



ERICSSON

FOURTH QUARTER 2017

Jan 31, 2018





PETER NYQUIST

Vice President Investor Relations

FOURTH QUARTER 2017

Jan 31, 2018

This presentation contains forward-looking statements. Such statements are based on our current expectations and are subject to certain risks and uncertainties that could negatively affect our business. Please read our earnings reports and our most recent annual report for a better understanding of these risks and uncertainties.



BÖRJE EKHOLM

President and CEO

BUSINESS ENVIRONMENT



Market

- › Increasing traction for 5G – Radio and Core
- › Operator digitalization accelerating
- › RAN equipment market outlook reconfirmed
 - 2018: -2%
 - 5 year CAGR 2017-2022: +2%
- › Positive momentum in North America
 - Tax reforms, FirstNet deployment
 - Initial 5G deployments
- › Lower LTE deployments in Mainland China
 - Focusing investments on NB IoT
- › USD weakened

Ericsson

- › Good traction for 4G portfolio and 5G momentum
 - Supports operator 4G to 5G transition
 - Deutsche Telecom, Verizon
 - Market share gain in Mainland China
- › New Digital Services products delivered
 - BSS and Telecom Core
- › Growth in Managed Services IT
 - Driven by digitalization
- › Momentum in Emerging Business
 - iconectiv solution on track for launch in North America
 - Strong traction in UDN and IoT

FULL YEAR 2017



SEK b.	2017	2016
Net sales	201.3	222.6
Operating income	-38.1	6.3
Free cash flow	5.1	0.3

Number of employees	2017	2016
	100,735	111,464

- › Challenging year – executing on our focused strategy
- › Strengthening R&D while reducing cost
- › Reduced risk – commercial and balance sheet
- › Sales declined -10%, FX adjusted
- › Solid earnings in Networks, significant losses in Digital Services
- › Free cash flow improved – with a more even profile
- › RAN market decline, estimated to -8% FY17
- › Increasing traction for 5G – intensified customer collaboration

STRATEGY EXECUTION PROGRESS



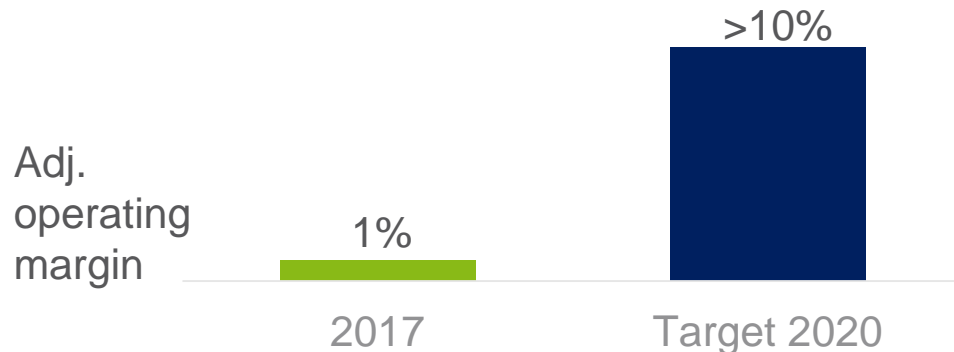
Group Targets	2020
Net sales	SEK 190-200 b.
Gross margin	37-39%
Operating margin	>10%
Free Cash Flow	Positive

STABILIZE
&
SIMPLIFY

- › Increased stability in product roadmaps and challenging projects in Digital Services
- › Strategic review of Media completed
- › Continued review of Managed Services contracts – 23 of 42 completed
- › Net reduction of ~17,000 employees and external workforce in 2017

INVEST
&
GROW

- › Increased LTE market shares in Mainland China, UK, Germany to position for 5G
- › Ericsson Radio System share at 61%, FY17



CHANGES TO EXECUTIVE TEAM AND ORGANIZATION



PRESS RELEASE
JANUARY 31, 2018



ERICSSON STRENGTHENS FOCUS ON INNOVATION AND MAKES CHANGES TO EXECUTIVE TEAM

- › Business Area Emerging Business created to strengthen focus on innovation and new business development
 - Åsa Tamsons appointed head of unit and member of the Ericsson Executive Team
- › Simplified Group Function structure
 - Current GF Technology and Emerging Business and GF Sustainability and Public Affairs combined into other units
- › Business Area Digital Services accelerates strategy execution
 - Jan Karlsson acting head of unit. Search for a new head of unit initiated

