Ericsson
Fourth quarter 2018

Jan 25, 2019

Peter Nyquist

Vice President Investor Relations

Fourth quarter 2018

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Börje Ekholm

President and CEO

2018 – a year of execution

- Focused strategy has yielded results – a stronger and more profitable company
- Investments in R&D paying off - highly competitive portfolio
- Regained competitive cost structure
- Exciting market with strong 5G momentum – we are very well positioned
- On track to reach our financial targets
- The Board will propose a dividend of SEK 1.00 (1.00) per share to the AGM

Full-year 2018 in numbers

SEK b.	2017	2018	Target 2020	Target 2022, latest
Net sales	205.4	210.8	210-220	
Gross margin[1]	25.9%	35.2%	37%-39%	
Operating income[1]	-26.2	9.3		
Operating margin[1]	-12.8%	4.4%	>10%	>12%
Free cash flow ex. M&A	4.8	4.3	Positive	Strong

Number of employees		
	100,735	95,359

[1]Excluding restructuring charges

— Organic growth, first time since 2013

— The SEK >10 b. cost reduction program successfully implemented

— Solid earnings in Networks and Managed Services, reduced losses in Digital Services

— Free cash flow stable despite growth – more evenly distributed between the quarters

Q4 2018 in numbers

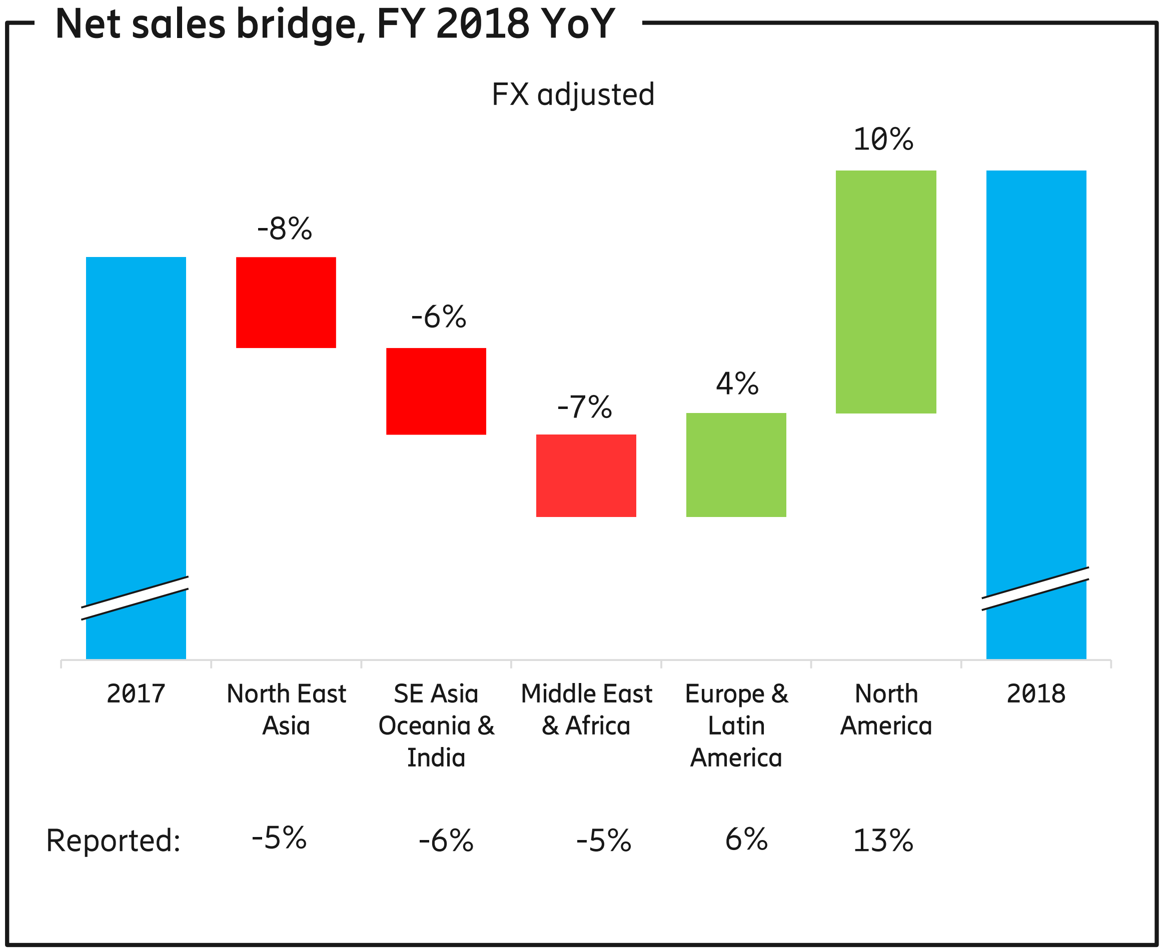
Financial Performance, Q418

Excluding restructuring charges

SEK b.	18Q4	17Q4	18Q3
Net sales	63.8	57.9	53.8
Gross margin	32.0%	25.1%	36.9%
Operating income	2.6	-16.9	3.8
Operating margin	4.0%	-29.1%	7.0%
Free cash flow excl. M&A	3.0	10.2	0.7

- Organic growth 4%
- High activity level in North America
- Stable Networks profitability
- Growth in Digital Services – revised BSS strategy announced
- Managed Services – contract review completed
- Emerging Business - investing for 5 years and beyond
- Free cash flow positive
- SEC and DOJ investigation – discussion continues

Market area sales FY 2018, YoY



— North East Asia
  - Reduced operator investments in LTE - planning for 5G

— South East Asia, Oceania & India
  - Large LTE deployments in 2017

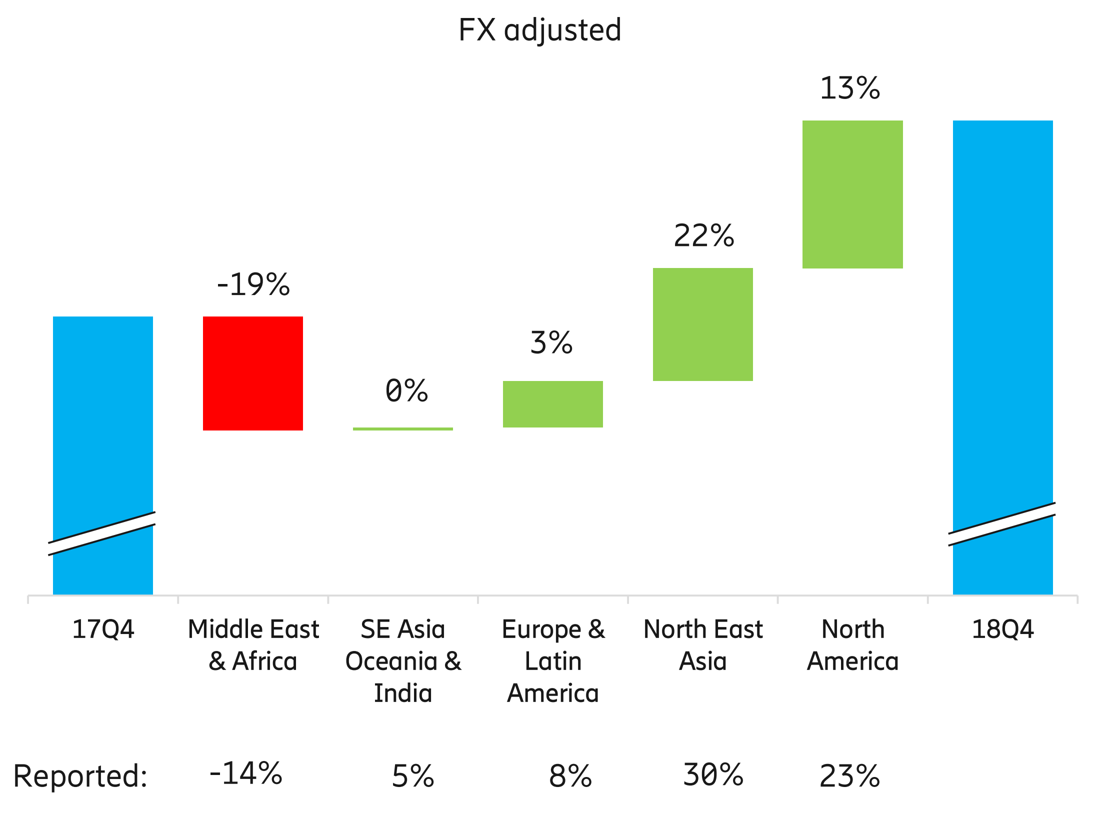
— Middle East & Africa
  - Monetary restrictions in certain markets in the Middle East

