,753	5,514	6,486	10,040
R&D and other technical expenses [2]	**20,420**	28,553	33,455	46,640	41,921
as percentage of net sales [2]	**15.5%**	24.3%	23.0%	20.1%	15.3%
Ratios					
Return on equity	**27.6%**	16.2%	26.7%	26.5%	26.1%
Return on capital employed	**29.4%**	5.9%	11.3%	14.3%	24.8%
Equity ratio	**42.8%**	34.4%	36.4%	28.1%	35.9%
Debt-equity ratio	**0.4**	0.7	0.8	1.2	0.6
Current ratio	**3.0**	1.6	1.7	1.7	1.6
Capital turnover	**1.2**	1.0	1.0	1.5	2.0
Inventory turnover	**5.7**	6.1	5.1	4.8	5.0
Accounts receivable turnover	**4.1**	3.4	3.0	3.4	3.8
Return on sales	**24.6%**	6.2%	11.7%	9.7%	12.6%

Payment readiness	**81,447**	75,309	66,306	60,239	23,567
as percentage of net sales	**61.7%**	64.0%	45.5%	26.0%	8.6%
Net cash	**42,911**	26,998	4,751	20,955	23,657
Statistical data, year-end					
Orders booked, net	**132,959**	113,000	128,351	221,477	292,344
Number of employees					
Worldwide	**50,534**	51,583	64,621	85,198	105,129
Of which in Sweden	**21,296**	24,408	30,241	37,328	42,431

1) For 2004, as proposed by the Board of Directors.

2) 2000 adjusted to exclude research and development costs regarding customer orders included in cost of sales.

3) 2000-2001 adjusted for stock dividend element of stock issue.

4) Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.

5) 2002 restated for changed accounting principles. 2001 and 2000 have not been restated as the information is not readily available.

6) Restated for changed accounting principles in Sweden 2002 regarding consolidation of companies according to RR 1.

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FIVE - YEAR SUMMARY

US GAAP

SEK million, unless otherwise stated	2004 2)	2003 2)	2002 2)	2001 1)2)	2000 1)
Net sales	**131,972**	117,738	145,773	231,839	273,569
Net income after cumulative effect of accounting change	**14,386**	10,597	19,918	24,403	23,393
Earnings per share, basic, after cumulative effect of accounting change (SEK per share)3)4)	**0.91**	0.67	1.58	2.23	2.15
Earnings per share, diluted, after cumulative effect of accounting change, diluted (SEK per share)3)5)	**0.91**	0.68	1.58	2.27	2.12
Total assets	**192,863**	195,611	226,480	282,207	291,013
Stockholders equity	**84,369**	69,963	83,203	77,801	109,217
Capital stock	**16,132**	16,132	15,974	8,066	7,910
Number of shares (in millions):					
average, basic3)	**15,829**	15,823	12,573	10,950	10,896
average, diluted3)	**15,855**	15,831	12,684	11,057	11,017

1) Upon adaption of SFAS142 on January 1, 2002, Ericsson ceased amortization of all goodwill for US GAAP reporting purposes. Amortization expense on goodwill on a US GAAP basis for the years ended December 31, 2001 and 2000 was SEK 1,123 million and SEK 761 million, respectively.

2) Effective October 1, 2001, Sony Ericsson Mobile Communications assumed substantially all of the operations of the Phones segment. As of this date, 50 percent of the results of the Sony Ericsson joint venture are reported under Share in earnings of joint ventures and associated companies pursuant to equity accounting principles. Retained Phones operations are reported under Other operations .

3) 2000-2001 adjusted for stock dividend element of stock issue.

4) Earnings per share, basic, are calculated by dividing net income, after cumulative effect of accounting change, by average number of shares outstanding, basic.

5) Diluted earnings (loss) per share are calculated by dividing net income (loss), after cumulative effect of accounting change, by the sum of the average number of shares outstanding plus all additional shares that would have been outstanding if all convertible debentures were converted and stock options were exercised. Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.

Working capital: Current assets less current non-interest-bearing provisions and liabilities.

Capital employed: Capital employed is defined as total assets less non-interest-bearing provisions and liabilities.

Earnings per share: See Notes to the Financial Statements Note l, Accounting Policies, for information of principles for calculation of earnings per share. For earnings per share in accordance with US GAAP, see Notes to the Financial Statements Note 34, Reconciliation to Accounting Policies Generally Accepted in the United States .

Cash dividends per share: Defined as dividends paid divided by average number of shares, basic.

Stockholders equity (SEK per share): Defined as Stockholders equity divided by the number of shares outstanding.

Return on equity: Defined as Net income expressed as a percentage of average adjusted Stockholders equity (based on the amounts at January l and December 31).

Return on capital employed: Defined as the total of Operating income plus Financial income as a percentage of average capital employed (based on the amounts at January 1 and December 31).

Equity ratio: Defined as the total of stockholders equity and minority interest in equity of consolidated subsidiaries, expressed as a percentage of total assets.

Debt-equity ratio: Defined as total interest-bearing provisions and liabilities divided by the total of stockholders equity and minority interest in equity of consolidated subsidiaries.

Current ratio: Current assets divided by the sum of current provisions and liabilities.

Capital turnover: Net sales divided by average capital employed.

Inventory turnover: Cost of sales divided by average inventory.

Accounts receivable turnover: Net sales divided by average accounts receivable.

Return on sales: Operating income plus Financial income expressed as a percentage of net sales.

Payment readiness: Defined as cash and short-term investments less short-term borrowings plus long-term unused credit commitments. Payment readiness is also shown as a percentage of net sales.

Net cash: Defined as cash and bank plus short-term cash investments less interest-bearing provisions and liabilities.

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SHARE INFORMATION

Share Information

Stock exchange trading

Ericsson s Class A and Class B shares are traded on Stockholmsbörsen (Stockholm Stock Exchange), and the Class B shares are also traded on the London Stock Exchange.

In the United States, the Class B shares are traded on NASDAQ in the form of American Depositary Shares (ADS) evidenced by American Depositary Receipts (ADR) under the symbol ERICY. Each ADS represents 10 Class B shares.

Approximately 62 (69) billion shares were traded in 2004, of which about 74 (74.5) percent were traded on Stockholmsbörsen, about 15 (12.8) percent on NASDAQ, and about 11 (12.6) percent on the London Stock Exchange.

At an Extraordinary General Meeting on August 31, 2004, it was decided to increase the voting power of the Class B shares from 1/1000 of a vote to 1/10 of a vote. The voting power of the Class A shares remain unchanged at 1 vote. (For more information, see the Board of Directors Report.)

Ericsson rejoined the DJ Euro Stoxx 50 list on September 20, 2004, and on December 20, 2004, we also rejoined the NASDAQ 100 index.

Share price trend

During 2004, Ericsson s total market value increased by about 64 percent to approximately SEK 343 billion (SEK 209 billion in 2003). The OMX index on Stockholmsbörsen increased by 17 percent, the NASDAQ telecom index increased by approximately 7 percent and the NASDAQ composite index increased by approximately 8 percent in 2004. The Ericsson share increased by approximately 73 percent on NASDAQ.

Share capital

As of December 31, 2004, Ericsson s share capital was SEK 16,132,258,678 (16,132,258,678) represented by 16,132,258,678 shares. The par value of each share is SEK 1.00. As of December 31, 2004, the shares were divided into 1,308,779,918 (656,218,640) Class A shares, each carrying one vote, and 14,823,478,760 (15,476,040,038) Class B shares, each carrying one-tenth of a vote. As of December 31, 2004, Ericsson held 299,715,117 of its Class B shares.

No Class C shares, each carrying one-thousandth of a vote, are outstanding.

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SHARE INFORMATION

Share data

	2004	2003	2002	2001	2000
Earnings per share, diluted (SEK)[2]	**1.20**	0.69	1.51	1.94	1.91
P/E ratio, Class B shares	**17**				40
Dividend (SEK)[1]	**0.25**	0	0	0	0.36

[1] For 2004 as proposed by the Board of Directors

[2] 2000-2001 adjusted for stock dividend element of stock issue

Share prices on Stockholmsbörsen

(SEK)	2004	2003	2002	2001	2000
Class A at last day of trading	**21.70**	13.90	8.60	42.25	88.17
Class A high for year (April 21, 2004)	**26.10**	16.80	42.89	91.00	169.72
Class A low for year (Jan. 2, 2004)	**14.00**	5.55	3.80	23.98	75.83
Class B at last day of trading	**21.20**	12.90	6.10	41.35	78.00
Class B high for year (April 20, 2004)	**24.50**	14.60	44.78	88.11	166.83
Class B low for year (Jan. 2, 2004)	**12.70**	4.11	2.96	23.18	72.94

Offer and listing details

Host market NASDAQ ADS Prices

The tables below state the high and low sales prices quoted for our ADSs on NASDAQ for the last five years. The NASDAQ quotations represent prices between dealers, not including retail mark-ups, markdowns or commissions, and do not necessarily represent actual transactions.

Principal trading market Stockholmsbörsen (Stockholm Stock Exchange) Share prices.

The tables below state the high and low sales prices for our Class A and Class B shares as reported by Stockholmsbörsen for the last five years. The equity securities listed on the A-list of Stockholmsbörsen s Official Price List of Shares currently comprise the shares of 53 companies. Trading on the exchange generally continues until 5:30 p.m. each business day. In addition to official trading on the exchange, there is also trading off the exchange during official trading hours and also after 5:30 p.m. Trading on the exchange tends to involve a higher percentage of retail clients, while trading off the exchange often involves larger Swedish institutions, banks arbitrating between the Swedish market and foreign markets, and foreign buyers and sellers purchasing shares from or selling shares to Swedish institutions.

The exchange publishes a daily Official Price List of Shares which includes the volume of recorded transactions in each listed stock, together with the prices of the highest and lowest recorded trades of the day. The Official Price List of Shares reflects price and volume information for trades completed by the members.

Annual high and low market prices

The annual high and low market prices on these markets were as follows:

	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS[1)]		SEK per Class A share		SEK per Class B share	
Period	**High**	**Low**	**High**	**Low**	**High**	**Low**
2000	190.04	74.92	169.72	75.83	166.83	72.94
2001	97.50	22.03	91.00	23.98	88.11	23.18
2002	43.33	3.40	42.89	3.80	44.78	2.96
2003	18.85	5.20	16.80	5.55	14.60	4.11
2004	34.57	17.93	26.10	14.00	24.50	12.70

Share market prices prior to August 8, 2002, have been adjusted for the stock dividend element of the stock issue.

1) One ADS = 10 Class B shares. (Prior to October 23, 2002, one ADS = one Class B share. Share prices have been adjusted accordingly.)

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SHARE INFORMATION

Quarterly high and low market prices

The table below states for each quarter of 2003 and 2004 high and low sales prices.

	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS[1]		SEK per Class A share		SEK per Class B share	
Period	**High**	**Low**	**High**	**Low**	**High**	**Low**
2003						
First Quarter	10.24	5.20	11.10	5.55	9.10	4.11
Second Quarter	11.95	6.29	10.60	6.90	9.30	5.25
Third Quarter	17.50	10.29	16.80	9.70	14.60	8.35
Fourth Quarter	18.85	14.47	16.20	12.80	14.50	11.00
2004						
First Quarter	31.41	17.93	25.10	14.00	23.50	12.70
Second Quarter	32.32	24.72	26.10	20.50	24.50	19.10
Third Quarter	31.37	23.18	24.50	19.50	23.20	17.40
Fourth Quarter	34.57	27.76	24.10	20.70	23.80	19.80

[1] One ADS = 10 Class B shares

Monthly high and low market prices

The table below states high and low sales prices for the last six months (August 2004 to January 2005).

	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS[1]		SEK per Class A share		SEK per Class B share	
Month	**High**	**Low**	**High**	**Low**	**High**	**Low**
August 2004	27.62	23.18	22.60	19.50	20.70	17.40
September 2004	31.37	26.05	23.40	20.40	23.20	19.30
October 2004	32.82	27.76	24.10	20.70	23.80	19.80
November 2004	33.87	29.21	23.50	21.10	23.20	20.40
December 2004	34.57	31.03	23.50	21.50	23.10	20.80

January 2005	32.49	28.01	22.40	20.00	22.00	19.60

[1] One ADS = 10 Class B shares

Changes in capital stock 2000-2004

			Number of shares	Capital stock
2000	Bonus issue			2,941,658,410
2000	Split	4:1	5,883,316,821	
2000	Conversions		69,880,270	75,830,899
2001	Conversions		168,395	168,395
2001	New issue (Class C shares)		155,000,000	155,000,000
2002	Conversions		560	560
2002	New issue (Class B shares)	1:1	7,908,754,111	7,908,754,111
2003	New issue (Class C shares)		158,000,000	158,000,000
2003	December 31		16,132,258,678	16,132,258,678
2004	December 31		16,132,258,678	16,132,258,678

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SHARE INFORMATION

Shareholders

As of December 31, 2004, we had 921,604 shareholders registered at VPC (the Swedish Securities Register Center). According to information provided by Citibank, there were 164,255,098 ADSs outstanding as of December 31, 2004 and 6,579 registered holders of such ADS. A significant number of the ADSs are held of record by banks, brokers and/or nominees for the account of their customers. As of December 31, 2004, this level is represented by 287,921 accounts.

According to information known to us, approximately 80 (79) percent of our Class A and Class B shares at year-end 2004 were owned by Swedish and international institutions.

