ERICSSON LM TELEPHONE CO
Form 6-K
July 18, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

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

the Securities Exchange Act of 1934

July 18, 2012

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant s name into English)

Torshamnsgatan 23, Kista

SE-164 83, Stockholm, Sweden

(Address of principal executive offices)

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

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

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE REGISTRATION STATEMENT ON FORM F-3 (NO. 333-180880) OF TELEFONAKTIEBOLAGET LM ERICSSON (PUBL.) AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFONAKTIEBOLAGET LM ERICSSON (publ)

By: /s/ NINA MACPHERSON
Nina Macpherson
Senior Vice President and
General Counsel

By: /s/ HELENA NORRMAN
Helena Norrman
Senior Vice President
Corporate Communications

Date: **July 18, 2012**

This report on Form 6-K shall be deemed to be incorporated by reference in the registration statement on Form F-3 (No. 333-180880) of Telefonaktiebolaget LM Ericsson (publ.) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

Ericsson SECOND QUARTER report ADJUSTED for registration statement on Form F-3 (No. 333.180880) **July 18, 2012**

Sales increased 1% YoY and showed a good performance QoQ, +9%.

Networks sales decreased YoY due to the expected decline in CDMA equipment sales as well as weaker sales in China and Russia.

Global Services and Support Solutions showed strong performance YoY and QoQ.

The underlying business mix, with higher share of coverage projects than capacity projects, was unchanged in the quarter and is expected to prevail short-term. The negative gross margin impact from the network modernization projects in Europe will start to gradually decline end 2012.

Cash flow from operations SEK -1.4 b. impacted by high working capital mainly due to late invoicing.

Net income SEK 1.2 b., down from SEK 3.2 b. YoY, impacted by lower profitability in Network and increased loss in ST-Ericsson.

EPS diluted SEK 0.34 (0.96).

SEK b.	**Q2 2012**	**Q2 2011**	**YoY Change**	**Q1 2012**	**QoQ Change**	**Six m. 2012**	**Six m. 2011**
Net sales	55.3	54.8	1%	51.0	9%	106.3	107.7
Of which Networks	*27.8*	*33.4*	-17%	*27.3*	2%	*55.1*	66.6
Of which Global Services	*24.1*	*19.0*	26%	*20.6*	17%	*44.7*	36.5
Of which Support Solutions	*3.5*	*2.4*	47%	*3.0*	15%	*6.5*	4.7
Gross margin	32.0%	37.8%		33.3%		32.6%	38.1%
Operating income excl JVs	3.3	5.0	-35%	10.5		13.8	11.3
Operating margin excl JVs	5.9%	9.2%		20.6%		13.0%	10.5%
Of which Networks	*5%*	*14%*		*6%*		*5%*	*16%*
Of which Global Services	*6%*	*5%*		*6%*		*6%*	*6%*
Of which Support Solutions	*12%*	*-11%*		*-1%*		*6%*	*-13%*
Operating income incl JVs	2.1	4.3	-51%	9.1		11.2	10.1
Income after financial items	1.8	4.6		9.1		10.8	10.4
Net income	1.2	3.2	-63%	8.8		10.0	7.3
EPS diluted, SEK	0.34	0.96	-65%	2.76	-88%	3.10	2.23
Cash flow from operations	-1.4	5.8		0.7		-0.6	2.9

Q112 includes a gain from the divestment of Sony Ericsson of SEK 7.7 b.

COMMENTS FROM HANS VESTBERG, PRESIDENT AND CEO

In the quarter, demand for Global Services and Support Solutions was strong, while Networks sales decreased YoY mainly due to the expected decline in CDMA equipment sales as well as lower business activity in China, including weaker sales of GSM and lower 3G sales in Russia, says Hans Vestberg, President and CEO of Ericsson (NASDAQ:ERIC). In Global Services all areas showed good growth in the quarter due to operators focus on operational efficiency and high project activities. The strong development for Support Solutions was driven by billing systems and TV solutions. Global Services and Support Solutions together represented about half of the Group s revenues. The growing Global Services business has a dilutive impact on gross margin.