Q4 2017



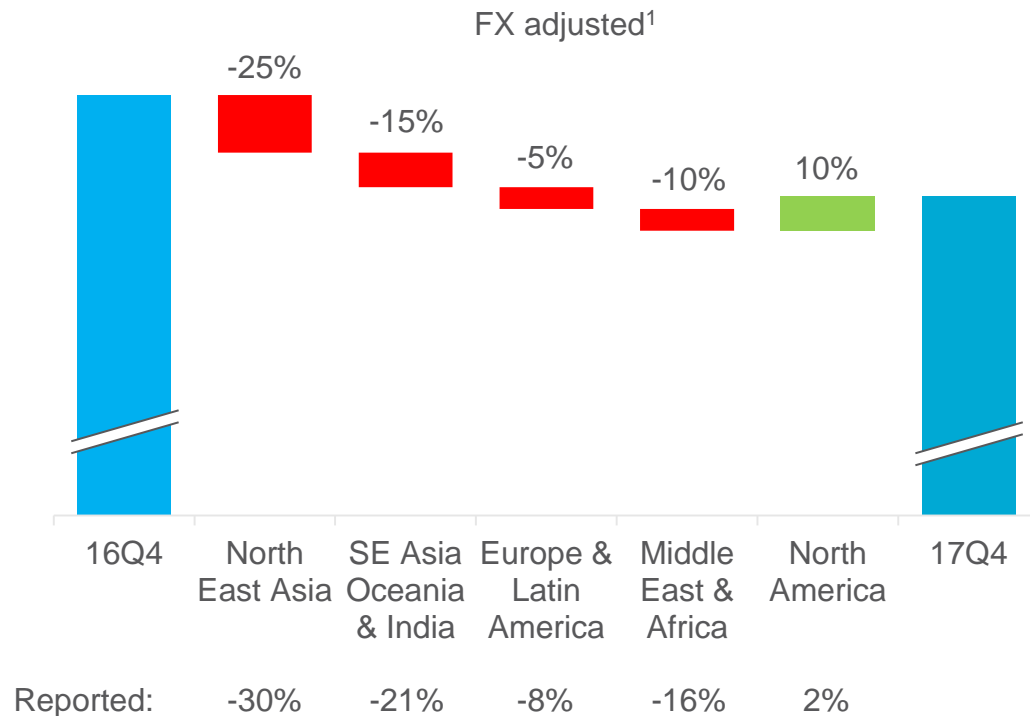
Adjusted for restructuring charges and certain other items affecting comparability.

SEK b.	17Q4	16Q4	17Q3
Net sales	57.3	65.2	47.7
Gross margin	29.9%	29.4%	30.0%
Operating income	0.4	4.4	0.0
Operating margin	0.7%	6.7%	-0.1%
Free cash flow	10.1	14.3	-0.5

- › Sales adjusted for FX -7% YoY
- › Adjusted gross margin improved YoY
 - Strong performance in Networks
 - Decline in Digital Services
- › Adjusted operating income declined YoY
 - Negative capitalization impact YoY SEK 2.2 b.
 - Increased R&D, reduced SG&A
- › Strong cash flow performance

- › The Board to propose a dividend of SEK 1.00

MARKET AREA SALES Q4, Y_oY



› North East Asia

- Reduced LTE investments in Mainland China
- Market share gain in Mainland China
- Operators awaiting spectrum allocations

› South East Asia & India

- Lower Networks sales in Vietnam, India and Indonesia
- Exit from Managed Services contract in India

› Europe & Latin America

- Decline in Mexico (timing of projects), growth in Brazil
- Continued capex pressure in most of Europe