Ten largest countries, capital:	As of December 31, 2004	2003
Sweden	**53.7%**	56.1%
United States	**26.9%**	23.8%
United Kingdom	**4.7%**	4.5%
Luxembourg	**4.1 %**	4.0%
Switzerland	**1.7%**	2.3%
Germany	**1.2%**	1.9%
Norway	**1.0%**	0.9%
France	**0.9%**	1.2%
Belgium	**0.9%**	1.5%
Denmark	**0.8%**	0.8%
Other countries	**4.1 %**	3.0%

Source: SIS Ägarservice AB

The following table sets forth, as of December 31, 2004, share information with respect to our largest shareholders registered at VPC, the Swedish Securities Register Center, known by us, ranked by percentage of voting rights:

Largest shareholders by voting rights, December 31, 2004

Identity of person or group[1)]	Number of Class A shares	Percentage of total Class A shares	Number of Class B shares	Percentage of total Class B shares	Voting rights, percent	Percentage of capital

Investor AB	513,320,192	39.22	297,073,324	2.00	19.46	5.02
AB Industrivärden	372,000,000	28.42			13.33	2.31
Svenska Handelsbankens Pensionsstiftelse	83,903,000	6.41			3.01	0.52
Livförsäkrings AB Skandia	58,960,986	4.51	74,093,181	0.50	2.38	0.82
Pensionskassan SHB Försäkringsförening	63,360,000	4.84			2.27	0.39
Robur Fonder	6,690,973	0.51	393,056,151	2.65	1.62	2.50
AMF Pension	4,763,682	0.36	318,236,318	2.15	1.33	2.00
Gamla Livförsäkringsaktiebolaget SEB-Trygg	27,923,095	2.13	58,236,405	0.39	1.22	0.53
SHB/SPP fonder	3,142,274	0.24	257,261,739	1.74	1.05	1.61
Nordea Fonder	3,419,614	0.26	244,273,043	1.64	1.01	1.54
Tredje AP-fonden	12,245,095	0.94	144,271,862	0.97	0.97	0.97
Första AP-fonden	7,472,938	0.57	173,281,311	1.17	0.90	1.12
Fjärde AP-Fonden	2,872,755	0.22	194,019,545	1.32	0.81	1.22
SEB fonder	3,530,210	0.27	185,824,740	1.25	0.80	1.17
Alecta	2,484,915	0.19	185,442,985	1.25	0.75	1.16
Svenska Handelsbankens Personalstiftelse	20,000,000	1.53			0.72	0.12
Oktogonen, Stiftelsen	12,903,000	0.99			0.46	0.08
EB Stiftelsen, Skandinaviska Enskilda Banken	5,179,200	0.39	7,679,200	0.05	0.21	0.08
Svenska Handelsbanken	2,931,500	0.22	3,658,592	0.02	0.12	0.04
Astoria i Linköping	1,440,000	0.11	2,566,612	0.00	0.06	0.02
Foreign owners [2]	23,774,261	1.82	7,434,524,245	50.15	27.48	46.23
of which Fidelity Funds			819,164,919	5.52	2.93	5.08
Others	76,462,228	5.85	4,849,979,507	32.75	20.04	30.55
Total	1,308,779,918	100%	14,823,478,760	100%	100%	100%

[1] Sources: SIS Ägarservice AB and VPC AB, December 31, 2004

[2] Including Nats Cumco as Nominee: 1,576,621,014 Class B shares.

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SHARE INFORMATION

The following table indicates changes in holdings of the Class A and Class B shares, respectively, held by major shareholders and percent of voting rights, as of December 31, 2002, 2003 and 2004.

	2004			2003			2002		
Person or group	**Class A shares, percent**	**Class B shares, percent**	**Voting rights, percent**	**Class A shares, percent**	**Class B shares, percent**	**Voting rights, percent**	**Class A shares, percent**	**Class B shares, percent**	**Voting rights, percent**
Investor AB	**39.22**	**2.00**	**19.46**	39.11	3.58	38.29	39.11	3.93	38.31
AB Industrivärden	**28.42**		**13.33**	28.34	1.15	27.72	28.34	1.41	27.73
Svenska Handelsbankens Pensionsstiftelse	**6.41**		**3.01**	7.38	0.23	7.21	5.41	0.23	5.29
Livförsäkrings AB Skandia	**4.51**	**0.50**	**2.38**	4.53	1.09	4.45	5.02	1.67	4.95
Pensionskassan SHB Försäkringsförening	**4.84**		**2.27**	4.83	0.20	4.72	4.83	0.21	4.72
Svenska Handelsbankens Personalstiftelse	**1.53**		**0.72**	1.52	0.06	1.49	1.52	0.07	1.49
Oktogonen, Stiftelsen	**0.99**		**0.46**				1.98	0.08	1.92
Robur Fonder	**0.51**	**2.65**	**1.62**	0.00	3.09	0.07			
AMF Pension	**0.36**	**2.15**	**1.33**						
Gamla Livförsäkringsaktiebolaget SEB-Trygg	**2.13**	**0.39**	**1.22**	1.98	0.77	1.95	1.98	0.89	1.95
SHB/SPP Fonder	**0.24**	**1.74**	**1.05**	0.14	1.71	0.17			
Nordea Fonder	**0.26**	**1.64**	**1.01**						
Tredje AP-fonden	**0.94**	**0.97**	**0.97**	0.77	1.03	0.78	0.29	1.36	0.31
Första AP-fonden	**0.57**	**1.17**	**0.90**	0.33	1.31	0.36	0.33	1.41	0.36
Fjärde AP-fonden	**0.22**	**1.32**	**0.81**				0.33	1.64	0.36
SEB fonder	**0.27**	**1.25**	**0.80**	0.04	1.52	0.08	0.08	1.62	0.12
EB Stiftelsen, Skandinaviska Enskilda Banken	**0.39**	**0.05**	**0.21**	1.19	0.02	1.16	1.19	0.06	1.16
Svenska Handelsbanken	**0.22**	**0.02**	**0.12**	0.39	0.05	0.38	0.22	0.06	0.22
Astoria i Linköping	**0.11**	**0.00**	**0.06**				0.11	0.02	0.11
Alecta	**0.19**	**1.25**	**0.75**						
Foreign owners	**1.82**	**50.15**	**27.48**	1.09	45.74	2.12	0.99	40.51	1.88
of which Fidelity funds		**5.52**	**2.93**						
Others	**5.85**	**32.75**	**20.04**	8.36	38.45	9.05	8.27	44.83	9.12
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: SIS Ägarservice AB and VPC AB, December 31, 2004.

We do not know of any arrangements that might result in a change of the control of the Company. As of December 31, 2004, the total number of voting securities of the Company owned by officers and directors as a group was:

	Number of Class A shares	Number of Class B shares	Voting rights, percent
Officers and directors as a group (27 persons)	6,080	17,586,280	0.1

For individual holdings, see Corporate Governance .

Letter from the Chairman of the Board

Dear Shareholder,

Ericsson s solid results for 2004 reaffirmed the value and effectiveness of our restructuring strategy. We delivered strong operating profit, healthy operating cash flow and our sales growth more than offset the weakness of the U.S. dollar reinforcing our global market leadership.

The Ericsson share price performed well during 2004 outperforming most stock market indexes. We also returned to several blue chip stock indexes, including DJ Euro STOXX 50 and the NASDAQ 100.

Over the last several years, we have strengthened Ericsson, operationally and financially, and we have emerged from the market downturn with the strongest financial position in our history. Now, our ambition is to return value to shareholders in the most sustainable way.

Retaining a strong balance sheet is of primary importance. Our solid financial position enables us to pay down debt, make strategic investments and, for the first time since 2000, we are proposing that we pay a dividend to our shareholders. It has also allowed us to successfully manage our way through the challenging environment that we have experienced in recent years.

To help protect shareholder value, we are committed to meeting the highest standards of corporate governance. We are confident that we have adequate management controls and we continuously seek ways to make them better. During 2004, the difference in voting rights between the Class A and Class B shares was significantly reduced. We are participating in various industry forums to help further strengthen corporate governance practices including the NASDAQ Issuers Affairs Committee. We are also in the process of implementing the applicable requirements of the Sarbanes-Oxley Act.

As a valued shareholder, you are part owner of an extraordinary company, with solid assets, a world-class reputation and some of the best employees in our industry. We have a number of strategic advantages in many areas, from our competitive cost structure and technological expertise to our industry-leading operational scale and customer base. It is a great honor for me to serve as your Chairman. I thank you for your continued support.

I would also like to acknowledge the contributions of my fellow board members in setting our strategies and policies. Of course, a good strategy is effective only when properly implemented. For that, I would like to congratulate the management team and all employees for their ongoing commitment to operational excellence. This year s excellent results are a credit to you all.

Sincerely yours,

Michael Treschow
Chairman of the Board

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BOARD OF DIRECTORS REPORT

Board of Directors Report

The Board of Directors Report contains discussion and analysis of the financial statements for earnings, balance sheet and cash flow. In addition to this and other information on past performance, the report includes forward-looking statements about future market conditions, strategies and anticipated results. Such statements are based on assumptions and estimates, and are subject to risks and uncertainties. Actual results could differ materially from those described or indicated by such forward-looking statements. For further discussion, please see Forward-looking Statements .

The terms Ericsson , Group , the Company , us , we , our or similar all refer to Telefonaktiebolaget LM Ericsson, the Parent Company and it subsidiary companies. To facilitate comparisons of operating results, we have excluded restructuring charges for years 2002 and 2003, except for the measures Net Income, Earnings per share and Payable days. Those adjustments relate to restucturing costs, effects of capitalization of development costs and non-operation capital gains, and, in our opinion, the adjusted measures better reflect the operations and will help the readers to understand the Company s performance during the periods reported in the statements. There were no restructuring charges during 2004. Please see Notes to the Financial Statements Note 3, Restructuring Costs for more information about these charges.

SUMMARY

Ericsson s 2004 performance was characterized by recovery, profitable growth and increased market share with good progress in strategically important areas. We believe that a flexible platform for value creation has now been firmly established. The success of our restructuring efforts and focus on operational excellence are evidenced by the solid results in 2004. In addition to improving our operational efficiency beyond what was originally envisioned in 2001, an increased cost awareness has been instilled within all parts of the Group.

With the restoration of a healthy operating margin and strong cash flow from operations, we have increased our cash position and repaid a significant portion of our long-term debt ahead of maturity. Our ambition is to maintain the performance levels delivered this year in order to continue generating best-in-class margins.

Our leadership in GSM and WCDMA is reinforced with a number of key business wins in strategic markets. Ericsson Mobile Platforms is now a supplier to 6 of the top mobile phone brands representing approximately 30 percent UMTS (3G/WCDMA) market share. We have also shown good progress in our professional services business where we have built a leading position in managed services and hosting. Going forward, we believe the company is very well positioned for sustainable performance with competitive profitability.

MARKET ENVIRONMENT AND TREND INFORMATION

After several years of decline, operator spending on mobile network infrastructure equipment rebounded during 2004. The market growth was driven by subscriber additions in developing markets and deployment of 3G networks, mainly in Western Europe as well as in parts of Asia. There was also a temporary surge of investments in most markets as many operators strived to catch up from under-investing during the market downturn. Following the extraordinarily strong growth in 2004, we expect the mobile systems market, measured in USD, to increase slightly during 2005.

Pricing trends remained similar to previous years, in particular regarding strategic pricing necessary to win contracts with new customers and/or new markets. Currency exchange effects, mainly related to a weaker USD, also negatively affected our sales.

Operator consolidation is a key trend in several markets. In North America, operator consolidation caused a temporary slowdown in GSM/EDGE investments while the companies involved underwent their merger process. In Latin America, where significant operator consolidation has already taken place, we experienced strong growth, especially from operators expanding their GSM coverage and capacity. In both regions, we have been able to improve our already strong market position due to our longstanding relationships with the consolidating companies.

The largest mobile operator in the US has now committed to deploy WCDMA with plans for nationwide coverage by year-end 2006. China is broadly expected to announce their 3G plans sometime during 2005 with volume deployments likely to start during 2006. Even when including the US and China, the footprint of WCDMA is still less than one half of GSM s. This implies not only good growth opportunities for WCDMA but also continued near-term volume deployment of GSM, especially in developing markets.

Within fixed networks, we believe operator spending was flat to slightly up in 2004 compared with 2003. However, many operators are contemplating a conversion to an all-IP broadband environment. This would enable more efficient handling of voice, data and image based communications as well as a platform for converged services. Ericsson already has a solid starting position as we offer broadband for mobile and fixed networks, IP Multimedia Subsystem (IMS) based service networks and unique systems integration competence. These are the three key aspects that network operators need to address in order to converge their fixed and mobile services. Several operators have already started such an upgrade process and others are expected to follow. This development could stimulate fixed network capital expenditures over the next several years.

In addition to network management and systems integration services, the opportunity to supply managed capacity and hosting services to network operators is increasing. We expect this trend to continue as operators realize the competitive advantages that are made possible when several operators share capacity and operating costs. Smaller operators especially benefit by gaining access to service capabilities and content far beyond what they could normally afford while at the same time lowering their risks and improving their time to market.

GOALS AND STRATEGY

Our goal is to be the preferred business partner to our customers, especially to the world s leading network operators. In doing so, we strive to be the market and technological leader by offering end-to-end solutions mainly related to network infrastructure, network management and other service offerings. Our products and services fit into the core and access parts of networks as well as into the increasingly important service layer. In addition, with our mobile platform products and through our Sony Ericsson joint venture for mobile handsets, we extend the scope of our operations for complete end-to-end solutions.

Our strategy is to:

- Lead market development through innovation and technological leadership;
- Leverage our economies of scale to develop superior products and services and thereby offer our customers competitive advantages; and
- Establish operational excellence as a basis for sustainable and best-in-class operating margins.

PROGRESS RELATIVE TO GOALS

Strong subscriber growth in emerging markets combined with catch-up spending on GSM has fueled a rebound in the mobile systems market during 2004, driving double-digit growth and high profit margins. While the sharp market recovery provided the fuel for the strong performance, it would not have been possible without the restructuring measures that were undertaken during 2001 2003 to position the company for the eventual market rebound.

We made good progress on our ongoing financial targets of:

- Increasing sales at least in line with the market growth;

Delivering best-in-class operating margins;

Generating positive cash flow before financing;

Restoring our credit ratings to Investment Grade.