— Europe & Latin America
  - Strong sales in Latin America and parts of Europe
  - Lower sales in Managed Services due to addressing non-strategic contracts

— North America
  - Investments in 5G readiness across all major customers
  - Managed Services grew in 2H18 driven by variable sales

Market area sales Q418, YoY

Net sales bridge, Q418 YoY



- Middle East & Africa
  - Monetary restrictions in certain markets in the Middle East
- South East Asia, Oceania & India
  - Decline in India offset by growth in several markets
- Europe & Latin America
  - Continued sales growth in Brazil, Mexico and parts of Europe
- North East Asia
  - Continued deployment of NB IoT in Mainland China
  - Digital Services sales grew – telecom core contract
- North America
  - Investments in 5G readiness across all major customers
  - Strong variable sales in Managed Services

Carl Mellander

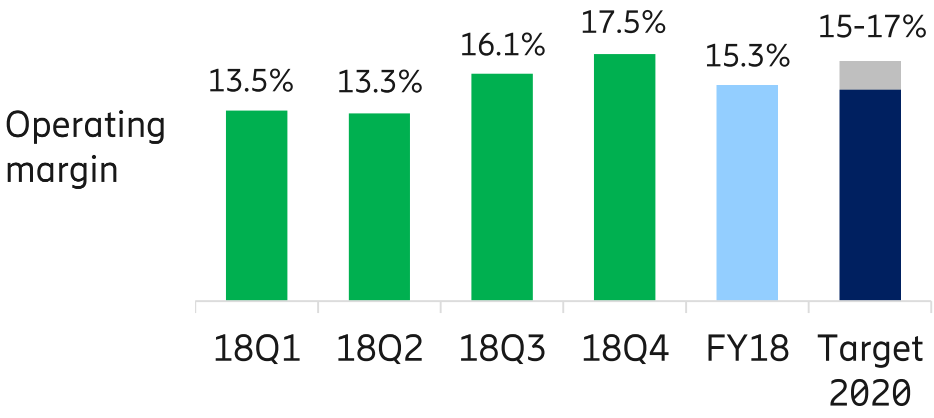
Chief Financial Officer

Networks

Segment Networks – Financial performance

Excluding restructuring charges

SEK b.	18Q4	17Q4	18Q3
Net sales	41.6	37.1	35.9
Gross margin	41.0%	34.8%	41.5%
Operating income	7.3	3.2	5.8
Operating margin	17.5%	8.6%	16.1%
Capitalization impact	*0.0*	*-0.6*	*-0.1*