› Middle East & Africa

- Continued weak macroeconomic environment

› North America

- Network expansions

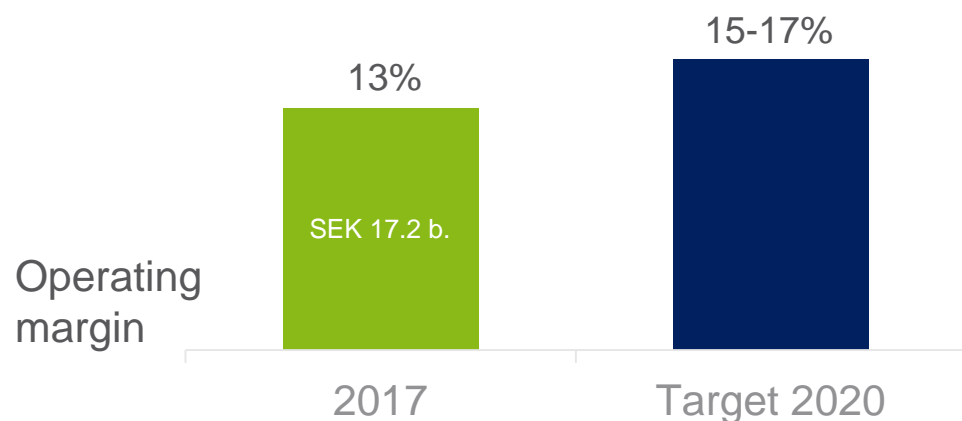
NETWORKS



Adjusted for restructuring charges and certain other items affecting comparability.

SEK b.	17Q4	16Q4	17Q3
Net sales	36.3	42.1	30.4
Gross margin	35.9%	31.6%	35.9%
Operating income	4.2	5.6	4.2
Operating margin	11.5%	13.3%	13.9%
<i>Capitalization impact</i>	-0.6	0.3	-0.7

- › Sales adjusted for FX -9% YoY
 - Lower LTE investments in Mainland China
 - Strong Q4 2016 – large projects completed
- › Gross margin
 - Higher share of software, increased hardware and services margins
 - Negative impact from market share gain in China
- › Operating margin
 - QoQ sales growth offset by increased expenses
 - Capitalization impact QoQ SEK 0.1 b., YoY SEK -0.9 b.
- › Increased R&D investments
- › Strong Ericsson Radio System deliveries, 71% in the quarter



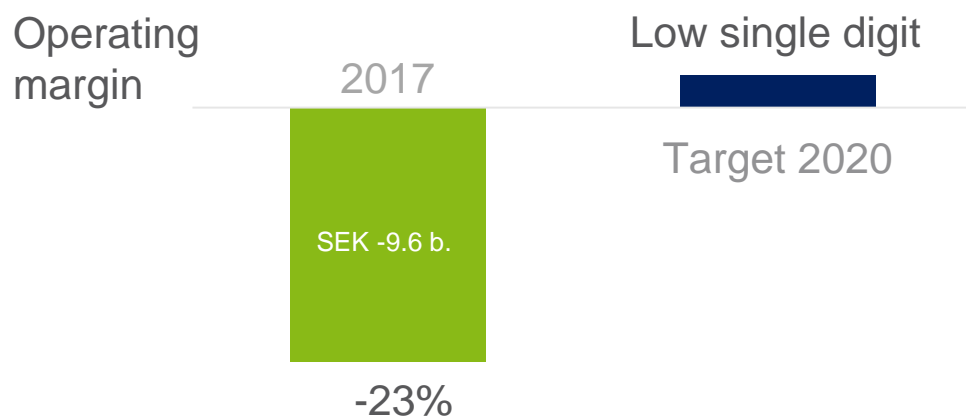
DIGITAL SERVICES



Adjusted for restructuring charges and certain other items affecting comparability.

SEK b.	17Q4	16Q4	17Q3
Net sales	12.9	14.1	9.3
Gross margin	24.8%	37.6%	29.6%
Operating income	-2.7	-0.2	-2.8
Operating margin	-21.0%	-1.3%	-29.9%
<i>Capitalization impact</i>	-0.7	0.4	-0.7

- › Sales adjusted for FX -3% YoY
 - Decline in legacy products and services
 - Strong sequential growth, +35% FX adj.
- › Gross margin
 - Reduced services margins YoY
 - QoQ decline due to lower software margins
- › Operating margin
 - Capitalization impact flat QoQ, YoY SEK -1.1 b.
 - Operating expenses, excl. capitalization impact, declined SEK 0.9 b. YoY
- › Increased stability in product roadmaps
- › 45 critical or non-strategic customer contracts identified
 - 2 contracts completed or exited in Q417
 - Approx. 50% to be finalized during 2018



MANAGED SERVICES



Adjusted for restructuring charges and certain other items affecting comparability.