Sales development

Based on our reported sales combined with the publicly reported and estimated sales for our main competitors, we estimate that the mobile systems market grew approximately 20 percent in USD terms during 2004. During this period, our mobile systems sales increased by 26 percent at constant exchange rates.

Margin development

Our ambition is to deliver best-in-class profit margins. The Company has generated a record level operating margin during 2004.

Research and development

A robust R&D program is key to our competitiveness and future success. With most of our R&D invested in mobile communications network infrastructure, our program is one of the largest in the industry. Even though total R&D spending has been significantly reduced over the last several years, we have maintained a high investment level in the strategically important areas of broadband access, core networking and service layer. During the same time, we have reduced the number of design platforms within our product portfolio, which has facilitated a higher level of product commonality for improved R&D efficiency.

R&D program

	2004	**2003**	**2002**
Expenditures (SEK billion)	**20.9**	21.8	26.4
As percent of sales	**15.8%**	18.5%	18.1%
Employees within R&D at December 31	**16,000**	16,500	20,500
Patents	**16,000**	15,000	12,000

Cash flow development

Return on Capital Employed (ROCE) was over 29 percent compared with a negative 6 percent in 2003. Even with the strong sales growth this year, most of the working capital efficiency targets were exceeded in 2004. However, efforts to further improve capital efficiency will continue, especially within inventories.

	Target	2004	2003	2002
Days Sales Outstanding (DSO)	<90	**75**	79	92
Inventory Turnover (ITO)	>5.5	**5.7**	6.1	5.1
Payable Days [1)]	>45	**46**	37	40
Cash flow before financing activities (SEK billion)	Positive	**17.7**	19.5	-7.1

1) Payable days: Accounts payable divided by Cost of sales and multiplied by 90 days.

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BOARD OF DIRECTORS REPORT

Credit ratings

Although Moody s as well as Standard & Poor s (S&P) credit rating agencies have raised Ericsson s credit ratings during 2004, at year-end their ratings were still below what is considered to be investment grade i.e. Baa3 for Moody s and BBB for S&P.

Ericsson credit ratings year end 2002-2004

	Investment grade	2004	2003	2002
Moody s	Baa3	**Ba2**	B1	Ba2
Standard & Poor s	BBB	**BB+**	BB	BB

FINANCIAL RESULTS

Orders and sales

Order intake increased sharply during the year, resulting in a book-to-bill ratio of slightly above one for the full year. The increase in orders was driven by particularly strong development in Latin America, Europe, Middle East and Africa as well as parts of Asia. Our largest market, the United States, was down significantly due to a temporary disruption from the merger process involving two of our largest customers. We expect a resumption of more normal levels of investments in the US once their merger integration is completed. A stronger SEK also negatively affected order value when translated from local currencies.

Sales growth within the GSM/WCDMA track was approximately 19 percent mainly due to a strong increase in demand for GSM in almost all markets. Although from a much smaller base, WCDMA equipment and associated network rollout services also showed good sales growth with a more than 37 percent increase from SEK 10.7 billion in 2003 to SEK 14.7 billion in 2004.

Within fixed networks, we were awarded a number of contracts for broadband access, softswitch and packet switching products, but this was not sufficient to offset the continued sharp decline for circuit switching equipment. Although the business is currently much reduced from prior levels, we are optimistic regarding growth opportunities for public Ethernet access and converged networks.

The business development and portfolio build-up within Professional Services continued to be favorable. Sales increased 14 percent in local currencies and now represent 16 percent of Systems sales. Particularly encouraging was the development for hosted and managed services where we have been awarded a significant number of contracts.

Sales in Other Operations increased by 8 percent to SEK 11.4 billion with most business units showing improvements, especially Mobile Platforms and Power Modules. Sales in Enterprise Systems were essentially flat. To strengthen Enterprise opportunities, we have introduced applications that bridge the enterprise and public mobile worlds and are now offering custom-made solutions that suit the unique demands of individual companies and operators.

Gross margin and operating expenses

The significantly improved gross margin reflects the benefits of the cost reduction measures, higher volumes with better capacity utilization and a favorable product mix.

While sales increased by 12 percent, operating expenses were reduced from SEK 40.0 billion, adjusted to exclude restructuring charges, in 2003 to SEK 37.1 billion. Efficiency improved, with operating expenses measured as a percentage of net sales decreasing from 34.0 percent in 2003 to 28.1 percent in 2004. The net effect of risk provisions and credit losses for customer financing affecting operating expenses amounted to SEK 0.2 (1.1) billion.

Other Income Statement items

Share in earnings of joint ventures and associated companies improved sharply by SEK 2.6 billion mainly due to a strong contribution from Sony Ericsson. The financial performance of Sony Ericsson improved dramatically, improving our share in earnings from a loss of SEK 0.2 billion excluding restructuring costs last year to a profit of SEK 2.1 billion this year.

Other operating revenues increased by 29 percent, mainly as a result of license fees from WCDMA related intellectual property rights.

Continued positive cash flow and repayment of debt improved the financial net from SEK 0.9 billion in 2003 to SEK 0.5 billion.

Income after financial items was SEK 28.4 (4.4) billion, an improvement of SEK 24.0 billion on a sales increase of SEK 14.2 billion, confirming the success of our cost reduction measures.

Net income improved to SEK 19.0 (10.8) billion and diluted earnings per share improved to SEK 1.20 (0.69). Diluted earnings per share according to US GAAP were SEK 0.90 (0.68).

Balance Sheet and Cash Flow

The capital usage and cash position improved during 2004. Total assets were SEK 183 (182) billion. Excluding increased cash and cash equivalents of SEK 3.3 billion, total assets were reduced by 1 percent. The largest items contributing to the improvements were lower customer financing and deferred tax assets.

SEK 13.6 billion of long-term debt was repaid. Liabilities and provisions were reduced despite the effect of a SEK 1.8 billion increase for new pension accounting rules.

Net cash developed favorably, with the excess of cash over debt increasing from SEK 27.0 billion to SEK 42.9 billion. This year s strong profit increased equity to SEK 77.3 (60.5) billion and the equity ratio improved to 42.8 (34.4) percent.

The extended restructuring programs initiated in early 2003 were completed ahead of schedule and have delivered more than the targeted cost reductions. Although there were no restructuring charges in 2004, cash outlays in 2004 related to restructuring were SEK 5.7 (10.5) billion.

Cash flow before financing activities was positive by SEK 17.7 (19.5) billion, driven mainly by the improved income.

Capital expenditures

The following table sets forth a breakdown of our annual capital expenditures during the four years ended December 31, 2004:

(SEK billion)	2004	2003	2002	2001
Capital expenditures	**2.5**	1.8	2.7	8.7
of which Sweden	**1.1**	1.1	1.2	3.8

Through downsizing and outsourcing we have been able to significantly reduce our capital expenditures from the higher levels of 2001. Capital expenditures in 2004 were mainly for investments in test equipment used to develop, manufacture and deploy systems products. We do not expect our capital expenditures to be significantly different in 2005. We continuously monitor our capital expenditures and evaluate whether adjustments to our budget are necessary in light of market conditions and other economic factors.

Off Balance Sheet items

Customer financing credits of SEK 0.6 (2.0) billion issued by third parties and guaranteed by Ericsson were outstanding as per December 31, 2004. Please also see Notes to the Financial Statements Note 22, Financial Risk Management and Financial Instruments , and Note 34, Reconciliation to Accounting Principles Generally Accepted in the United States .

PARTNERSHIPS AND JOINT VENTURES, ACQUISITIONS/DIVESTITURES

Mobile communications networks are becoming increasingly complex and many new types of services will continue to be launched. Since handsets are an important part of the realization of new services, it is important for Ericsson as a systems supplier to also participate in the mobile phone market. With our 50:50 mobile phone joint venture with SONY Corporation, we are able to offer complete end-to-end solutions that combine mobile handsets, network infrastructure and services. The Sony Ericsson Mobile Communications (SEMC) joint venture is included in our Phones segment. Their results are accounted for under the equity method with no sales included in Ericsson s financial statements.

During 2004, Sony Ericsson Mobile Communications AB reported sharply increased unit shipments and sales. The cost reduction actions that were initiated during 2003 have been successfully completed and contributed to the positive results. With a product portfolio that is geared mostly towards mid and high-end models along with a lower cost base, our ambition for the JV is to create continued profitable growth.

In the second quarter of 2004, SEMC increased its equity stake in Beijing Ericsson Putian Communications Company Ltd. to 51 percent. The name of the facility has been changed to Beijing SE Putian Mobile Communications Co. Ltd. (BMC). BMC operations have been consolidated into SEMC since the second quarter, which has had a relatively minor positive effect on their results.

For more information on our transactions with SEMC, please also see Notes to the Financial Statements Note 32, Related Party Transactions .

In the second quarter of 2004, we made a public offer to purchase shares of Ericsson S.p.A. in Italy and have increased our ownership from 72 percent to 93 percent. By that we exceeded 90 percent ownership, which according to Italian regulations requires us to launch a Residual Public Offer for the remaining 7.4 percent of the shares outstanding. This offer will be launched during the first quarter of 2005. When completed, Ericsson S.p.A. will be delisted from the Milan Stock Exchange.

No other significant acquisitions or divestments were made during 2004.

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BOARD OF DIRECTORS REPORT

Material contracts and contractual obligations

Other than contracts entered in the ordinary course of business, we do not have any material contracts. The Company has in the ordinary course of business primary contractual obligations as per the table below. Purchase obligations are related to outsourced manufacturing, R&D and IS/IT operations and for components for our own manufacturing.

Contractual Obligations

		Payment due by period			
(SEK million)	**Total**	**< 1 year**	**1-3 years**	**3-5 years**	**>5 years**
Long-term debt[1]	**20,949**	764	9,210	6,163	4,812
Capital lease obligations [2]	**2,727**	272	454	340	1,661
Operating leases	**12,346**	2,337	3,583	2,607	3,819
Other long-term liabilities	**1,856**	77	426	124	1,229
Purchase obligations[3]	**7,129**	7,129			
Commitments for customer financing [1]	**2,195**	1,691	504		
Total	**47,202**	**12,270**	**14,177**	**9,234**	**11,521**

1) See also Notes to the Financial Statements Note 22, Financial Risk Management and Financial Instruments .

2) See also Notes to the Financial Statements Note 28, Leasing .

3) The amounts of purchase obligations are gross, before deduction of any related provisions.

Critical accounting policies and estimates

The preparation of financial statements and application of accounting policies often involve management s judgment or the use of estimates and assumptions deemed to be reasonable and prudent. However, other results may be derived using different assumptions or estimates. Following are the accounting policies subject to such estimates or assumptions that we believe have the most significant impact on our reported results and financial position.

Revenue recognition

A substantial part of our sales is generated from construction-type contracts to supply network equipment configured according to customer specifications. Managerial judgment is applied, among other aspects, regarding contractual performance, estimated total contract costs, degree of completion and conformance with acceptance criteria to define the amounts of revenue to be recognized. The large number of supply contracts that we are a party to generally balances the uncertainty that may be associated with any single contract.

Inventory valuation

Inventories are valued at the lower of cost or market value. Total inventory reserves as of December 31, 2004 amount to SEK 3.1 (3.7) billion or 18 (25) percent of gross inventory.

Deferred taxes

Deferred tax assets are recognized for temporary differences between reported and taxable income and for unutilized tax loss carry-forwards. The largest amounts of tax loss carry-forwards are in Sweden, with an indefinite period of utilization. The valuation of tax loss carry-forwards and our ability to utilize unused tax losses is based upon our estimates of future taxable income in different tax jurisdictions and involves assumptions regarding the deductibility of costs not yet subject to taxation.

At December 31, 2004, the value of unutilized tax loss carry forwards amounted to sek 34.1 (52.0) billion. The estimated tax loss carry-forwards are reported as assets.

Capitalized development costs

Development costs for products that will be sold, leased or otherwise marketed as well as those intended for internal use are capitalized. The starting point for capitalization is based upon management s judgement that the technological and economical feasibility can be confirmed, usually when a product development project has reached a defined milestone according to an established project management model. Amortization of capitalized equipment begins when the product is available for general use with impairment testing performed annually.

Provisions

Valuation of receivables and exposures in customer financing

We monitor the financial stability of our customers and the environment in which they operate to judge their guarantees and the likelihood that we can get paid for individual receivables. Most of our customers have good creditworthiness and the impact of individual receivables is therefore limited when consolidated. Total allowances for doubtful accounts as of December 31, 2004 were SEK 1.8 (2.1) billion or 5 (6) percent of our gross accounts receivable.

Customer financing credits have higher risk than trade receivables because customers requiring financing typically have weaker balance sheets and less liquidity. We regularly assess the credit risk and make appropriate provisions for outstanding customer financing credits and third party credits under our guarantee. Provisions for customer financing as of December 31, 2004 amounted to 56 (56) percent of gross exposure.

Product warranties

Reserves for product warranties are based on historic failure rates as well as assumptions on estimated failure rates for new products and costs to remedy the various types of faults predicted. Total reserves for customer warranties as of December 31, 2004 amount to SEK 6.4 (4.7) billion.

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Pension and other post-employment benefits

Accounting for the costs of defined benefit pensions and other applicable retirement benefits is based on actuarial valuations, relying on key assumptions for discount rates, expected return on plan assets, future salary increases, turnover rates and mortality tables. The discount rate assumptions, in turn, are based on rates for high quality fixed income investments with durations similar to our pension plans and considers long-term historical returns, allocation of assets and estimates of future long-term investment returns. At December 31, 2004, provisions for pensions and other post-employment benefits amounted to SEK 10.1 (8.0) billion with pension obligations reported as provisions on the balance sheet.