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NET SALES, SEK b.

OPERATING INCOME INCL. JVs, SEK b.

* *excl SEK 7.7 b. gain from Sony Ericson divestment*

NET INCOME, SEK b.

* *excl SEK 7.7 b. gain from Sony Ericson divestment*

CASH FLOW FROM OPERATIONS, SEK b.

We continue to stay close to our customers to monitor the impacts of macroeconomic development and political uncertainty in certain regions on their investments. In customer conversations it is clear that the fundamental drivers for increased data traffic are unchanged. Today there are more than 700 million smartphone subscriptions and according to our estimates this number will increase to three billion in 2017. Based on these drivers, we see an increasing focus from our customers on network performance and quality of service. This will require continuous operator investments in hardware, software and services.

Our joint venture ST-Ericsson is still in a challenging situation due to a significant drop in sales of new products to one of the largest customers and continued decline in legacy products. The company continues to focus on securing the successful execution and delivery of its NovaThor ModAp platforms and Thor modems to customers while executing on company transformation aiming at lowering its break-even point.

In 2010 we made a conscious decision to gain market share and increase technology and services leadership, well aware of the short-term profitability pressure. Our focus is now on translating these gains into sustainable profitable growth, concludes Vestberg.

Financial Highlights

INCOME STATEMENT AND CASH FLOW

Sales in the quarter increased 1% YoY and 9% QoQ. The acquired Telcordia operation added sales of SEK 1.1 b. in the quarter, split 50/50 between segments Global Services and Support Solutions.

Networks sales decreased -17% YoY primarily due to the expected decline in CDMA equipment sales as well as weaker development for GSM sales in China and slower operator investments in Russia. Networks sales increased 2% QoQ. CDMA equipment sales declined close to -50% YoY to SEK 2 b. and are expected to continue its rapid decline in H212.

Global Services continued to show strong momentum with growth of 26% YoY and 17% QoQ and all areas grew. Global Services represented 44% (35%) of total sales in the quarter compared to 40% in Q112. Support Solutions sales were strong with 47% growth YoY and 15% QoQ driven by strong demand for billing systems and TV solutions. Both Global Services and Support Solutions were positively impacted by the added sales from the acquired Telcordia.

Ericsson restructuring charges amounted to SEK 0.6 (1.7) b., mainly related to execution of the service delivery strategy through transformation from local to global resource centers. As previously communicated, restructuring charges are estimated to approximately SEK 4 b. for the FY12.

Gross margin was down YoY to 32.0% (37.8%), and from 33.3% QoQ. The YoY decrease is due to the increased Global Services share as well as a higher proportion of coverage projects and network modernization projects in Europe. Approximately half of the YoY gross margin percentage decline is related to the increased services mix. The QoQ gross margin reduction is due to a higher Global Services share and lower sales of mobile broadband capacity than in Q112.

The underlying business mix, with higher share of coverage projects, was unchanged in the quarter and is expected to prevail short-term. The negative gross margin impact from the network modernization projects in Europe will start to gradually decline end 2012.

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The modernization of networks in Europe became an opportunity for us mid-2010 when operators in Europe started to evaluate potential swaps of older 2G and 3G equipment to new multi-standard radio equipment. Ericsson, who had lost out on market share in the 3G race compared to its strong 2G position, identified this as an opportunity to regain footprint. Competition for new footprint is always tough and a strategic decision was taken to accept short-term pressure on margins to increase market share. As a result, market share has increased and the Company has restored its leading market position in Europe. Average project duration for these modernization projects are 18-24 months and the margin effects will start to gradually decline late 2012. In Q411, all projects were up to full speed.