SEK b.	17Q4	16Q4	17Q3
Net sales	6.2	6.7	5.9
Gross margin	3.7%	2.0%	3.3%
Operating income	-0.3	-0.2	-0.1
Operating margin	-4.6%	-3.7%	-2.4%

- > Sales adjusted for FX -3% YoY
 - Contract reviews and reduced variable sales
 - Good growth in Managed Services IT
- > Gross margin
 - Positive results of efficiency measures and contract reviews
- > Operating margin
 - Negative impact from temporary costs in operating expenses
- > Continued contract review – 23 of 42 completed
 - Annualized profit improvement ~SEK 0.5 b. going forward



OTHER



Adjusted for restructuring charges and certain other items affecting comparability.

SEK b.	17Q4	16Q4	17Q3
Net sales	2.0	2.4	2.0
Gross margin	35.9%	18.8%	20.2%
Operating income	-0.8	-0.8	-1.3
Operating margin	-39.9%	-33.0%	-65.6%
<i>Capitalization impact</i>	-0.1	0.2	-0.1

- › Sales adjusted for FX -14% YoY
 - Legacy product sales declined in Media Solutions
 - Growth in Emerging Business
- › Gross margin
 - Improved margins in Media Solutions and Red Bee Media
- › Operating margin
 - Improved income YoY in Media Solutions, Red Bee Media and iconectiv
 - Increased investments in Emerging Business
 - Capitalization impact QoQ flat, YoY SEK -0.3 b.



MEDIA SOLUTIONS AND RED BEE MEDIA



PRESS RELEASE
JANUARY 31, 2018



ERICSSON CONCLUDES STRATEGIC REVIEW OF MEDIA SOLUTIONS AND RED BEE MEDIA

- › One Equity Partners - new majority owner in Media Solutions. Ericsson will retain 49% of the shares
- › Media Solutions assets and staff to transfer to independent company upon closing, expected Q3 2018
- › Continued in-house development of Red Bee Media (former Broadcast and Media services)
 - Bids received did not reflect the value of the business
- › Performance improvement programs showing significant progress in both Media Solutions and Red Bee Media



CARL MELLANDER

Chief Financial Officer

Q4 REPORTED VS ADJUSTED



SEK b.	Q417 reported	Restruct. charges	Asset write-downs	Provisions and adj.	Q417 adjusted
Net sales	57.2	--	--	0.1	57.3
Gross inc	12.0	2.0	0.7	2.4	17.1
Opex	-18.9	0.4	0.8	0.9	-16.8
Other op inc	-12.9	--	13.0	--	0.0
Op income	-19.8	2.4	14.5	3.2	0.4

Q4 2017 impacted by

- › SEK 2.4 b. of restructuring charges
 - Positively impacted by GIC divestment SEK 0.3 b.
- › SEK 14.5 b. of asset write-downs
 - Mainly as a result of the announced impairments
 - Delta from announced SEK 14.2 b. due to FX
- › SEK 3.2 b. of provisions and adjustments
 - Total amount SEK 5.5 b. vs estimated SEK 3-5 b.
- › SEK 1.0 b. U.S. tax asset revaluation

Review concluded – No need for additional adjustments or write-downs

GROSS MARGIN Q4, YoY



Adjusted for restructuring charges and certain other items affecting comparability.



- › GM improved YoY
 - Improvements in Networks offset by decline in Digital Services
- › GM stable QoQ
 - Improvements in segment Other offset by decline in Digital Services
- › Capitalization impact
 - SEK -0.6 b. YoY – equal to ~1 percentage point
 - Stable sequentially