Other provisions

Significant parts of other provisions are related to estimated obligations for patent and other litigations, contractual discounts and penalties of uncertain timing and amount, potential supplier or subcontractor claims and unresolved Income Tax and VAT /GST issues. At December 31, 2004, Other provisions amounted to SEK 14.5 (13.5) billion.

FINANCIAL RISK MANAGEMENT

We have an established policy governing the Group s financial risk management, which is carried out by the Treasury function and supervised by the Board of Directors Finance Committee. Please see the Corporate Governance chapter for more information about our corporate governance and the responsibilities of the Finance Committee.

For further information on our objectives, policies and strategies for financial risk management please see Notes to the Financial Statements Note 21, Interest-Bearing Liabilities and Note 22, Financial Risk Management and Financial Instruments .

Foreign exchange risks

With significant revenues, costs, assets and liabilities in currencies other than SEK, Ericsson has a net exposure to a number of currencies. The duration of this exposure is also considerable, as many contracts have long lead times between order and delivery. Assuming our foreign exchange exposure remained the same, a 10 percent plus/minus isolated change in the USD/SEK exchange rate would affect income by SEK 3.6 billion before any hedging effects. We manage this exposure through a variety of hedging activities covering on average the forthcoming 6 9 months.

During 2004, due to the stronger SEK, primarily vs. USD and related currencies such as Saudia Arabian Riyal and Chinese Renminbi, foreign exchange losses of SEK 1.1 billion net were recognized.

The net results of foreign subsidiaries and the values of such foreign investments are also exposed to exchange rate fluctuations that can affect the income statement and consolidated balance sheet when translated into SEK. Translation effects of investments in companies affecting the income statement were negative SEK 35 million net. Hedging benefits fully offset these losses. The translation differences reported within equity on the balance sheet were, net of hedging, SEK 1.1 billion.

Interest rate risks

Ericsson is exposed to interest rate risk through market value fluctuations of certain balance sheet items and through changes in interest expenses and income. Assuming our net cash position remained at SEK 42.9 billion and our interest-bearing provisions and liabilities remained at SEK 33.6 billion, a sustained change in interest rates of plus/minus 0.25 percentage points would have an annual impact on the financial net of approximately SEK 124 million.

Credit risk in trade receivables

Extended payment terms for trade credits are regularly reviewed with provisions made to cover any expected losses. Trade receivables amounted to SEK 32.6 (31.9) billion less provisions of SEK 1.8 (2.1) billion at year-end. Credit losses have historically been low mainly because our customer base largely consists of well established and financially sound network operators.

Customer finance risk

Our gross exposure to customer finance, on and off balance sheet, has been continuously reduced since 2002. In most of our customer financing agreements, we maintain security interests, normally in the form of pledges of equipment, certain of customers shares or pledges of their shares. To cover the remaining risk exposure, provisions are made as part of selling expenses. These provisions as a percentage of gross exposure reflect the higher risk in a smaller and less geographically diversified portfolio of customer credits. At year-end 2004, 60 percent of our gross exposure was related to Latin America. The remaining exposure is mainly related to Europe, Middle East and Africa. The net effect on operating expenses during 2004 from risk provisions and credit losses amounted to SEK -0.2 (1.1) billion.

Please see Notes to the Financial Statements Note 22, Financial Risk Management and Financial Instruments for more information regarding customer financing.

Financial credit risk

Financial instruments carry an element of risk in that counterparts may be unable to fulfill their payment obligations. During 2004, no credit losses were incurred from such investments. All derivative transactions are covered by ISDA Master agreements to reduce the credit risk.

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BOARD OF DIRECTORS REPORT

Liquidity and refinancing risk

Cash and cash equivalents increased by SEK 3.3 billion to SEK 76.6 (73.2) billion during 2004 mainly due to positive cash flow. We expect our strong cash position to satisfy any short-term liquidity requirements and therefore we have cancelled our 2006 committed credit facility of USD 0.6 billion and repurchased outstanding bonds of SEK 5.9 billion.

During 2004, there have been no material defaults in the payment of principle or interest, or any other material default relating to the indebtedness of Ericsson or any of its significant subsidiaries.

Despite our currently below investment grade credit ratings, we have been able to amend the terms and conditions of the USD 1 billion revolving credit facility to reflect the company s improved performance. In addition to better pricing, the amended facility does not have any requirement for collateral or an availability test as required under the previous agreement.

CORPORATE SOCIAL RESPONSIBILITY

Effective management of social, environmental and geopolitical issues can help to assure an enduring capability for value creation and competitive advantage. We are committed to being a responsible member of the global society and to the communities in which we operate. Ericsson supports the UN Global Compact and its ten guiding principles. We see these principles as a prerequisite for sound, long-term business. These are also guiding principles in our work and inspire us to find new ways to deploy our products and services, including in developing countries. In this spirit we continued with our Supplier Code of Conduct program, in close cooperation with local Ericsson organizations. During 2004 we had our main focus on China establishing local management of ethical issues in the supply chain, including Code of Conduct Auditors. During 2004 Ericsson, as a member of the Global Compact, initiated the first socio-economic investigation in a developing country proving the need for mobile telephony as a catalyst for rural economic growth. This was made together with United Nations Development Program (UNDP) and the Swedish Foreign aid organization SIDA.

In 2004, Ericsson was again included in the FTSE4Good and the Dow Jones Sustainability Indexes. Additional information about our corporate social responsibility is available on our web site at: www.ericsson.com/about/responsibility.

We encourage and empower our employees to make a positive contribution to society. Their contributions are of many kinds, determined by our employees according to local needs. They may, for example, be in the fields of health care, social and humanitarian aid, scholarships and other educational support, art and culture, the environment, children s welfare as well as many other charitable activities.

We have provided a cornerstone donation of USD 1.0 million to the John F. Kennedy School of Government at Harvard University to help establish a newly endowed Professorship in Global Leadership & Public Policy in memory of Anna Lindh, former Foreign Minister of Sweden.

Ericsson Response

Ericsson Response is our global initiative to rapidly provide specialist volunteers and communications equipment anywhere in the world in response to human suffering caused by disasters. Ericsson Response assists the disaster relief operations of the United Nations Development Program, the Office for the Coordination of Humanitarian Affairs (OCHA) and the International Federation of Red Cross and Red Crescent Societies (IFRC).

Following is a limited summary of Ericsson Response disaster relief activities during 2004:

- Helping to establish a new Pan American Disaster Response center, which supports IFRC, operations in Central America, the Caribbean and Latin America.
- Supporting the relief operations of IFRC, the Dominican Red Cross and Télécoms Sans Frontières (TSF) following the extensive damage from several hurricanes, floods and mudslides in the Caribbean.
- Sending volunteers to Sudan to help support agencies such as the UN Office for the Coordination of Humanitarian Affairs, the World Food Program (WFP) and the Swedish Rescue Services Agency (SRSA) regarding the humanitarian crisis in that country.
- Supporting relief efforts in Southeast Asia after a series of tsunamis devastated coastal regions in the area. We are also aiding in reconstruction work in these disaster areas.

Environment

We continuously improve the environmental performance of our products, services and operations and strive to meet or exceed legal and other requirements to protect the environment.

Key areas of progress during 2004 include:

- Improvements in nearly every environmental indicator tracked. In particular, our overall energy consumption and carbon dioxide generation, measured per produced capacity, have been significantly reduced.
- Remained on schedule to meet the requirements of the EU directive on waste electrical and electronic equipment (WEEE).
- Expanded our worldwide Ecology Management recycling program for our customers phased-out equipment.
- Continued to fund independent research of health and safety issues.

Corporate Governance

Although our internal rules for governance and other important rules for managing our business activities have long been established through corporate steering policies and directives, we have adapted our work procedure in line with developments in Sweden and the US regarding reporting, disclosure and other requirements for listed companies on the Stockholmsbörsen, London Stock Exchange and NASDAQ as well as changes in legislation, such as the US Sarbanes-Oxley Act.

During 2004, actions to further strengthen our corporate governance included:

- Communication of a Code of Business Ethics and Conduct that essentially summarizes the most important of our rules to all employees, directors and officers throughout the Group. There have been no amendments or waivers to the Code of Business Ethics and Conduct for any Director or member of our Management.
- Initiation of a project to comply with relevant sections of the Sarbanes-Oxley Act. Implementation should be completed by the end of 2005.

Board Compensation

Members of the Board, who are not employees of the Company, have not received any compensation other than the fees paid for Board duties as outlined in Notes to the Financial Statements Note 31, Information Regarding Employees, Members of the Board of Directors and Management . Members and Deputy Members of the Board, who are employees, i.e. the CEO and the Employee representatives, have not received any remuneration or benefits other than their normal employee entitlements, with the exception of a small fee paid to the employee representatives on the Board for each meeting attended.

Executive Compensation

The remuneration committee continues to be mindful of the debates around the world on executive salaries and benefits. Based on the results of an independent review by our external auditors into all aspects of authorization, compliance and control of senior executive compensation, we are confident that current policies and practices at Ericsson are under proper control.

For the Group Management team, the maximum level of variable salary as a short term incentive has been reduced from 80 percent to 60 percent of base salary from 2004. This change is compensated in two steps, implying for 2005 an increase of 5 percent of fixed salary. In addition, the employee stock purchase plan has been enhanced as a long term incentive to allow investments of up to 7.5 percent of fixed salary. The previous version of the plan allowed a maximum investment of the lower of 7.5 percent of salary or SEK 50,000 per year. For management and key contributors, an acceleration feature has been added where multiple shares, up to a maximum of six, may be awarded for each share purchased if certain performance targets are met over a three-year period.

As of December 31, 2004, there were no loans outstanding from, and no guarantees issued to or assumed by the Company for the benefit of any member of the Board of Directors or senior management.

Employees

Every year we conduct an employee satisfaction survey to assess our Human Capital Index and employee empowerment. In 2004 over 90 percent of our employees participated in this survey. While there is still considerable room for improvements, the results showed a continued upward trend in almost all indicators with organizational efficiency and leadership showing the largest increases. Not surprising considering the turmoil within the company the last several years due to restructuring and downsizing, the employee empowerment index indicated some employee frustration and alienation. Action plans are in place to improve these areas during 2005.

Employee headcount was reduced by 1,049 to 50,534. During the year, 7,092 employees departed while 6,043 joined the company. The departures were mostly related to sales and adminstration while the additions were mostly to support our growing services business. Please also see Notes to the Financial Statements Note 31, Information regarding employees, members of the Board of Directors and Management .

LEGAL AND TAX PROCEEDINGS

As many other companies in the telecommunications industry, we are named a defendant in a number of class actions in the United States where plaintiffs allege that adverse health effects could be associated with the use of mobile phones. Together with the majority of the industry, Ericsson has been named a defendant in six such lawsuits. The court has dismissed five of these cases. Plaintiffs have appealed the decisions.

From 2001 to the beginning of 2005, Swedish fiscal authorities disallowed, for corporate income tax purposes, the Parent Company and the subsidiary companies Ericsson Telecom AB and Ericsson Radio Systems AB (renamed Ericsson AB) deductions for commission payments via external service companies to agents in certain countries. The increase in corporate income taxes for all group companies have been provisioned for. The decisions covering the income year 1999 have been appealed.

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BOARD OF DIRECTOR S REPORT

BOARD WORK

Board of Directors

The Board of Directors is elected yearly at the Annual General Meeting for the period until the end of the next Annual General Meeting. More information regarding the Board Of Directors and its members as well as the Board and its committee activities can be found in the Corporate Governance chapter.

Board changes 2004

At the Annual General Meeting on April 6, 2004, Nancy McKinstry succeeded Peter Sutherland as member of the Board. Lena Torell has informed that she declines to be re-elected as member of the Board at the Annual General Meeting 2005.

Board work during 2004

In 2004, seven Board meetings were held. The work of the Board is subject to an established work procedure that defines the distribution of work between the Board and its three committees (Audit, Finance and Remuneration) and between the Board and the President. The work procedure is evaluated each year and revised when deemed appropriate. The Chairman has had individual discussions with each member regarding the work procedure and the evaluation of the Board work. In addition, all board members have answered a written questionnaire. The other members of the board evaluated the work of the Chairman, as well as the President and Chief Executive Officer.

Certain Board actions and decisions during 2004:

- Amended the work procedure of the Board in order to take into account organizational changes within the Group and new NASDAQ rules regarding related party transactions.
- Determined that each of the shareholder elected members of the audit committee qualify as Audit Committee financial expert pursuant to the applicable attributes under the final rules of the Sarbanes-Oxley Act.
- The external auditors presented their observations from their audit of our annual report as well as their reviews of interim reports and their assessment of our internal controls and procedures.

Initiated a project to further strengthen internal controls and procedures to comply with applicable requirements of the U.S. Sarbanes-Oxley Act.

Resolved to apply the newly developed Swedish Code on Corporate Governance when it becomes effective.

Resolved to establish and capitalize a Swedish pension trust fund to cover pension obligations under the Swedish ITP plan.

Audit Committee

The Audit Committee had eight meetings in 2004 and reviewed the financial reporting, the scope and execution of audits performed, the independence of the external auditors, the internal audit function and audit fees as well as the progress of the conversion to IFRS reporting. The committee together with the external auditors reviewed each interim report prior to publishing. The committee has continuously followed the development of the rules and regulations of the Sarbanes-Oxley Act and the Company s implementation. The committee has endorsed a strategy regarding non-audit services and has approved certain services under such pre-approval procedures. The committee has discussed the requirement for audit committee financial experts and has resolved to the Board to decide on the matter. An external expert advisor, Mr. Peter Markborn, has been engaged to assist and advise the committee. A procedure for confidential submission by employees of violations of laws or regulations (and in particular in relation to accounting, internal accounting controls, auditing matters, or any deceptive financial practices) was implemented during 2004.

