

[Table of Contents](#)

FORM 20-F 2004 CROSS REFERENCE TABLE

Form 20-F Item Heading	Location in this document	Page Number
6 Directors, Senior Management and Employees		
A Directors and Senior Management	Corporate Governance Board of Directors Members of the Board Company Management	 96 97 99
B Compensation	Notes to the Financial Statements Note 31 Information Regarding Employees, Members of the Board of Directors and Management	 71
C Board Practices	Board of Directors' Report Board Work	 22
	Corporate Governance Board of Directors	 96
D Employees	Board of Directors' Report Employees	 21
	Notes to the Financial Statements Note 31 Information Regarding Employees, Members of the Board of Directors and Management	 71
E Share Ownership	Corporate Governance Members of the Board Company Management	 97 99
	Notes to the Financial Statements Note 31 Information Regarding Employees, Members of the Board of Directors and Management	 71
7 Major Shareholders and Related Party Transactions		
A Major Shareholders	Share Information Shareholders	 11
B Related Party Transactions	Notes to the Financial Statements Note 32 Related Party Transactions	 76
C Interests of Experts and Counsel	Not applicable	
8 Financial Information		
A Consolidated Statements and Other Financial Information	Financial Statements Please see also Item 17	 26
	Board of Directors' Report Legal and Tax Proceedings	 21
	Supplemental Information Dividends	 115
	Shareholder Information Dividend	 110
B Significant Changes	Board of Directors' Report Post Closing Events	 23
9 The Offer and Listing		
A Offer and Listing Details	Share Information Offer and Listing Details	 9
B Plan of Distribution	Not applicable	
C Markets	Share Information	 8
D Selling Shareholders	Not applicable	
E Dilution	Not applicable	
F Expenses of the Issue	Not applicable	
10 Additional Information		
A Share Capital	Not applicable	
B Memorandum and Articles of Association	Supplemental Information Memorandum and Articles of Association	 115
C Material Contracts	Board of Directors' Report Material Contracts and Contractual Obligations	 18
D Exchange Controls	Supplemental Information Exchange Controls	 117
E Taxation	Supplemental Information Taxation	 118
F Dividends and Paying Agents	Not applicable	

		Location in this document	Page Number
H Documents on Display		Information on the Company	83
		Documents on Display	
I Subsidiary Information		Not applicable	
11	Quantitative and Qualitative Disclosures About Market Risks	Board of Directors' Report Financial Risk Management	19
		Notes to the Financial Statements Note 22 Financial Risk Management and Financial Instruments	64
12	Description of Securities Other than Equity Securities	Not applicable	
PART II			
13	Defaults, Dividend Arrearages and Delinquencies	Not applicable	
14	Material Modifications to the Rights of Security Holders and Use of Proceeds	Not applicable	
15	Controls and Procedures	Corporate Governance Disclosure Controls and Procedures	102
16	Reserved		
	A Audit Committee Financial Expert	Board of Directors' Report Audit Committee	22
	B Code of Ethics	Corporate Governance Introduction	95
	C Principal Accountants Fees and Services	Notes to the Financial Statements Note 33 Fees to Auditors	76
	D Exemptions from the Listing Standards for Audit Committees	Not applicable	
PART III			
17	Financial Statements	Consolidated Income Statement	26
		Consolidated Balance Sheet	27
		Consolidated Statement of Cash Flows	28
		Parent Company Income Statement	30
		Parent Company Balance Sheet	31
		Parent Company Statement of Cash Flows	32
		Consolidated Stockholders' Equity	29
		Parent Company Statement of Changes in Stockholders' Equity	33
		Notes to the Financial Statements	35
18	Financial Statements	Not applicable	
19	Exhibits		
	Exhibits 1	Articles of Association, incorporated by reference to our Form S-8, filed with the Securities and Exchange Commission on February 14, 2005.	
	Exhibits 3	Not applicable	
	Exhibits 5	Not applicable	
	Exhibits 6	Please see Note 1 to the Financial Statements, Accounting Policies.	36
	Exhibits 7	For definitions of certain ratios used in this report, please see Five-Year Summary.	6
	Exhibits 8 Exhibit 11	Please see Note 12 to the Financial Statements, Investments. Our Code of Business Ethics and Conduct for all our employees, our CEO and senior financial officers is included at our web site on http://www.ericsson.com/about/code_business_ethics/index.shtml	55
	Exhibit 12	302 Certifications	
	Exhibit 13	906 Certifications	

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

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 of ten 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.

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.

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.

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.

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, basic ³⁾	15,829	15,823	12,573	10,950	10,896
- average, diluted ³⁾	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 1, "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 1 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.

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

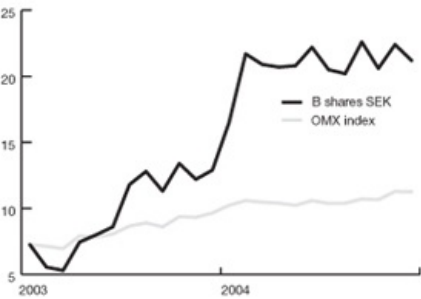
During 2004, Ericsson’s total market value increased by about 64 percent to approximately SEK 343 billion (SEK 209 billion in 2003). The OMX index on Stockholmsbörsen increased by 17 percent, the NASDAQ telecom index increased by approximately 7 percent and the NASDAQ composite index increased by approximately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

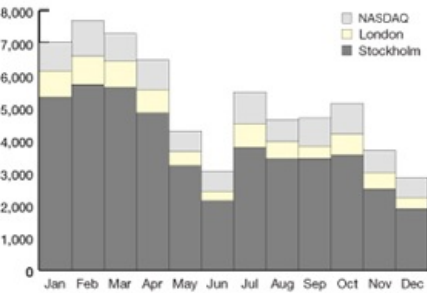
No Class C shares, each carrying one-thousandth of a vote, are outstanding.

Share trend, Stockholm Stock Exchange, 2003–2004



Source: Svensk Börsinformation

Share turnover (million shares)



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:

Period	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS ¹⁾		SEK per Class A share		SEK per Class B share	
	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.)

[Table of Contents](#)

SHARE INFORMATION

Quarterly high and low market prices

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

Period	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS ¹⁾		SEK per Class A share		SEK per Class B share	
	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).

Month	NASDAQ		STOCKHOLMSBÖRSEN			
	USD per ADS ¹⁾		SEK per Class A share		SEK per Class B share	
	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

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.

Table of Contents

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.

Person or group	2004			2003			2002		
	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

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 its 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 restructuring 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.