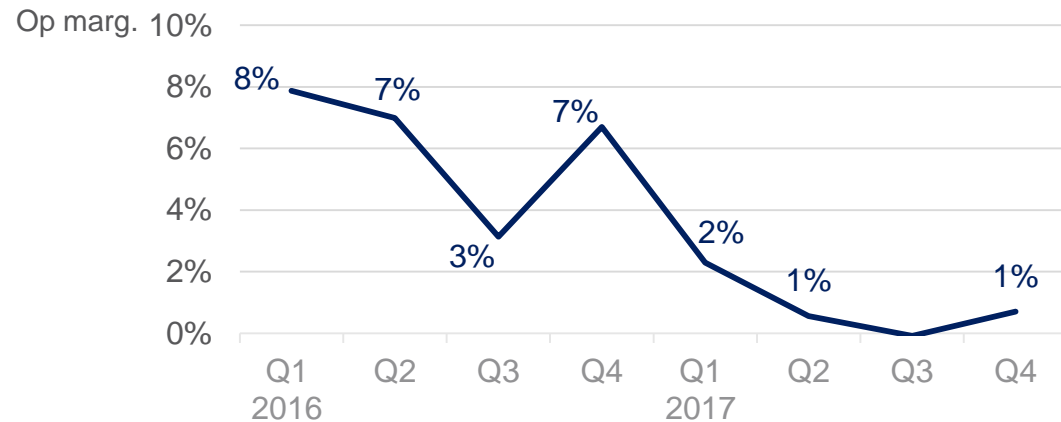
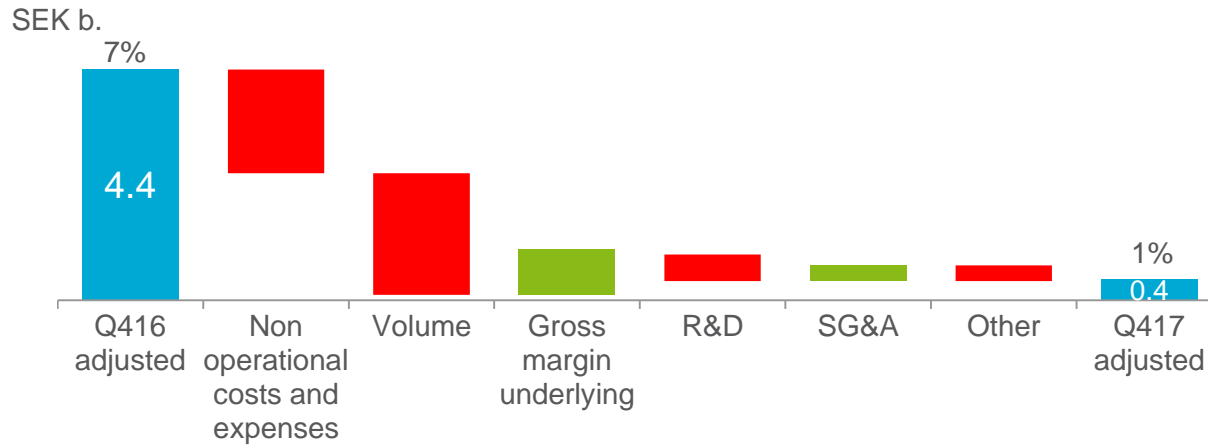


Gross margin far below 2020 target level

OPERATING INCOME Q4, YoY



Adjusted for restructuring charges and certain other items affecting comparability.



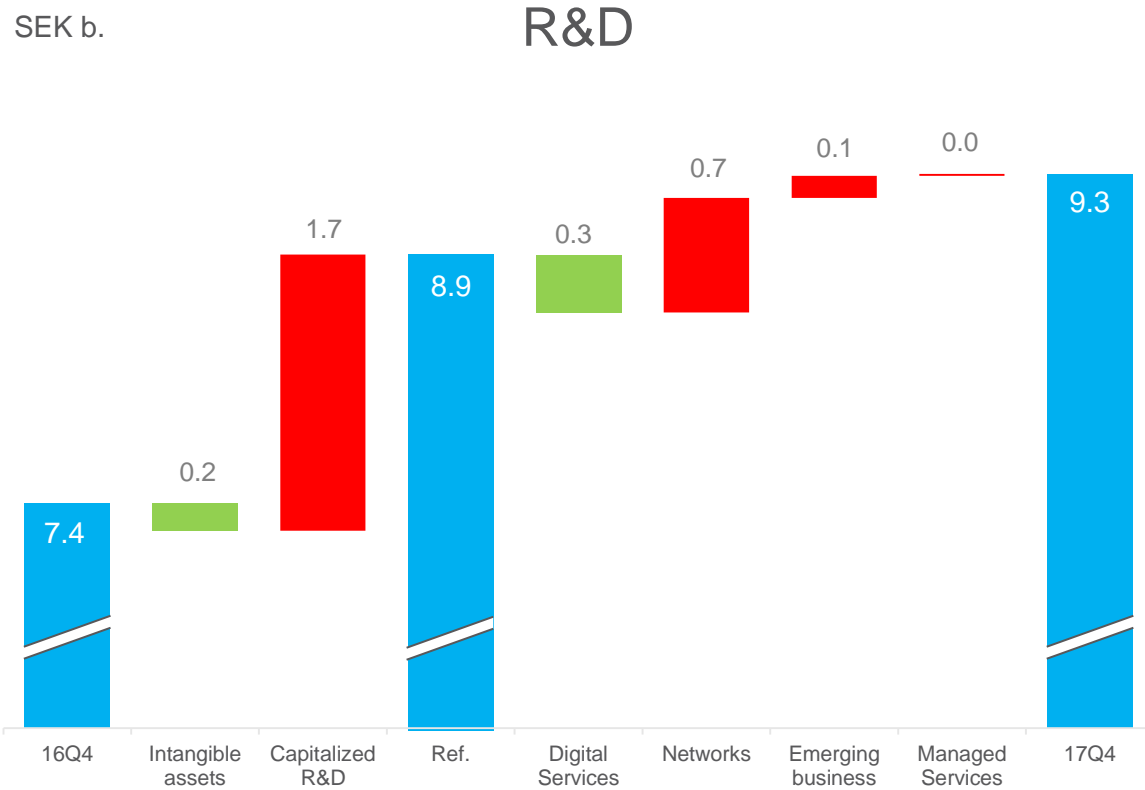
- > Lower sales and capitalization impact – main reasons for OI decline YoY
- > Capitalization impact
 - SEK -2.2 b. YoY
 - Stable sequentially
- > R&D, excl. capitalization effects, increased in Networks and Emerging Business
- > SG&A reduction from cost program
- > OI improved QoQ – increased sales partly offset by increased operating expenses