Finance Committee

The Finance Committee held ten meetings during the year. The committee resolved issues regarding restructuring of customer credits and trade receivables, guarantees, credit facility agreements, acquisitions, refinancing of Ericsson s existing credit commitments, the financing strategy and pension liabilities. The committee prepared for resolution by the Board proposals for conditional shareholders contributions to subsidiaries, proposals with respect to a public tender in Italy and certain acquisitions as well as a proposal to establish a Swedish pension trust. The Finance Committee also monitored the financial risk exposure and risk limits and reviewed the reporting to the committee in this respect.

Remuneration Committee

The Remuneration Committee held nine meetings during the year. The committee reviewed and prepared for the Board a proposal for a Long-Term Incentive Plan, which was resolved by the 2004 Annual General Meeting. The committee approved certain remuneration packages for the CEO, the members of the Group Management Team and new direct reports to the CEO. The Chairman of the committee was authorized to make an appropriate engagement arrangement with an independent remuneration expert, Mr. Gerrit Aronson. The committee also reviewed proposals for salaries and incentive pay for 2005.

PARENT COMPANY

The Parent Company business consists mainly of corporate management and holding company functions. It also includes activities performed on a commission basis by Ericsson Treasury Services AB and Ericsson Credit AB regarding internal banking and customer credit management. The commission agreement with Ericsson Treasury Services AB has been cancelled as per January l, 2005, and the internal banking activities have been transferred to the Parent Company.

The Parent Company is the owner of the majority of intellectual property rights and manages the patent portfolio, including patent applications, licensing and cross licensing of patents and defending of patents in litigations.

The Parent Company has 11 (15) branch and representative offices. In total, the Group has 45 (43) branch and representative offices.

Net sales for the year amounted to SEK 2.6 (1.6) billion and income after financial items was SEK 7.4 (3.2) billion.

Major changes in the Parent Company s financial position for the year include decreased investments in subsidiary companies of SEK 10.1 billion (see Notes to the Financial Statements Note 11, Financial Assets). Current and long-term commercial and financial receivables from subsidiary companies increased by SEK 7.3 billion. Current and long-term liabilities to subsidiary companies increased by SEK 14.9 billion and notes and bond loans, including short-term portions, have decreased by SEK 11.7 billion. At year-end, cash and short-term cash investments amounted to SEK 71.7 (68.4) billion.

In accordance with the conditions of the Stock Purchase Plans and Option Plans for Ericsson employees, 6,424,836 shares from treasury stock were sold or distributed to employees during the year. The nominal value of theses shares is SEK 6.4 million, representing less than one percent of capital stock, and compensation received amounts to SEK 42 million. The holding of treasury stock at December 31, 2004 was 299,715,117 Class B shares. The nominal value of these shares is SEK 299.7 million, representing 2 percent of capital stock, and related acquisition cost amounts to SEK 666.9 million.

Change of voting Rights

At an Extraordinary General Meeting held on August 31, 2004, the shareholders decided to change the difference in voting rights between Class A and Class B shares as proposed by a group of large shareholders. Following the change each Class A share confers one vote and each Class B share confers one tenth of a vote. The shareholders also decided to implement a conversion clause into the Articles of Association entailing that one Class B share could be converted to one Class A share during the period September 20 December 10, 2004 by holders of special conversion rights. Conversion rights were thereafter issued to the Class A shareholders. The conversion rights were traded at the Stockholmsbörsen between September 20 and December 7, 2004. At the end of the conversion period 99.4 percent of the conversion rights had been used to convert B-shares to A-shares. The remaining conversion rights have expired.

At year end 2004, the 25 largest shareholders represented 47.4 percent of the capital and controlled 62.8 percent of the votes. Prior to the change in voting rights, the 25 largest shareholders represented 47.3 percent of the capital and controlled 81.7 percent of the votes.

POST CLOSING EVENTS

The Swedish Pension Trust established in December 2004, was funded in January 2005 with SEK 8.3 billion of cash and cash equivalents. The amount transferred covers and prepays a portion of our obligations under the Swedish ITP defined benefits pension plan.

Effective February 14, 2005, the Ericsson Board of Directors has appointed Hans Vestberg as Executive Vice President in the Ericsson Group. Hans Vestberg is head of Business Unit Global Services.

On February 28, 2005, Standard and Poor s (S&P) raised their credit rating of Ericsson to investment grade of BBB , and on March 1, 2005, Moody s upgraded their rating from Ba2 to Bai, one level below investment grade.

The Ericsson Board of Directors on March 2, 2005, decided to increase the upper threshold of the performance target range in the proposal for a Long Term Incentive Plan 2005 to the annual general meeting of shareholders. The change means that maximum matching shares will be allocated if the average annual growth of Earnings Per Share between July 1, 2005 and June 30, 2008 is at or above 15 percent, instead of 12 percent as previously proposed.

CHANGED ACCOUNTING PRINCIPLES WITH THE CONVERSION TO IFRS

From the first quarter of 2005, we will start reporting financial results according to International Financial Reporting Standards (IFRS) as required when the European Union s Council of Ministers adopted the so-called IAS 2005 in June of 2002. This regulation requires all exchange-listed companies within the EU to prepare and issue consolidated financial statements in accordance with IFRS.

Prior to January 1, 2005, we have prepared our consolidated financial statements in accordance with Swedish GAAP. Because Swedish GAAP, in recent years, has been adapted to IFRS to a high degree and as the rules for first time adopters allows certain exemptions from full retrospective restatements, the transition from Swedish GAAP to IFRS is expected to have a relatively limited effect on our financial statements. Furthermore, we believe the conversion to IFRS will align our reporting more closely with US GAAP. The most significant differences between our results reported in Swedish GAAP and IFRS, net of taxes, for 2004 include:

Retrospective capitalization of development costs and amortization of such costs (IAS 38) will decrease net income for 2004 by approximately SEK 1.9 billion.

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BOARD OF DIRECTOR S REPORT

Cessation of goodwill amortization (IFRS 3 and IAS 38) will increase our reported operating profit for 2004 by approximately SEK 0.5 billion.

The fair value of outstanding employee share options (IFRS 2) and the recognition of costs for such share-based employee compensation will reduce our operating profit by approximately SEK 0.05 billion in 2004.

Recognition of financial instruments at fair value on the balance sheet (IAS 39) through equity affected the opening balance as of January 1, 2005, by the addition of SEK 3.6 billion in assets, SEK 2.0 billion in liabilities and SEK 1.2 billion in equity, net of deferred tax. The effect in the opening balance of valuing Other Investments at fair value as of January 1, 2005, was approximately SEK 0.4 billion in assets and SEK 0.3 billion in equity, net of deferred tax.

A new definition of cash and cash equivalents (IAS 7) that includes only highly liquid investments, with original maturity of three months or less, will lower our cash position compared with that previously reported under Swedish GAAP. However, our liquidity, i.e. payment readiness, will not be affected and net cash will continue to significantly exceed interest-bearing liabilities and provisions.

In total, the conversion to IFRS will have a net effect of approximately SEK 1.5 billion on Net income for 2004 and SEK 5.7 billion on equity for January 1, 2005, including the effect of IAS 39. These estimates could change since the IFRS rules may be changed during 2005.

PROPOSED DISPOSITION OF EARNINGS

The Board of Directors proposes that a dividend of SEK 0.25 per share is paid to shareholders duly registered on the Record date of April 11, 2005, and that the Company retains the remaining part of non-restricted equity. The Class B treasury shares held by the Parent Company are not entitled to receive a dividend.

Assuming that no treasury shares remain within the Company on the Record date, the Board of Directors propose that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 4,033,064,670
Amount to be retained by the Parent Company	SEK 12,965,832,284
Total non-restricted equity of the Parent Company	SEK 16,998,896,954

Stockholm February 10, 2005

Telefonaktiebolaget LM Ericsson (publ)

Org. no. 556016-0680

Arne Mårtensson *Deputy chairman*	Michael Treschow *Chairman*	Marcus Wallenberg *Deputy chairman*
Nancy McKinstry	Peter L. Bonfield	Eckhard Pfeiffer
Sverker Martin-Löf	Lena Torell	Per Lindh
Torbjörn Nyman	Carl-Henric Svanberg *President and CEO*	Jan Hedlund

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Report of Independent Registered Public Accounting Firm

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ),

In our opinion, the accompanying consolidated and parent company balance sheets, the related consolidated and parent company statements of income, of cash flows and of changes in stockholders equity present fairly, and financial statement tables in all material respects, the financial position of Telefonaktiebolaget LM Ericsson (publ) and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Sweden. These financial statements and financial statement tables are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement tables based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Sweden vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 to the consolidated financial statements.

PricewaterhouseCoopers AB

Stockholm, Sweden

March 16, 2005

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FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK million	Notes	2004	2003	2002[1)]
Net sales	*2,4*	**131,972**	117,738	145,773
Cost of sales		**70,864**	78,901	104,224
Gross margin		**61,108**	38,837	41,549
Research and development and other technical expenses		**20,861**	27,136	30,510
Selling expenses		**9,693**	15,115	21,896
Administrative expenses		**6,551**	8,762	9,995
Total operating expenses		**37,105**	51,013	62,401
Share in earnings of joint ventures and associated companies	*11*	**2,318**	604	1,220
Other operating revenues and costs	*5*	**2,617**	1,541	773
Operating income		**28,938**	11,239	21,299
Financial income	*6*	**3,541**	3,995	4,253
Financial expenses	*6*	**4,081**	4,859	5,789
Income after financial items		**28,398**	12,103	22,835
Income taxes for the year	*7*	**9,077**	1,460	4,165
Minority interest		**297**	201	343
Net income		**19,024**	10,844	19,013
Average number of shares, basic (million)		**15,829**	15,823	12,573
Average number of shares, diluted (million)		**15,859**	15,841	12,684
Earnings per share, basic (SEK)	*8*	**1.20**	0.69	1.51
Earnings per share, diluted (SEK)	*8*	**1.20**	0.69	1.51

1) Restated for changed accounting principles in 2003.

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FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

December 31, SEK million	**Notes**	**2004**	**2003**
Assets			
Fixed assets			
Intangible assets	*9*		
Capitalized development expenses		**4,343**	4,784
Goodwill		**5,324**	5,739
Other intangible assets		**748**	687
Tangible assets	*10,28,29*	**5,845**	6,505
Financial assets			
Equity in joint ventures and associated companies	*11*	**4,150**	2,970
Other investments in shares and participations	*11*	**543**	433
Long-term customer financing	*11*	**2,150**	3,027
Deferred tax assets	*7*	**21,815**	27,130
Other long-term financial assets	*11*	**1,236**	1,342
		46,154	52,617
Current assets			
Inventories	*13*	**14,003**	10,965
Receivables			
Accounts receivable trade	*14*	**32,644**	31,886
Short-term customer financing		**1,446**	979
Other receivables	*16*	**12,239**	12,718
Short-term cash investments	*22*	**64,350**	56,622
Cash and bank	*22*	**12,204**	16,585
		136,886	129,755
Total assets		**183,040**	182,372
Stockholders equity, provisions and liabilities			
Stockholders equity	*17*		
Capital stock		**16,132**	16,132
Reserves not available for distribution		**40,170**	40,298
Restricted equity		**56,302**	56,430
Retained earnings		**1,973**	14,895
Net income		**19,024**	10,844
Non-restricted equity		**20,997**	4,051
		77,299	60,481
Minority interest in consolidated subsidiaries		**1,057**	2,299

Provisions			
Pensions	*19*	**10,087**	8,005
Deferred tax liabilities	*7*	**421**	462
Other provisions	*20*	**24,778**	27,601
		35,286	36,068
Long-term liabilities			
Notes and bond loans	*21*	**19,844**	26,312
Liabilities to financial institutions	*21*	**1,993**	2,383
Other long-term liabilities		**1,856**	1,077
		23,693	29,772
Current liabilities			
Current maturities of long-term debt	*21,22*	**781**	7,262
Current liabilities to financial institutions	*21,22*	**938**	2,247
Advances from customers		**3,390**	3,297
Accounts payable trade	*24*	**10,988**	8,895
Income tax liabilities		**1,686**	1,943
Other current liabilities	*23*	**27,922**	30,108
		45,705	53,752
Total stockholders equity, provisions and liabilities[1)]		**183,040**	182,372
Assets pledged as collateral	*25*	**7,985**	8,023
Contingent liabilities	*26*	**1,014**	2,691

[1)] Of which total interest-bearing provisions and liabilities 33,643 (46,209), of which long-term 31,924 (36,700).