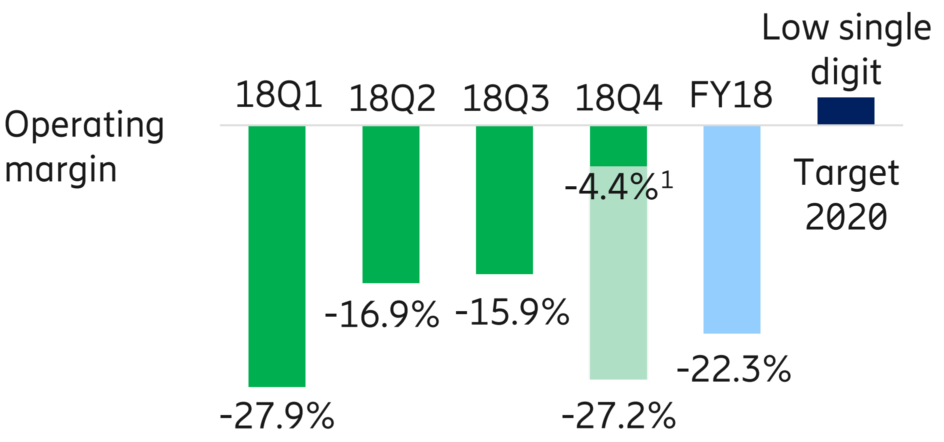
- Sales adjusted for FX: 6% YoY
  - Growth in North America and Europe and Latin America as well as in North East Asia
- Solid gross margin increase YoY
  - Increased hardware and services margins
  - Increased ERS ramp-up and cost reductions
  - Negatively impacted by strategic contracts
- Operating margin increased YoY and QoQ
  - Reversal of provision for impairment losses SEK 0.3 (-0.6) b.
  - Negative impact from 5G trial costs
- Strong Ericsson Radio System deliveries, 93% in Q4
  - 87% YTD
- RAN equipment market 2% 2019

Digital Services

Segment Digital Services – Financial performance

Excluding restructuring charges

SEK b.	18Q4	17Q4	18Q3
Net sales	13.0	11.8	9.0
Gross margin	16.4%	14.6%	36.9%
Operating income	-3.5	-11.6	-1.4
Operating margin	-27.2%	-98.0%	-15.9%
Capitalization impact	*-0.6*	*-0.7*	*-0.4*



[1]Underlying, excluding costs for revised BSS strategy

- Sales adjusted for FX: +5% YoY
  - Growth in our 5G-ready and virtualized portfolio with a total of 195+customers
  - Strong Cloud Core and OSS sales
  - Major contract in North East Asia delivered
- Underlying gross margin in Q418 38%
  - Significant impact from cost reductions YoY
  - Service Delivery off-shoring ratio >50%
- Underlying operating income in Q418 SEK -0.6 b.
  - Underlying expenses reduced by SEK 2.6 b. in 2018
  - YoY profit improvements across all key product areas
  - Most of the 2018 losses are in BSS – measures taken
  - 23 of the 45 contracts addressed to date (4 in Q4)
  - Target to materially reduce losses in 2019 – tracking towards profit in 2020

Reshaping Business Support Systems (BSS) business

Revised BSS strategy (from CMD 2018)

— Past strategy: Large transformation projects incl. a next gen platform – full-stack Revenue Manager
  - Lower customer demand for full-stack solutions, delays in product development → strategy not successful

— New strategy: Focus on established BSS platform – Ericsson Digital BSS
  - Large installed base – 350+ customers, 25% of Digital Services revenues
  - Increased investments – enable customers to effciently monetize 5G and IoT opportunities
  - Refocus Revenue Manager to fulfil existing commitments and transfer key capabilities to established BSS portfolio

Additional measures to speed up BSS restructuring

— Costs for revised BSS strategy, SEK -6.1 b.
  - Expected changes in project scopes including customer compensation payments and provisions for project delays
  - Of which SEK -3.1 b. restructuring charges
  - Of which SEK -0.2 b. write-down of capitalized R&D

— Materially reduced losses already in 2019 and de-risking of the 2020 target

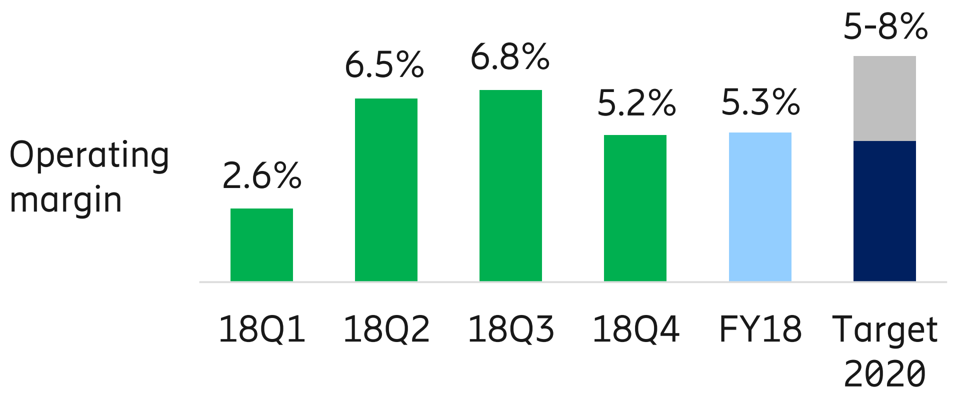
— Further restructuring charges estimated to SEK -1.5 b. are anticipated in 2019
  - Related to the planned measures, including headcount reductions