2020 target >10%

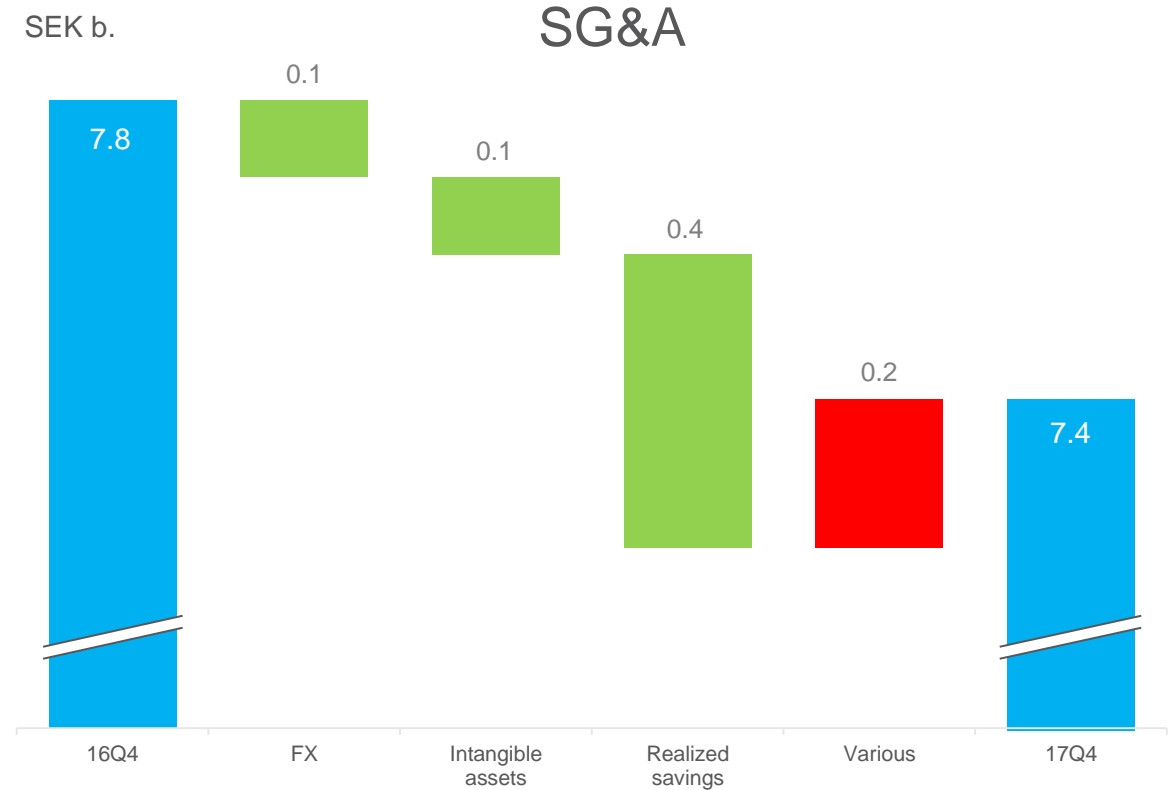
R&D AND SG&A Q4, YOY



Adjusted for restructuring charges and certain other items affecting comparability.