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FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK million	Notes	2004	2003	2002
OPERATIONS				
Net income		**19,024**	10,844	19,013
Adjustments to reconcile net income to cash				
Depreciation, amortization and write-downs on tangible assets, intangible assets and other operating long-term receivables		**4,797**	8,395	6,537
Taxes		**5,228**	2,352	9,171
Write-downs on other investments and capital gains( )/losses on sale of fixed assets excluding customer financing, net		**121**	924	721
Other non-cash items		**899**	580	81
Changes in operating net assets				
Inventories		**3,432**	2,286	8,599
Customer financing, short-term and long-term		**65**	7,999	2,140
Accounts receivable trade		**1,403**	4,131	9,839
Provisions and pensions		**1,990**	5,810	3,576
Other operating assets and liabilities, net		**1,340**	7,098	9,117
Cash flow from operating activities		**22,479**	22,867	10,088
INVESTMENTS				
Investments in tangible assets	*10*	**2,452**	1,806	2,738
Sales of tangible assets		**358**	1,510	2,977
Acquisitions/sales of shares and other investments, net	*27*	**1,549**	818	2,703
Capitalization of development expenses	*9*	**1,146**	2,359	3,442
Net change in capital contributed by minority		**71**	1	503
Other		**70**	60	2,981
Cash flow from investing activities		**4,788**	3,412	2,984
Cash flow before financing activities		**17,691**	19,455	7,104
FINANCING				
Changes in current liabilities to financial institutions, net		**1,502**	854	17,168
Proceeds from issuance of other long-term debt		**870**	32	540
Repayment of long-term debt		**13,649**	10,904	6,072
Stock issue			158	28,940
Sale/repurchase of own stock		**15**	150	2
Dividends paid		**292**	206	645
Cash flow from financing activities		**14,558**	11,924	5,597
Effect of exchange rate changes on cash		**214**	538	1,203

Net change in cash and cash equivalents		**3,347**	6,993	2,710
Cash and cash equivalents, beginning of period		**73,207**	66,214	68,924
Cash and cash equivalents, end of period	*22*	**76,554**	73,207	66,214

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CONSOLIDATED STOCKHOLDERS EQUITY

Years ended December 31, SEK million	2004	2003	2002
Opening Balance	**60,481**	73,607	68,587
Effect of changed accounting principle [1)]	**1,275**		
Opening balance in accordance with new accounting principle	**59,206**	73,607	68,587
Stock issue, net		158	28,940
Sale of own stock	**15**	8	2
Stock purchase and stock option plans	**159**	151	12
Repurchase of own stock		158	
Changes in cumulative translation effects due to changes in foreign currency exchange rates	**1,107**	2,444	4,921
Adjustment of accrued cost for stock issue 2002	**2**	3	
Net income	**19,024**	10,844	19,013
Closing balance	**77,299**	60,481	73,607

1 Restated due to change in accounting principle RR 29/IAS 19.

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FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

Years ended December 31, SEK million	Notes	2004	2003	2002[1)]
Net sales	*2*	**2,598**	1,645	2,017
Cost of sales		**2,238**	1,278	2,358
Gross margin		**360**	367	341
Research and development and other technical expenses		**8**	15	37
Selling expenses		**613**	1,539	3,099
Administrative expenses		**981**	2,920	1,345
Total operating expenses		**1,602**	4,474	4,481
Other operating revenues and costs	*5*	**2,890**	2,408	2,769
Operating income		**1,648**	1,699	2,053
Financial income	*6*	**11,008**	9,177	12,997
Financial expenses	*6*	**5,251**	6,019	8,620
Income after financial items		**7,405**	1,459	2,324
Transfers to ( )/from untaxed reserves				
Changes in depreciation in excess of plan	*18*	**53**	40	20
Changes in other untaxed reserves	*18*	**1,137**		1,977
		1,190	40	1,997
Income taxes for the year	*7*	**1,435**	169	1,639
Net income		**7,160**	1,250	2,682

1) 2002 restated according to URA 7, Group contributions and shareholders contribution.

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FINANCIAL STATEMENTS

PARENT COMPANY BALANCE SHEET

December 31, SEK million	Notes	2004	2003
Assets			
Fixed assets			
Intangible assets	*9*	**40**	62
Tangible assets	*10,28,29*	**344**	505
Financial assets			
Investments			
Subsidiaries	*11,12*	**48,860**	58,991
Joint ventures and associated companies	*11,12*	**4,474**	4,507
Other investments	*11*	**12**	17
Receivables from subsidiaries	*15*	**48,535**	34,046
Long-term customer financing	*11*	**1,964**	2,023
Deferred tax assets	*7*	**2,527**	1,646
Other long-term financial assets	*11*	**451**	476
		107,207	102,273
Current assets			
Inventories	*13*	**40**	3
Receivables			
Accounts receivable - trade	*14*	**194**	84
Short-term customer financing		**683**	1,568
Receivables from subsidiaries	*15*	**15,667**	22,835
Other receivables	*16*	**8,203**	6,523
Short-term cash investments		**63,924**	55,820
Cash and bank		**7,772**	12,573
		96,483	99,406
Total assets		**203,690**	201,679
Stockholders equity, provisions and liabilities			
Stockholders equity	*17*		
Capital stock		**16,132**	16,132
Share premium reserve		**24,731**	24,729
Revaluation reserve		**20**	20
Statutory reserve		**6,741**	6,741
Restricted equity		**47,624**	47,622
Retained earnings		**8,979**	12,385
Net income		**7,160**	1,250
Non-restricted equity		**16,139**	13,635
		63,763	61,257

Untaxed reserves	*18*	**939**	2,129
Provisions			
Pensions	*19*	**861**	848
Other provisions	*20*	**2,195**	3,183
		3,056	4,031
Long-term liabilities			
Notes and bond loans	*21*	**19,844**	26,312
Liabilities to financial institutions	*21*	**116**	290
Liabilities to subsidiaries	*15*	**33,840**	31,911
Other long-term liabilities		**106**	63
		53,906	58,576
Current liabilities			
Current maturities of long-term debt		**699**	5,905
Current liabilities to financial institutions		**322**	1,746
Advances from customers			2
Accounts payable - trade	*24*	**175**	230
Liabilities to subsidiaries	*15*	**77,600**	57,606
Income tax liability			149
Other current liabilities	*23*	**3,230**	10,048
		82,026	75,686
Total stockholders equity, provisions and liabilities		**203,690**	201,679
Assets pledged as collateral	*25*	**807**	698
Contingent liabilities	*26*	**7,025**	10,517

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FINANCIAL STATEMENTS

PARENT COMPANY STATEMENT OF CASH FLOWS

Years ended December 31, SEK million	**Notes**	**2004**	**2003**	**2002[1)]**
OPERATIONS	*27*			
Net income		**7,160**	1,250	2,682
Adjustments to reconcile net income to cash				
Depreciation and amortization		**133**	152	49
Taxes		**1,177**	150	1,595
Write-downs and capital gains ( )/losses on sale of fixed assets, net		**1,009**	1,479	3,792
Additions to/withdrawals from ( ) untaxed reserves		**1,190**	40	1,997
Unsettled dividends			196	3,108
Changes in operating net assets				
Inventories		**37**	1	
Customer financing, short-term and long-term		**1,137**	6,335	6,164
Accounts receivable-trade		**495**	61	1,399
Provisions and pensions		**975**	445	1,469
Other operating assets and liabilities, net		**3,756**	5,010	2,749
Cash flow from operating activities		**5,153**	14,725	472
INVESTMENTS				
Investments in tangible assets		**50**	653	2
Sales of tangible assets		**70**	23	7
Acquisitions/sales of shares and other investments, net	*27*	**9,136**	2,135	1,275
Lending, net		**5,536**	9,726	6,503
Other		**1,446**	1,809	2,219
Cash flow from investing activities		**5,066**	8,770	9,992
Cash flow before financing activities		**10,219**	23,495	10,464
FINANCING				
Changes in current liabilities to financial institutions, net		**1,478**	1,930	293
Changes in current liabilities to subsidiaries		**6,852**	1,420	3,666
Proceeds from issuance of other long-term debt		**450**	342	232
Repayment of long-term debt		**12,263**	15,083	4,641
Stock issue			158	28,940
Sale/repurchase of own stock		**15**	150	2
Settled contributions from/to ( )subsidiaries		**492**	163	477
Other			31	287
Cash flow from financing activities		**6,916**	14,417	20,764
Net change in cash and cash equivalents		**3,303**	9,078	10,300
Cash and cash equivalents, beginning of period		**68,393**	59,315	49,015

Cash and cash equivalents, end of period	*22*	**71,696**	68,393	59,315

1) 2002 restated according to URA 7, Group contributions and shareholders contribution, and including all taxes in Adjustments to reconcile net income to cash.

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PARENT COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

Years ended December 31, SEK million	2004	2003	2002 [1]
Opening balance	**61,257**	61,862	31,810
Stock issue, net		158	28,940
Sale of own stock	**15**	8	2
Stock purchase and stock option plans	**27**	3	
Repurchase of own stock		158	
Adjustment of accrued costs for stock issue 2002	**2**	3	
Contributions from/to subsidiaries	**6,525**	2,305	2,183
Tax on contributions	**1,827**	436	611
Net income	**7,160**	1,250	2,682
Closing balance	63,763	61,257	61,862

1) Restated according to URA 7, Group contributions and shareholders contribution.

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NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The consolidated financial statements of Telefonaktiebolaget LM Ericsson, the Parent Company and its subsidiary companies (the Company) are prepared in accordance with accounting principles generally accepted in Sweden, applying all applicable standards (RR) and interpretations (URA) issued by the Swedish Financial Accounting Standards Council (Redovisningsrådet) and the Annual Accounts Act. These accounting principles differ in certain respects from generally accepted accounting principles in the United States (US GAAP). For a description of major differences, with respect to Ericsson s financial statements, see Note 34, Reconciliation to Accounting Policies Generally Accepted in the United States .

In 2004 the following standards were adopted:

RR 29 - Employee benefits

The effect of this standard is a change in timing of pension costs compared to previous Swedish GAAP, so that pension costs for future salary increases are estimated and recognized during the time of service. The effect of the adoption of RR 29 at January 1, 2004, has been charged to stockholders equity while the effect of RR 29 from that date has been charged to income.

The Parent Company has not adopted RR 29 in relation to accounting for pensions.

URA 43 - Accounting for special payroll tax and tax on investment returns

As from 2004 we have adopted, only at group level, URA 43 Accounting for special payroll tax and tax on investment returns. At the adoption of RR 29 the effect of URA 43 has been accounted for as a charge to stockholders equity. The effect of URA 43 has been charged to income in 2004.

Revenue recognition

Sales are recorded net of value added taxes, goods returned, trade discounts and rebates. Revenue is recognized with reference to all significant contractual terms when the product or service has been delivered, when the fee is fixed and determinable and when collection is reasonably assured.

We do not generally provide extended payment terms but may provide customer financing in construction-type contracts.

We offer a comprehensive portfolio of telecommunication and data communication systems and services covering a range of technologies. The majority of our products and services are sold as parts of contracts including several items. The nature of the products and services being sold, and the contractual terms taken as a whole, determine the appropriate revenue recognition method. The contracts are of three main types:

- delivery-type
- construction-type
- contracts for various types of services, for example managed services contracts for several years

Large customer frame agreements may include different types of undertakings and may result in a mix of construction-type contracts, delivery-type contracts and service contracts.

Different revenue recognition methods are applied based on the solutions provided to our customers, the nature and sophistication of the technology involved and the contract conditions in each case. Specific contractual performance and acceptance criteria impact the timing and amounts of revenue recognized.

Revenues from construction-type contracts are generally recognized using the percentage-of-completion method. The degree of completion is measured using either the milestone output method or, to a very limited extent, the cost-to-cost method. The terms of construction-type contracts generally define milestones for progress billing to the customer, which also well reflect the degree of completion of the contract.

Revenues from contracts associated with new technology are not recognized until specified functionality has been achieved, customer acceptance has been obtained and other contractual terms have been satisfied. The profitability of contracts is periodically assessed and adjusted, if necessary, based on changes in circumstances. Provisions for losses are made when such losses become known.

For delivery-type contracts that have multiple elements, revenue is allocated to each element based on relative fair values. If there are undelivered elements essential to the functionality of the delivered elements, or, if fair values are not available for all elements, we defer the recognition of revenue until all elements essential to the functionality have been delivered or fair values exist for the undelivered elements.

Revenue for period service contracts and managed services contracts is recognized pro rata over the contract period. Revenue for training, consulting, engineering, installation and similar services is generally recognized when the services are performed.

Mobile platform license revenues are included in reported Net Sales and contracted based on the number of handsets or components produced by the customer. Revenue is recognized when the customer production has occurred.

For sales between consolidated companies we apply arm s length pricing.

Capitalized development costs

Costs incurred for development of products to be sold, leased or otherwise marketed or that are intended for internal use are capitalized, only at the group level, as from when technological and economical feasibility have been established until the product is available for sale or use.

Capitalized costs include direct labor and related overhead. Amortization of capitalized development costs begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight-line method over periods not exceeding five years. Research and development costs directly related to orders from customers are accounted for as a part of cost of sales. Other research and development costs are charged to expense as incurred.

Capitalized development costs are subject to regular assessment of recoverability based on anticipated future revenues and changes in technologies. Unamortized capitalized development costs determined to be in excess of net realizable value are expensed immediately.

Share-based employee compensation

Stock option plans

Since the employee s strike price is equal to the market price at grant date, no compensation cost is recognized for any of our current stock option plans. When the options are exercised, however, social security charges are to be paid in certain countries on the value of the employee benefit; generally based on the difference between the market price of the share and the strike price. During the vesting period, i.e. the period during which the employees have to fulfill vesting requirements, estimated costs for such social security charges are accrued. In some plans, these costs are reduced by income from related hedging arrangements.

Stock purchase plans

For stock purchase plans, a compensation cost is recognized during the vesting period, based on the market price of the share at the employee s investment date. In the balance sheet the corresponding amounts are accounted for as equity. Vesting conditions effect the number of shares that will match. Compensation expenses are based on estimates of the number of shares that will match at the end of vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, preliminary social security charges are accrued.

Government grants

Government grants are recognized when there is a reasonable assurance of compliance with conditions attached to the grants and that the grants will be received.

For Ericsson, government grants are linked to performing of research or development work or to subsidized capital expenditures as governmental stimulus to employment or investments in a certain country or region. Overall amounts are not significant. Government grants are normally reported as reductions of development cost or cost of sales or reductions of capital expenditure, depending on their nature.

Borrowing costs

The Company does not capitalize any borrowing costs, including borrowing cost related to financing of construction of tangible assets.

Earnings per share

Basic earnings per share are calculated by dividing net income by the average number of shares outstanding during the year.

Diluted earnings per share are calculated by dividing an adjusted net income by the sum of the average number of shares outstanding plus all additional shares that would have been outstanding if all convertible debentures were converted and stock options were exercised (potential ordinary shares). Net income is adjusted by reversal of interest expense for convertible debentures net of tax.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares decrease earnings per share.

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NOTES TO THE FINANCIAL STATEMENTS

Principles of consolidation

The consolidated financial statements include the accounts of the Parent Company and all subsidiary companies. Subsidiary companies are all companies in which Ericsson has an ownership and directly or indirectly, including effective potential voting rights, has a voting majority or by agreement has control or retains the majority of the residual or ownership risk of the entity. Inter-company transactions have been eliminated.