Managed Services

Segment Managed Services – Financial performance

Excluding restructuring charges

SEK b.	18Q4	17Q4	18Q3
Net sales	6.9	6.9	6.5
Gross margin	12.4%	-5.3%	12.9%
Operating income	0.4	-0.9	0.4
Operating margin	5.2%	-13.0%	6.8%



- Sales adjusted for FX: -5% YoY
  - Lower sales due to contract exits
- Gross margin improved significantly YoY
  - Contract reviews and efficiency measures
- Operating income – stable sequentially
  - OM declined due to seasonally higher opex
- Contract review process finalized, all 42 contracts addressed
  - Annualized profit improvement ~SEK 0.9 b.
  - SEK 4 b. reduction of Net sales from contract exits by end 2019, compared to 2016 base line

Emerging Business & Other

Segment EB & Other – Financial performance

Excluding restructuring charges

SEK b.	18Q4	17Q4	18Q3
Net sales	2.3	2.1	2.4
Gross margin	17.1%	14.1%	32.3%
Operating income	-1.5	-7.6	-1.0
Operating margin	-67.1%	--	-41.5%
Capitalization impact	*-0.1*	*-0.1*	*-0.1*

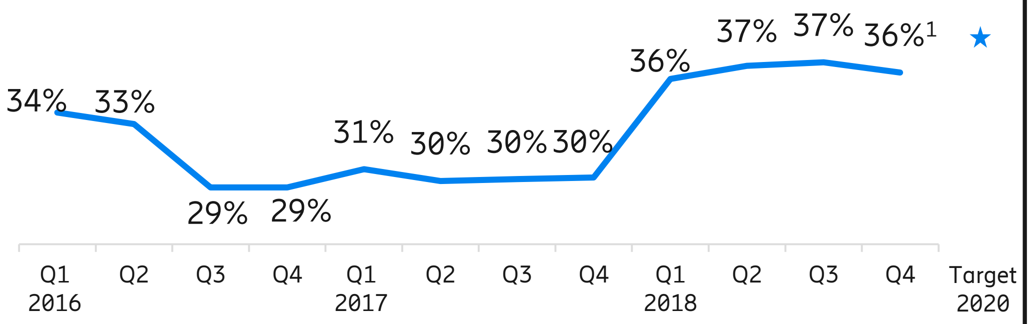
SEK b.	18Q4	17Q4	2018	2017
Emerging Business, iconectiv and com. costs				
Net sales	1.0	0.6	3.4	2.3
Operating income	-0.9	-0.8	-2.8	-2.7
Media Solutions				
Net sales	0.7	0.8	2.7	3.2
Operating income	-0.5	-6.0	-1.7	-8.9
Red Bee Media				
Net sales	0.6	0.7	2.3	2.4
Operating income	-0.1	-0.8	-0.3	-1.8

- Emerging Business incl iconectiv
  - Sales growth Q4 +60% driven by iconectiv
  - Edge Gravity reset costs SEK -0.3 b. excl restructuring
  - Initiatives managed based on positive NPV and within 2022 Group targets.
- Media Solutions
  - Includes MediaKind and transaction-related costs etc.
  - The planned divestment of MediaKind is ongoing
  - Q4 and FY2018 impacted by transaction costs and one-time project costs
- Red Bee Media
  - Full-year net sales -4% compared with 2017 - renegotiations and changes in scope of contracts
  - Losses significantly reduced YoY
  - Continue to develop operations and service propositions