Increased R&D in Networks

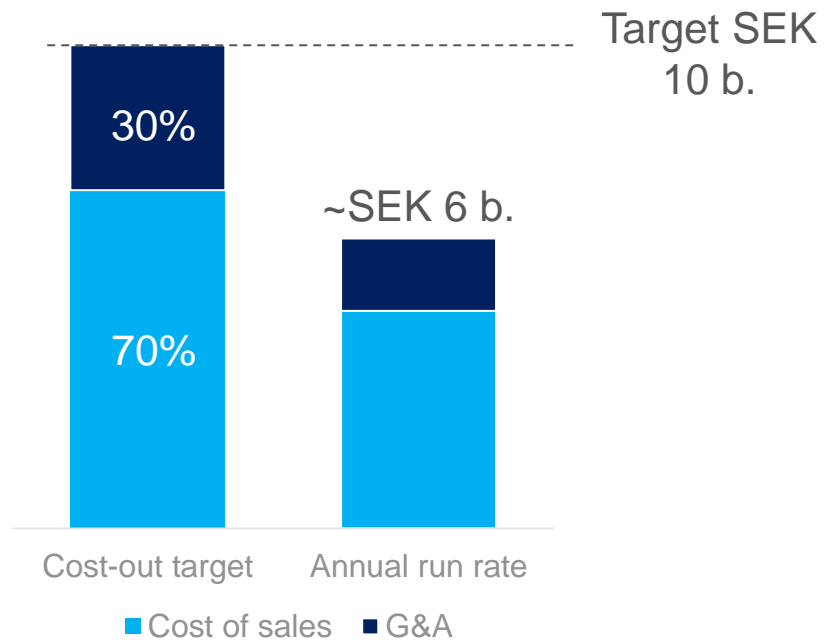


Savings in SG&A

SEK 10 B. COST-OUT TARGET FOR MID-2018



Target and progress



Achievements

G&A

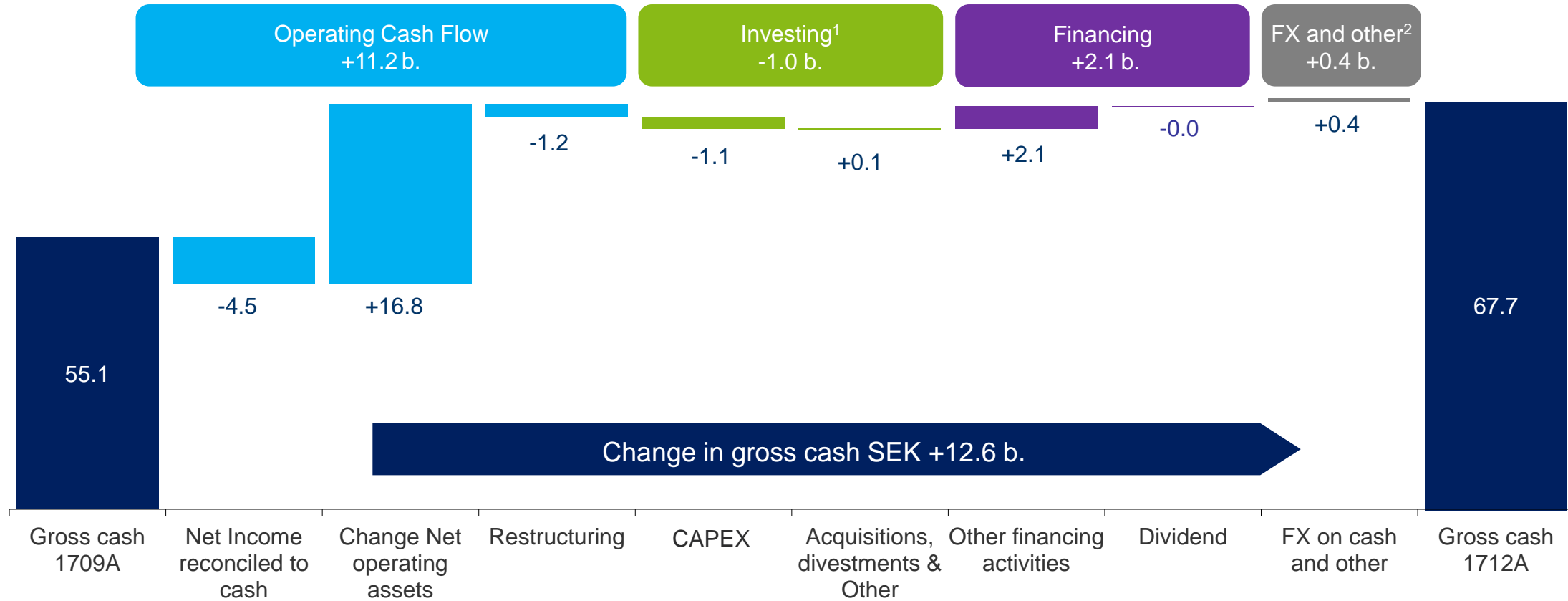
- › G&A employees net: -0.6k 2H 2017 (-7%)
- › Annual run rate reduction end of quarter: ~SEK 1.5 b.
- › Adj. SG&A exp. structurally down by SEK 0.4 b. in Q417 YoY