Elimination of unrealized profits in inventory is made in full without consideration of minority interests.

The consolidated financial statements have been prepared in accordance with the purchase method, whereby consolidated stockholders equity includes equity in subsidiary companies and associated companies earned only after their acquisition.

The Parent Company income includes dividends received from subsidiary companies and other inter-company revenues and costs, which are eliminated in the consolidated accounts.

Associated companies, joint ventures and other investments

Investments in associated companies, including joint ventures, where voting stock interest including effective potential voting rights is at least 20 percent but not more than 50 percent, or where a corresponding influence is obtained through agreement, are accounted for according to the equity method. Ericsson s share of income is reported in item Share in earnings of joint ventures and associated companies , included in Operating Income. Taxes are included in item Income taxes . Unrealized internal profits in inventory in associated companies purchased from subsidiary companies are eliminated in the consolidated accounts in proportion to ownership. Investments in associated companies are shown at equity after adjustments for unrealized inter-company profits and un-amortized goodwill (see Goodwill below).

Undistributed earnings of associated companies included in consolidated restricted equity are reported as Equity proportion reserve , as detailed in Note 17, Stockholders Equity .

All other equity instruments are accounted for as Other investments and carried at the lower of acquisition cost or fair value.

Goodwill

Goodwill resulting from acquisitions of subsidiary and associated companies is amortized according to individual assessment of each item s estimated economic life, resulting in amortization periods of up to 20 years. Goodwill in foreign investments is remeasured at year-end exchange rates. Depending on the nature of the acquisition, goodwill amortization is reported under Research and development and other technical expenses , Selling expenses Administrative expenses .

Goodwill resulting from acquisitions is tested annually for impairment and if there is an indication of potential impairment.

Translation of financial statements in foreign currency

For most subsidiary companies, joint ventures and associated companies, the local currency is the currency in which the companies primarily generate and expend cash, and is thus considered their functional (business) currency. Their financial statements plus goodwill related to such companies, if any, are translated to SEK using the current method, with translation adjustments reported directly in consolidated stockholders equity. When a company accounted for in accordance with these principles is sold, accumulated translation adjustments are included in consolidated income.

Financial statements of companies with finance activities and other companies, having such close relations with the Swedish operations that their functional currency is considered to be SEK, are remeasured using the monetary method. Adjustments from remeasurement of financial statements of these companies are included in consolidated income. (See Note 17, Stockholders Equity .)

For a limited number of companies, the functional currency is another than the local currency. These companies are translated in two steps. In the first step, remeasurement is made into the functional currency and resulting exchange rate gains/losses are reported in income . In the second step, from the functional currency to SEK, the financial statements are translated using the current method. The remeasurement method gives a more fair view of these financial statements than a translation directly to SEK, since these companies operate in de facto USD- or EUR-based economies.

Translation of foreign currency items in individual companies

In the financial statements, receivables and liabilities in foreign currencies have been translated at year-end exchange rates.

Gains and losses on foreign exchange are divided into operational and financial. Effects of hedging are, in the income statement, reported together with the hedged item. The net difference between foreign exchange gains/losses on operating transactions and gains/losses on hedging through foreign exchange derivatives are included in cost of goods sold. Gains and losses on foreign exchange attributable to financial assets are included in financial income and gains and losses related to financial liabilities are included in financial expenses.

Translation effects related to permanent financing of foreign subsidiary companies are reported directly to consolidated stockholders equity, net of tax effects.

Cash investments, derivative financial instruments and fair value estimation of financial instruments

Short-term cash investments in the consolidated accounts are valued at the lower of acquisition cost plus accrued interest and fair value. In the Parent Company, short-term cash investments, interest and foreign exchange related derivatives are valued at the lower of acquisition cost plus accrued interest and fair value.

Derivative financial instruments are used to hedge foreign exchange and interest rate risks. Foreign exchange derivatives hedging items on the balance sheet are valued at fair value to offset the changed value of hedged items. Foreign exchange derivatives hedging forecasted transactions are not carried on the balance sheet. Derivatives not fulfilling the requirements for hedge accounting are valued at the lower of cost and fair value. Premium/discount on currency forward contracts is amortized during time to maturity. Interest rate-related derivatives linked to specific investments or loans, or which are applied to hedge interest rate positions are valued in the same manner as the hedged position.

Gains and losses from derivatives in the Parent Company are reported net as other financial income/expenses. In the consolidated accounts, gains and losses on operational hedges are reported in the same manner as the underlying position.

Interest rate-related derivatives and foreign exchange derivatives are in the consolidated accounts valued according to the lower of acquisition cost and fair value, determined on a portfolio basis.

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right for setoff and there is intent to settle on a net basis or to realize the asset and settle the liability simultaneously.

When calculating the fair values of financial instruments official rates or quoted market prices are used. If official rates or market prices are not available, valuations have been made by discounting the expected future cash flows at prevailing interest rates. When calculating fair values of short-term investments, changes in credit spreads are included. Ericsson s listed debt instruments (outstanding notes and bond loans) are valued at amortized cost.

Intangible and tangible fixed assets

Intangible and tangible fixed assets are stated at cost less accumulated amortization/depreciation/write-down. Tangible assets are stated with net value of revaluations.

Annual depreciation is reported as plan depreciation, generally using the straight-line method, with estimated useful lives of, in general, 40 years on buildings, 20 years on land improvements, 3 to 10 years on machinery and equipment, and up to 5 years on rental equipment. Intangible assets excluding goodwill are amortized over a period of maximum 5 years. See Goodwill above for amortization of goodwill. Amortization and depreciation is included in Cost of Sales and in the respective functional operating expenses.

Costs for development of products to be sold, leased or otherwise marketed or developed or obtained for internal use are capitalized as intangible assets when technological feasibility has been established and when future economic benefits can be demonstrated. As technological feasibility often cannot be established until late in each project, the capitalized portion of total development costs is limited. Other development costs are charged to the income statement as incurred. See also Capitalized development costs .

Impairment tests of tangible and intangible fixed assets, including goodwill, are performed on a regular basis whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. The carrying values of fixed assets, including goodwill related to those assets, are not considered to be recoverable when the expected discounted cash flows from those assets are less than their carrying values. An impairment loss is determined based on the amount by which the carrying value exceeds the fair value of those assets. Losses on fixed assets to be disposed of, are determined in a similar manner, taking into account the selling price reduced by the costs of disposal. Provisions are made for expected costs for restoration of land or buildings due to environmental obligations or obligations in leasing contracts.

Leasing

Leasing when the company is the lessee

Finance leasing contracts are capitalized and reported as tangible assets and as other current liabilities and other long-term liabilities. Operating lease contracts are not capitalized.

Leasing when the company is the lessor

Leasing contracts with the company as a lessor are classified as financial leases, when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases, for example when sub-leasing parts of leased properties.

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NOTES TO THE FINANCIAL STATEMENTS

Deferred taxes

Deferred tax assets attributable to temporary differences between the book values of assets and liabilities and their tax values, and also deferred tax receivables attributable to unutilized tax loss carry-forwards, are reported to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilized.

The valuation of deferred tax assets involves assumptions regarding the deductibility of costs not yet subject to taxation and regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of possible utilization. The largest amounts of tax loss carry-forwards are in Sweden, with indefinite period of utilization.

The accumulated deferred tax asset/liability is remeasured regularly by applying the current tax rate in each country. Adjustments of deferred tax assets/liabilities attributable to changes in tax rates are included in current year income.

Receivables and customer financing

Receivables are reported at anticipated net realizable value. Sales of trade receivables and customer financing credits are reflected as a reduction of receivables in the balance sheet and the proceeds received are included in Cash flows from operating activities .

For sale of receivables with recourse, provisions are recorded for estimated value of recourse liabilities. The excess of the recourse obligation over the recorded provision is included in contingent liabilities.

We provide financing to certain customers in connection with significant sales of network infrastructure equipment. Financing may include funding for the direct purchase of our products and services or, in exceptional cases, for working capital purposes. We assess the collectibility of our receivables for purposes of initial revenue recognition and to record receivables at anticipated realizable value. In instances where we have sold credits with recourse or where we have exposure related to guarantees to third parties for customer financing, we have reported the extent of our exposure as contingent liabilities. We accrue risk provisions based on our assessment of the risks relating to these contingent liabilities, and contingent liabilities are reported net of such provisions.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

Risks of obsolescence has been valued by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

Provisions

Provisions are recognized when we have a present legal or constructive obligation as a result of past events and when it is likely that an outflow of resources will be required to settle the obligation. The amounts must be reliably possible to estimate. However, the actual outflow as a result of the obligation may vary from that estimate.

Our provisions mainly relate to warranty commitments, restructuring, customer financing and other obligations.

Other obligations consist primarily of litigation obligations, contractual discounts and penalties, potential supplier and subcontractor claims as well as unresolved Income Tax and VAT/GST issues.

The company is subject to proceedings, lawsuits and other unresolved claims, including proceedings under laws and government regulations and other matters. These contingencies are often resolved over long periods of time. We assess the likelihood of any adverse judgments in or outcomes to these contingencies, as well as potential ranges of possible losses. Reserves are established when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated based on a detailed analysis of each individual issue.

For losses on construction type of contracts we make provisions when a loss from an onerous contract becomes known and can be reliably possible to estimate. We provide for the estimated future settlements related to patent infringements based on the probable outcome of each infringement. The ultimate outcome or actual cost of settling an individual infringement may vary from our estimates. We estimate the outcome of all potential patent infringements made known to us through assertion and through our own monitoring of patent-related cases in the relevant legal systems. To the extent that we determine that an identified potential infringement will more likely than not result in an outflow of resources, we record a liability based on our best estimate of the expenditure required to settle infringement proceedings.

At various intervals we give our suppliers and/or subcontractors forecasts of expected purchases and sometimes commit to minimum levels during a certain period. The agreements often include compensation clauses for the event that material deviations from original plans regarding production volumes or product mix occur. As a result of actual deviations from committed purchase levels or of received actual claims from these suppliers and/or subcontractors, we have made provisions for estimated compensation to such suppliers and/or subcontractors. Additionally, provisions are estimated and accrued for charges as a result of known changes in design specifications that are provided to production subcontractors. Amounts for provisions and subsequent net amounts at settlements are charged to the corresponding item in the income statement (i.e. costs related to component suppliers, production subcontractors and installation subcontractors are included in Cost of Sales, whereas costs regarding development subcontractors are included in R&D and other technical expenses, and costs related to IT providers and other services are included in Operating expenses or Cost of Sales depending on the nature of the service). Such provisions are monitored closely and revised on a monthly basis, with any additions/reversals charged to the same account as the initial provision.

Pensions and other post-employment benefits

Pensions are classified either as defined contribution plans or defined benefit plans. Under a defined benefit plan it is the company s obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the company, while under a defined contribution plan the company s obligation is limited to agreed amounts that the company has to contribute to an insurance company.

Ericsson adopted RR 29 Employee Benefits in 2004. When applying RR 29, defined benefit plans in all subsidiary companies within Ericsson are accounted for using the same actuarial method. In the financial reporting for Ericsson before 2004, such plans have been accounted for in accordance with local rules and principles in each country.

The present value of the defined benefit obligation for current and former employees is calculated using the Projected Credit Unit Method. The calculations are based upon actuarial assumptions and are as a minimum prepared annually. Actuarial assumptions are the company s best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions it is possible that the actual result differ from the assumed result. These differences are actuarial gains and losses. They are for example caused by unexpectedly high or low rates of employee turnover, salary changes, the effect of changes in the discount rate and differences between actual return on plan assets and the expected return on plan assets. Actuarial gains and losses are amortized over the employees average remaining service period if the gains/losses exceed the greater of 10 percent of the present value of the defined benefit obligation or 10 percent of the fair value of plan assets at the beginning of period (the corridor). The accounting for defined contribution plans has not been affected by the adoption of RR 29 in 2004.

The adoption of RR 29 increased the provision for pensions by SEK 1.8 billion and decreased the equity by SEK 1.3 billion, net of tax.

In the Parent Company the ITP pension plan is accounted for in accordance with FAR 4.

Statement of cash flows

Foreign subsidiary companies transactions are translated at the average exchange rate during the period. Subsidiary companies purchased and/or sold, net of cash acquired/sold, are reported as cash flow from investment activities and do not affect reported cash flow from operations.

Cash and cash equivalents consist of cash, bank and short-term investments. Included are all highly liquid financial instruments which are easily converted to cash and insignificantly affected by changes in value and used by our treasury function for cash management purposes.

Segment reporting

Our three operating segments are defined based on customers served and inter-dependency of products and services provided. Financial information is provided to the Board based on these three segments:

Systems, addressing operators of mobile and fixed line public telephone networks.

Phones, addressing distributors of mobile handsets to end users. Financial information for this segment consists of our share in earnings of Sony Ericsson.

Other operations, which consists of a number of different operations with different types of customers. Included operations are: Microwave Systems, Network Technologies, Enterprise Systems, Mobile Platform Technology, Power Modules and other.

The operating segments operate in five main geographical areas, (1) Western Europe, (2) Central and Eastern Europe, Middle East and Africa, (3) Asia Pacific, (4) North America and (5) Latin America.