Gross margin

Excluding restructuring charges

Underlying gross margin development from 2016



2016 and 2017: adjusted as per 2017 reporting, before IFRS 15 restate

[1]excluding costs for revised BSS strategy

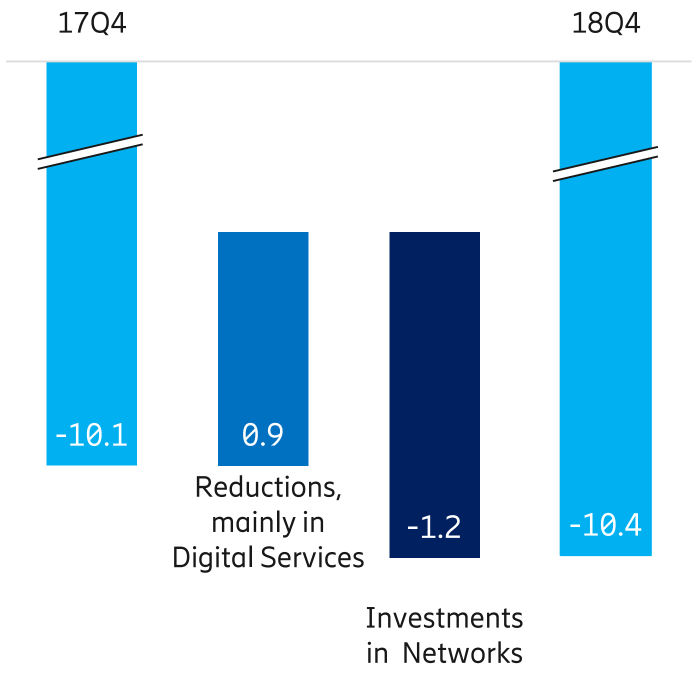
- Gross margin Q418 36.3% when excluding BSS costs in Digital Services
- Structural improvements YoY
  - Cost reductions in all segments
  - ERS ramp up
  - Managed Services contract review
- Costs associated with strengthening market position impacted negatively
- Positive capitalization impact YoY, SEK 0.7 b.