Total operating expenses amounted to SEK 15.0 (15.8) b. R&D expenses amounted to SEK 8.1 (8.1) b. and increased slightly QoQ due to restructuring. Full year R&D expenses is now expected to be SEK 30-32 b. compared to previous estimate of SEK 29-31 b. The increase is due to selective investments in key radio technology areas to extend technology leadership and FX. Selling and general administrative expenses (SG&A) amounted to SEK 6.9 (7.7) b. SG&A is down -8% YTD, excluding restructuring charges and the impact from the acquisition of Telcordia. In Q211, SG&A was impacted by restructuring charges of SEK 1.2 b. vs. restructuring charges of SEK 0.1 b. in Q212.

Other operating income and expenses was SEK 0.5 (0.2) b. and decreased SEK -7.2 b. QoQ due to the gain of SEK 7.7 b. from the divestment of Sony Ericsson that was reported in Q112. The SEK 0.3 b. in segment Sony Ericsson relates to a resolved dispute from a litigation process with a third party.

Operating income, excluding JVs, decreased to SEK 3.3 (5.0) b. due to lower profitability in Networks but with a positive impact from lower restructuring costs. Operating margin was 5.9% (9.2%) compared to 5.5% (excl. gain from divestment of Sony Ericsson) in Q112.

Ericsson s share in ST-Ericsson s income before tax was SEK -1.3 (-0.7) b.

Financial net amounted to SEK -0.3 (0.3) b. and decreased QoQ from SEK 0.0 b. mainly related to negative currency exchange revaluation effects.

Net income decreased to SEK 1.2 (3.2) b. due to lower profitability in Networks and increased loss in ST-Ericsson.

EPS diluted was SEK 0.34 (0.96). Cash flow from operations was negative SEK -1.4 (5.8) b., mainly due to late invoicing in the quarter. Cash outlays for restructuring amounted to SEK 0.3 (1.2) b. Cash outlays of SEK 1.0 b. remain to be made from the restructuring provision.

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DAYS SALES OUTSTANDING

INVENTORY DAYS

PAYABLE DAYS

BALANCE SHEET AND OTHER PERFORMANCE INDICATORS

Trade receivables increased QoQ to SEK 67.3 (60.7) b., reflecting changes in FX and late invoicing in the quarter. As a result, days sales outstanding (DSO) increased from 104 to 111 days QoQ due to the increase in trade receivables and change in FX.

Inventory increased QoQ to SEK 33.1 (32.5) b. Inventory turnover days decreased from 88 to 84 days.

During the quarter, Ericsson has performed refinancing activities to extend the average debt maturity profile and to further diversify funding sources:

- Issue of a USD denominated 1 b. 10-year bond in order to refinance debt maturing in 2012 to 2014 and to diversify the funding resources.

- Repurchase of EUR 441 m. related to the 2013 and 2014 EMTN bonds in order to reduce gross debt and optimize net interest.

- During the quarter, two SEK denominated bonds with a total of SEK 3 b. were repaid at maturity.

Cash, cash equivalents and short-term investments amounted to SEK 66.4 (75.6) b. Capex investments amounted to SEK 1.6 (1.0) b.

During the quarter, approximately SEK 0.9 b. of provisions was utilized, of which SEK 0.3 b. related to restructuring. Additions of SEK 0.6 b. were made, of which SEK 0.2 b. related to restructuring. Reversals of SEK 0.5 b. were made.

Total number of employees at the end of the quarter decreased to 108,095 (108,551). The reduction is mainly related to efficiency programs in service delivery and within sales and administration.

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SEGMENT SALES, SEK b.

NETWORKS QUARTERLY SALES, SEK b.

Segment Results

NETWORKS

SEK b.	Q2 2012	Q2 2011	YoY Change	Q1 2012	QoQ Change	Six m. 2012	Six m. 2011
Network sales	27.8	33.4	-17%	27.3	2%	55.1	66.6
Operating margin	5%	14%		6%		5%	16%

CDMA equipment sales decreased -50% YoY to SEK 2 b. in the quarter. CDMA equipment sales are expected to continue its rapid decline in H212. YoY sales were negatively impacted by lower business activity in China, including weaker sales of GSM as well as lower 3G sales in Russia and reduced operator investments in India.