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NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

Business segments

2004	Systems	Phones	Other Operations	Unallocated	Eliminations	Group
Orders booked	123,568		9,391			132,959
Inter segment orders	1,403		987		2,390	
Total Orders Booked	**124,971**		**10,378**		**2,390**	**132,959**
Net sales	121,549		10,423			131,972
Inter segment sales	1,348		966		2,314	
Total Net Sales	**122,897**		**11,389**		**2,314**	**131,972**
Share in earnings of JV and associated companies	90	2,143	68	17		2,318
Operating Income	**25,345**	**2,143**	**1,469**	**19**		**28,938**
Financial income				3,541		3,541
Financial expenses				4,081		4,081
Income after financial items	**25,345**	**2,143**	**1,469**	**559**		**28,398**
Taxes				9,077		9,077
Minority interest				297		297
Net Income	**25,345**	**2,143**	**1,469**	**9,933**		**19,024**
Segment assets [1) 2)]	62,783		9,452	106,655		178,890
Associates	961	3,092	97			4,150
Total Assets	**63,744**	**3,092**	**9,549**	**106,655**		**183,040**
Segment liabilities [3) 4)]	54,728		6,627	43,329		104,684
Total Liabilities	**54,728**		**6,627**	**43,329**		**104,684**

1) Segment assets include tangible assets, intangible assets, short and long term customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues and other current assets.

2) Unallocated assets include mainly cash, short term investments and deferred tax assets.

3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.

4) Unallocated liabilities include accrued interests, tax liabilities and interest-bearing provisions and liabilities.

Other segment items						
Tangible and intangible assets						
Additions/capitalization	3,881		399			4,280
Depreciation	2,223		210	1		2,434
Amortization	2,275		42	11		2,306
Write-downs	22			35		57
Number of employees	45,500		5,034			50,534
Operating income	25,345	2,143	1,469	19		28,938
Income after financial items						28,398
Restructuring costs, net[1)]						
Operating income	25,345	2,143	1,469	19		28,938
Operating margin (%)	21%		13%			22%
Income after financial items						28,398

1) In 2004 no restructuring costs were recognized. The item is included for comparability.

Geographical segments

2004	Net sales	Orders booked	Total assets	Additions/ capitalization of tangible and intangible assets	Number of employees
Western Europe	40,542	40,311	145,440	3,554	32,930
of which Sweden	*6,180*	*4,769*	*125,306*	*2,851*	*21,296*
Eastern Europe, Middle East and Africa	32,929	32,522	3,874	83	3,423
Asia Pacific	28,552	31,362	14,278	230	7,493
of which China	*12,298*	*12,987*	*7,018*	*130*	*2,897*
North America	15,471	13,083	9,366	320	4,139
of which United states	*13,984*	*11,769*	*8,874*	*165*	*2,156*
Latin America	14,478	15,681	10,082	93	2,549
Total	**131,972**	**132,959**	**183,040**	**4,280**	**50,534**
of which EU	*42,366*	*42,413*	*145,436*	*3,603*	*33,625*

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Business segments

2003	**Systems**	**Phones**	**Other Operations**	**Unallocated**	**Eliminations**	**Group**
Orders booked	104,694		8,306			113,000
Inter segment orders	748		886		1,634	
Total Orders Booked	**105,442**		**9,192**		**1,634**	**113,000**
Net sales	107,995		9,743			117,738
Inter segment sales	671		836		1,507	
Total Net Sales	**108,666**		**10,579**		**1,507**	**117,738**
Share in earnings of JV and associated companies	125	521	65	273		604
Operating Income	**6,163**	**521**	**3,511**	**1,044**		**11,239**
Financial income				3,995		3,995
Financial expenses				4,859		4,859
Income after financial items	**6,163**	**521**	**3,511**	**1,908**		**12,103**
Taxes				1,460		1,460
Minority interest				201		201
Net Income	**6,163**	**521**	**3,511**	**649**		**10,844**
Segment assets [1)2)]	65,478		6,649	107,275		179,402
Associates	563	1,752	491	164		2,970
Total Assets	**66,041**	**1,752**	**7,140**	**107,439**		**182,372**
Segment liabilities [4)]	58,536		7,610	53,446		119,592
Total Liabilities	**58,536**		**7,610**	**53,446**		**119,592**

[1)] Segment assets include tangible assets, intangible assets, short and long term customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues and other current assets.

[2)] Unallocated assets include cash, short term investments and deferred tax assets.

[3)] Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.

4) Unallocated liabilities include accrued interests, tax liabilities and interest-bearing provisions and liabilities.

Other segment items						
Tangible and intangible assets						
Additions/capitalization	6,348		373	8	757	5,972
Depreciation	3,028		699	26		3,753
Amortization	1,807		666	107		2,579
Write-downs	1,126		337			1,463
Number of employees	45,176		6,110	297		51,583
Operating income	6,163	521	3,511	1,044		11,239
Income after financial items						12,103
Restructuring costs, net	12,809	338	3,064	252		16,463
Operating income [1]	6,646	183	447	792		5,224
Operating margin (%)[1]	6.1%		4.2%			4.4%
Income after financial items [1]						4,360

1) Exluding restructuring charges.

Geographical segments

2003	**Net sales**	**Orders booked**	**Total assets**	**Additions/ capitalization of tangible and intangible assets**	**Number of employees**
Western Europe	36,096	30,909	143,749	5,204	36,227
of which Sweden	*5,868*	*4,417*	*121,832*	*4,849*	*24,408*
Eastern Europe, Middle East and Africa	26,747	23,258	4,177	60	2,152
Asia Pacific	27,343	29,514	14,847	96	6,468
of which China	*10,473*	*12,701*	*7,625*	*67*	*2,850*
North America	17,627	20,237	10,398	505	4,460
of which United states	*16,357*	*18,971*	*9,876*	*301*	*2,581*
Latin America	9,925	9,082	9,201	107	2,276
Total	**117,738**	**113,000**	**182,372**	**5,972**	**51,583**
of which EU [1]	*38,143*	*33,532*	*143,681*	*5,242*	*36,608*

1) Restated due to new members in EU as of May, 2004.

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NOTES TO THE FINANCIAL STATEMENTS

Business segments

2002	**Systems**	**Phones**	**Other Operations**	**Unallocated**	**Eliminations**	**Group**
Orders booked	114,177		14,174			128,351
Inter segment orders	1,164		1,210		2,374	
Total Orders Booked	**115,341**		**15,384**		**2,374**	**128,351**
Net sales	130,842		14,931			145,773
Inter segment sales	1,113		1,270		2,383	
Total Net Sales	**131,955**		**16,201**		**2,383**	**145,773**
Share in earnings of JV and associated companies	161	1,331	45	5		1,220
Operating Income	**12,497**	**1,331**	**5,846**	**1,625**		**21,299**
Financial income				4,253		4,253
Financial expenses				5,789		5,789
Income after financial items	**12,497**	**1,331**	**5,846**	**3,161**		**22,835**
Taxes				4,165		4,165
Minority interest				343		343
Net Income	**12,497**	**1,331**	**5,846**	**661**		**19,013**
Segment assets [1)2)]	88,121		9,048	110,109		207,278
Associates	693	799	531	188		1,835
Total Assets	**88,814**	**799**	**9,579**	**109,921**		**209,113**
Segment liabilities [3)4)]	53,435		9,470	70,132		133,037
Total Liabilities	**53,435**		**9,470**	**70,132**		**133,037**

1) Segment assets include tangible assets, intangible assets, short and long term customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues and other current assets.

2) Unallocated assets include cash, short term investments and deferred tax assets.

3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.

4) Unallocated liabilities include accrued interests, tax liabilities and interest-bearing provisions and liabilities.

Other segment item						
Tangible and intangible assets						
Additions/capitalization	5,896		553	32	30	6,451
Depreciation	4,877		597	135	95	5,514
Amortization	1,049		221	365		1,635
Write-downs	612					612
Number of employees	56,590		7,646	385		64,621
Operating income	12,497	1,331	5,846	1,625		21,299
Income after financial items						22,835
Restructuring costs, net	10,441		1,438	83		11,962
Operating income [1]	2,056	1,331	4,408	1,542		9,337
Operating margin (%)[1]	1.6%		27.2%			6.4%
Income after financial items [1]						10,873

1) Exluding restructuring charges

Geographical segments

2002	**Net sales**	**Orders booked**	**Total assets**	**Additions/ capitalization of tangible and intangible assets**	**Number of employees**
Western Europe	46,165	37,553	161,725	5,601	45,251
of which Sweden	*8,303*	*7,620*	*130,572*	*4,908*	*30,241*
Eastern Europe, Middle East and Africa	27,959	27,895	5,256	92	2,449
Asia Pacific	35,905	30,451	16,391	294	7,771
of which China	*12,559*	*10,852*	*6,189*	*151*	*3,034*
North America	23,068	22,877	14,201	392	6,328
of which United states	*22,036*	*21,673*	*13,633*	*357*	*4,562*
Latin America	12,676	9,575	11,540	72	2,822
Total	**145,773**	**128,351**	**209,113**	**6,451**	**64,621**
of which EU [1]	*47,199*	*37,687*	*161,696*	*5,585*	*45,590*

1) Restated due to new members in EU as of May, 2004.

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Net Sales

Parent Company	2004	2003	2002
Western Europe [1)2)]	**54**	1	
Eastern Europe, Middle East & Africa	**2,530**	1,403	1,715
Asia Pacific			
North America			
Latin America	**14**	241	302
Total	**2,598**	1,645	2,017
1) Of which Sweden	**54**	1	
2) Of which EU	**54**	1	

Parent Company sales are mainly related to business segment Systems.

3 RESTRUCTURING COSTS

Restructuring	2004	2003	2002
Restructuring charges			
Asset write-downs		3,966	1,074
Employee redundancy [1)]		7,728	10,556
Unused real estate		3,883	562
Other		886	230
Total		16,463	11,962
Of which			
Cost of sales		4,790	5,589
Research and development		5,361	4,124
Selling expenses		3,150	1,474
Administrative expenses		2,465	694
Other operating revenue and costs		345	311
Share in earnings of JV and associated companies		352	230
Total		16,463	11,962
Restructuring in Statement of cash flows			
Charges in Net income, net		16,463	11,962
Share in earnings of JV and associated companies		352	

Write-downs		3,966	1,074
Provisions made		10,835	7,195
Provisions utilized	**5,651**	9,146	6,593
Total cash flow effect	**5,651**	10,456	10,286

1) Number of employees at December 31, 2004 were 50,534 (51,583 in 2003 and 64,621 in 2002)

Key measurements, excluding restructuring charges	**2004** [1)]	**2003**	**2002**
Net sales	**131,972**	117,738	145,773
Gross margin	**61,108**	43,627	47,138
as percentage of net sales	**46.3%**	37.1%	32.3%
Operating expenses	**37,105**	40,037	56,109
as percentage of net sales	**28.1%**	34.0%	38.5%
Share in earnings of joint ventures and associated companies	**2,318**	252	1,450
Other operating revenue and costs	**2,617**	1,886	1,084
Operating income	**28,938**	5,224	9,337
Operating margin (%)	**21.9%**	4.4%	6.4%
Financial net	**540**	864	1,536
Income after financial items	**28,398**	4,360	10,873

1) No restructuring charges reported during 2004.

4 REVENUES

The majority of Ericsson s products and services are sold as parts of contracts including several items. The nature of the products and services being sold, and the contractual terms taken as a whole, determine the appropriate revenue recognition method. The contracts are of three main types:

Consolidated	**2004**	**2003**	**2002**
Equipment sales	**110,985**	98,726	125,112
Of which:			
Construction-type contracts[1) 2)]	**56,012**	73,165	
Delivery-type contracts[1) 2)]	**54,973**	25,561	
Service sales	**19,301**	18,458	19,493
Royalties	**1,686**	554	1,168
Total	**131,972**	117,738	145,773
Capital gains, license fees and other operating revenues	**3,128**	2,645	1,928
Interest income	**3,346**	3,913	3,592
Dividends	**8**	7	83

[1] Figures for 2002 not available.

[2] In 2003 multiple-elements contracts were reported within construction-type contracts. In 2004 this type of contracts have been reported as delivery-type.

See Note 1, Accounting Policies , Revenue recognition for more information about the different types of contracts.

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NOTES TO THE FINANCIAL STATEMENTS

5 OTHER OPERATING REVENUES AND COSTS

Consolidated	2004	2003	2002[1)]
Gains on sales of intangible and tangible assets	**111**	213	166
Losses on sales of intangible and tangible assets	**229**	28	251
Capital losses on tangible assets related to restructuring		345	311
Gains on sales of investments and operations	**510**	493	267
Losses on sales of investments and operations	**273**	731	593
Sub-total	**119**	398	722
Commissions, license fees and other operating revenues	**2,498**	1,939	1,496
Total	**2,617**	1,541	773

1) Restated for changed accounting principles.

Parent Company	2004	2003	2002
Commissions, license fees and other operating revenues	**2,920**	2,441	2,770
Net losses ( ) on sales of tangible assets	**30**	33	1
Total	**2,890**	2,408	2,769

6 FINANCIAL INCOME AND EXPENSES

Consolidated	2004	2003	2002
Financial Income			
Result from securities and receivables accounted for as fixed assets	**354**	470	1,049
Other interest income and similar profit/loss items	**3,187**	3,525	3,204
Total	**3,541**	3,995	4,253
Financial Expenses			
Interest expenses and similar profit/loss items	**4,081**	4,859	5,789
Financial Net	**540**	864	1,536

The Group s interest expenses on pension liabilities are included in the interest expenses shown above.

Parent Company	2004	2003	2002
Financial Income			
Result from participations in subsidiary companies			
Dividends	**6,378**	1,565	5,077
Net gains on sales	**146**	36	20
Result from participations in associated companies			
Dividends	**120**	93	48
Net gains on sales	**34**		
Result from other securities and receivables accounted for as fixed assets			
Dividends		4	58
Net gains on sales	**2**	153	24
Other interest income and similar profit/loss items			
Subsidiary companies	**1,093**	2,629	3,346
Other[1)]	**3,235**	4,697	4,424
Total	**11,008**	9,177	12,997

1) Of the total amount, SEK 0 million in 2004, SEK 1,384 million in 2003 and SEK 2,161 million in 2002 is attributable to hedge of net investments in foreign subsidiary companies.

Parent Company	2004	2003	2002
Financial Expenses			