Continued strong underlying gross margin – effects of strategy execution

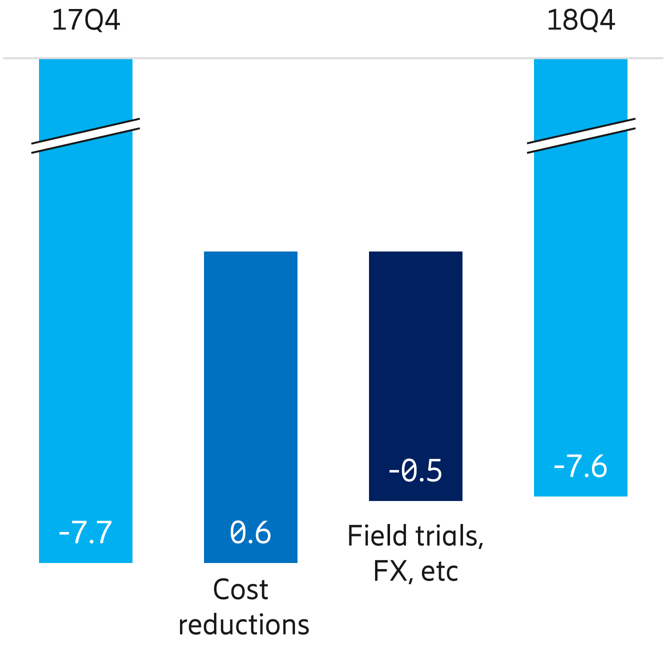
Operating expenses

Excluding restructuring charges

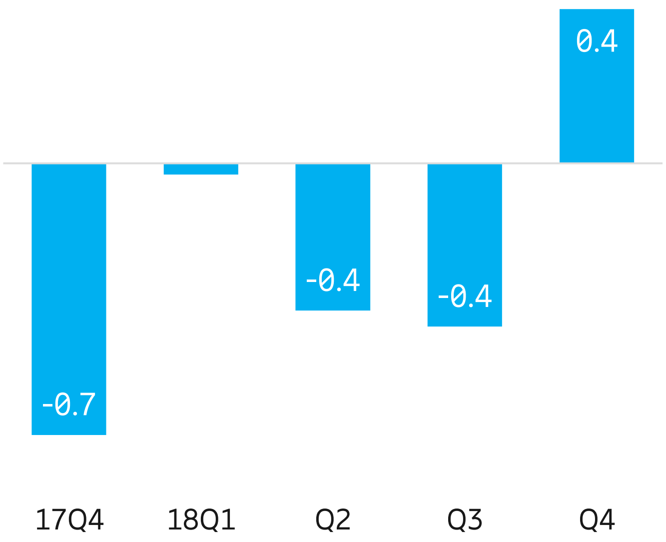
R&D bridge Q418 YoY (SEK b.)



SG&A bridge Q418 YoY (SEK b.)



Impairment losses on trade receivables (SEK b.)



Increased R&D in Networks – reductions in Digital Services

Cost reductions in G&A

Methodology for continuous impairment testing

Taxes

SEK -2.1 b. impairment of withholding tax assets in Sweden

- Triggered by Q4 costs for reshaping BSS strategy
- SEK 8.4 b. in loss carry-forwards tax asset value, mainly in Sweden. No time limit.
- Additional SEK 13.3 b. in withholding tax assets and income tax prepayments. Withholding taxes in Sweden (SEK 4.9 b) expire after 5 years.
- For each legal entity, loss carry-forwards need to be utilized before withholding tax assets

Tax rate going forward

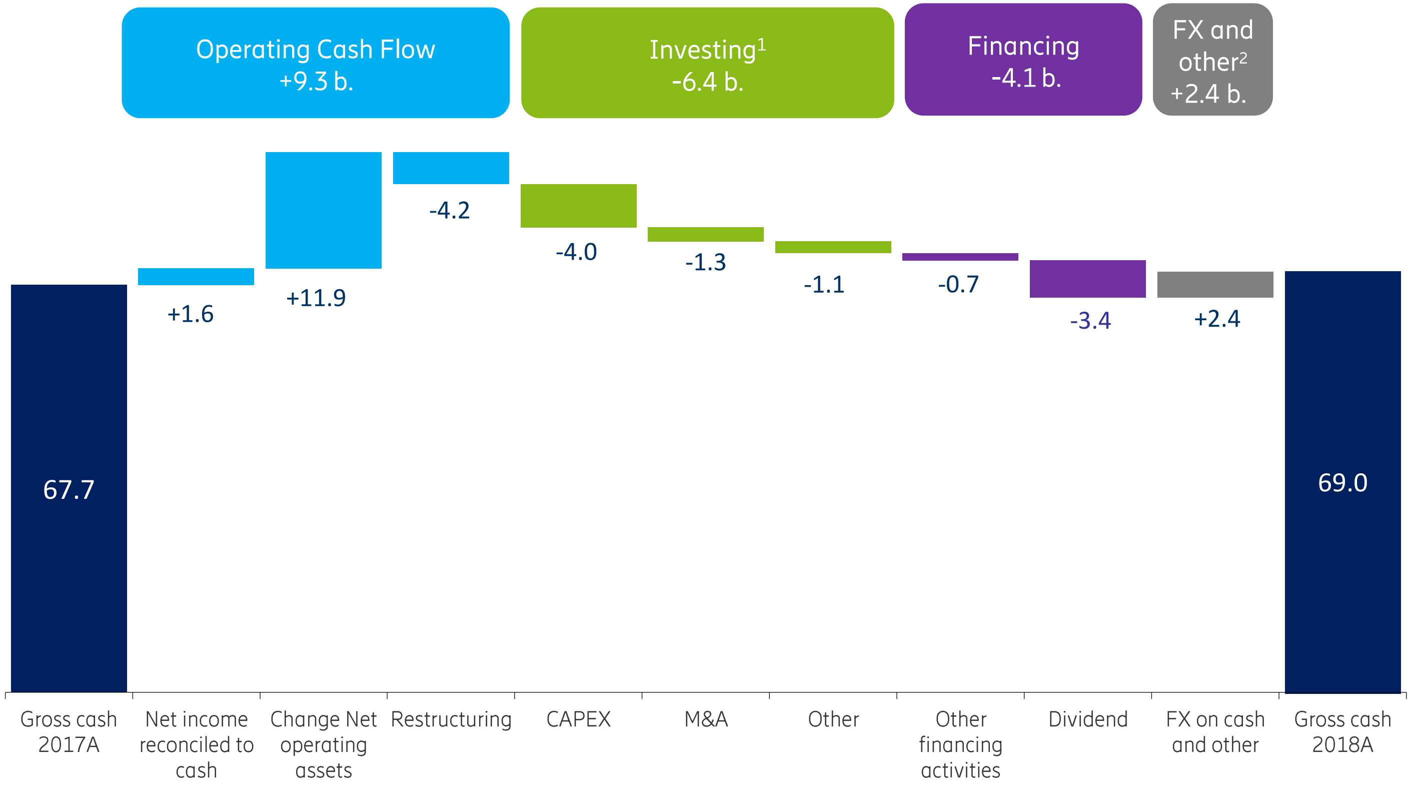
- Actual tax rate is a mix of tax rates depending on where profits are generated
- Average tax rate 2011-2015 was appr 32%