In 2010, we acquired Nortel s CDMA business in order to strengthen our position in North America. We were quickly established as the market leader in North America. Already at the acquisition, CDMA equipment sales were expected to decline due to the subsequent rapid shift to LTE. The CDMA acquisition has created substantial value for the company.

Ericsson has made good inroads in the converged IP Edge market with seven contracts for the Smart Services Router (SSR) signed to date.

Operating margin was negatively impacted YoY by lower volumes as well as the underlying business mix, with more coverage than capacity projects, and the European network modernization projects. The QoQ decline is also impacted by lower sales of mobile broadband capacity than in Q112.

After the initial large scale LTE rollouts in the US, Japan and Korea, we now start to see other countries following and we expect LTE deployments to commence on a broader scale also in e.g. Europe and Latin America. We have a well proven LTE solution, outperforming competition, and according to measurements end of 2011, we have a 60% market share measured in LTE volumes.

Focus is on improving profitability and leveraging the installed base. Other key priorities are to grow IP sales and secure contracts for Voice over LTE. In CDMA, the priority is to support customers migration to our LTE solution and excel in life cycle management.

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GLOBAL SERVICES QUARTERLY SALES, SEK b.

GLOBAL SERVICES

SEK b.	Q2 2012	Q2 2011	YoY Change	Q1 2012	QoQ Change	Six m. 2012	Six m. 2011
Global Services sales	24.1	19.0	26%	20.6	17%	44.7	36.5
Of which Professional Services	*16.9*	*13.5*	*26%*	*14.9*	*14%*	*31.8*	*26.0*
Of which Managed Services	*6.5*	*4.7*	*37%*	*5.7*	*13%*	*12.2*	*9.6*
Of which Network Rollout	*7.1*	*5.6*	*28%*	*5.7*	*24%*	*12.9*	*10.4*
Operating margin	6%	5%		6%		6%	6%
Of which Professional Services	*13%*	*12%*		*13%*		*13%*	*12%*
Of which Network Rollout	*-11%*	*-11%*		*-11%*		*-11%*	*-9%*

All areas showed strong growth in the quarter and business momentum remains. The increase in Professional Services is to a large extent driven by Managed Services and Consulting & Systems Integration. The demand for Professional Services is driven by operators focus on increasing operational efficiency and reducing opex through transformation activities in the voice, IP and OSS/BSS domains as well as outsourcing. Also this quarter, Network Rollout sales increased YoY, driven by high volumes of network modernization in Europe and coverage projects in other regions.

Global Services operating margin increased YoY due to increased profitability in Professional Services, positively impacted by an improvement in all areas as a result of increased sales and lower restructuring charges. Network Rollout operating margin continued to be negatively impacted by the network modernization projects in Europe. The margin impact from restructuring charges was 2%-points Q212 for Global Services as well as Professional Services, compared to 3%-points in Q211.

Ericsson now supports networks with more than 2.5 billion subscribers.

Other information	Q2 2012	Q1 2012	Full year 2011
No. of signed managed services contracts	17	9	70
Of which expansions/extensions	*5*	*4*	*32*
No. of signed significant consulting & systems integration contracts[1)]	7	6	33
Number of subscribers in networks managed by Ericsson, end of period [2)]	> 900 m.	> 900 m.	900 m.
Of which in network operations contracts	*500 m.*	*500 m.*	*500 m.*
Number of Ericsson services professionals, end of period	57,000	57,000	56,000

1) In the areas of OSS/BSS, IP, Service Delivery Platforms and data center build projects.
2) The figure includes network operations contracts and field operation contracts.

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SUPPORT SOLUTIONS QUARTERLY SALES, SEK b.

SUPPORT SOLUTIONS

SEK b.	Q2 2012