Free cash flow

Financial performance

SEK b.	2018	2017
Net income reconciled to cash	1.6	-13.1
Change operating net assets	7.8	22.7
Cash flow from operating activities	**9.3**	**9.6**
CAPEX	-4.0	-3.9
Other	-1.1	-0.9
Free cash flow excluding M&A	**4.3**	**4.8**
M&A	-1.3	0.3
Free cash flow	**3.0**	**5.1**
Net cash end of period	*35.9*	*34.7*
Gross cash end of period	*69.0*	*67.7*

Change in Gross cash



[1]Excluding Interest-bearing securities, [2]Related to Interest-bearing securities

Increased trade receivables due to sales growth

Planning assumptions – summary

Please see the Q4 report for the complete planning assumptions.

Market	— RAN equipment market 2% FY19, 2% CAGR (2018-2023)
Ericsson	— Baseline for IPR ~SEK 8 b., on an annual basis — Strategic contracts in Networks will continue to have a negative impact on gross margin. The costs may vary between quarters, without jeopardizing 2020 financial targets — Continued cost for field trials mainly in Networks — R&D expenses are expected to flatten out, starting in Q1 — Restructuring charges for full-year 2019 are estimated to be SEK 3-5 b.

Based on current visibility, assessments and FX rates

Börje Ekholm

President and CEO

2019 priorities

- Networks
  - Continued R&D investments in competitive portfolio
  - Strategic contracts , strengthening market position
- Managed Services
  - Investing in artificial intelligence, automation and analytics
- Digital Services
  - Execution of reshaped BSS strategy
  - Make portfolio ready for new business models related to 5G and IoT, including technology evolution to cloud native and micro services.
- Emerging business & Other
  - Investments in new growth areas, IoT and Edge Compute

Closing remarks

- Continued focus on strategy execution
  - Investments in technology leadership
  - Strong cost control to safeguard competitiveness
- Next steps – disciplined growth
  - Build on momentum in 5G and IoT
- Artificial Intelligence and automation key enablers for new business development
- Costs related to strategic contracts and 5G field trials will impact margins short term but build a stronger company in the long term
- Confident in reaching 2020 and 2022 financial targets

This slide contains forward-looking statements. Actual result may be materially different.
See the last page in this presentation for further information about forward-looking statements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Q&A

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- Our future liquidity, capital resources, capital expenditures, cost savings and profitability;
- The expected demand for our existing and new products and services as well as plans to launch new products and services including R&D expenditures;
- The ability to deliver on future plans and to realize potential for future growth;
- The expected operational or financial performance of strategic cooperation activities and joint ventures;
- The time until acquired entities and businesses will be integrated and accretive to income; and
- Technology and industry trends including the regulatory and standardization environment in which we operate, competition and our customer structure.

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