Cost of sales

- › Service employees net: -6.5k in 2H 2017 (-12%)
- › External workforce net: -6.5k in 2H 2017 (-34%)
- › Supply and sourcing employees net: -0.7k 2H 2017 (-11%)
- › Annual run rate reduction end of quarter: ~SEK 4.5 b.
- › Timing difference between cost-out and P&L impact
- › GM improvements in Networks and Managed Services

Workforce net reduction in selected areas 14,300 in 2H 2017

CHANGE IN GROSS CASH, Q4



Change in net cash SEK +10.6 b.

¹Excluding Interest-bearing securities
²Related to Interest-bearing securities

Free cash flow SEK 10.1 (14.3) b.

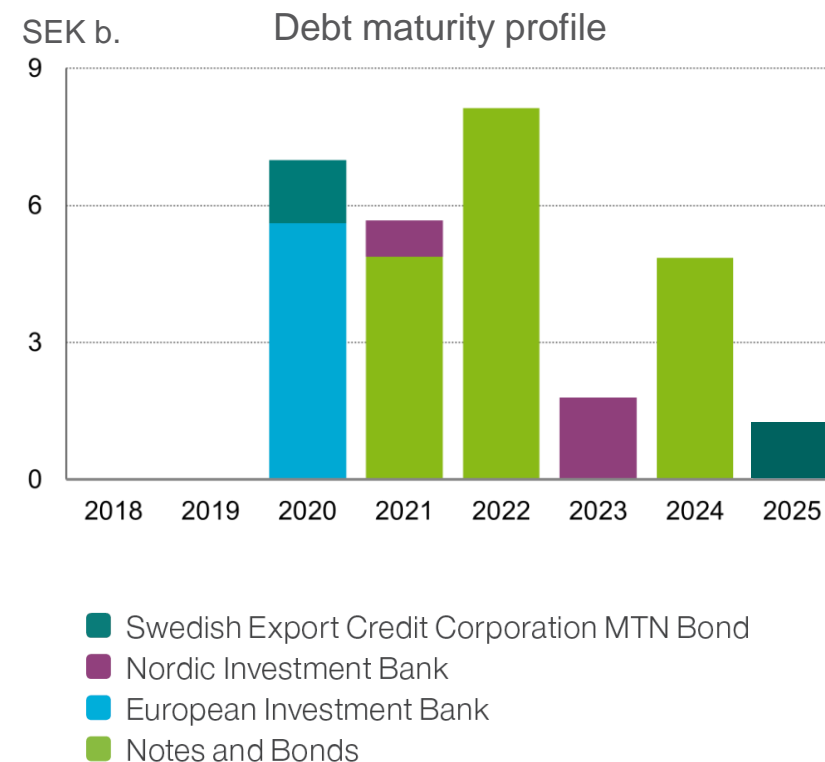
FREE CASH FLOW



SEK b.	Q417	Q416	2017	2016
Net Income reconciled to cash	-4.5	1.6	-16.5	8.0
Change operating Net Assets	15.6	17.9	26.1	6.0
Cash flow from Operations	11.2	19.4	9.6	14.0
CAPEX	-1.1	-1.7	-3.9	-6.1
M&A	-0.1	-0.1	0.3	-0.6
Other	0.2	-3.4	-0.9	-7.0
Free cash flow	10.1	14.3	5.1	0.3

Net Cash end of period 34.7 31.2 34.7 31.2

Gross Cash end of period 67.7 57.9 67.7 57.9

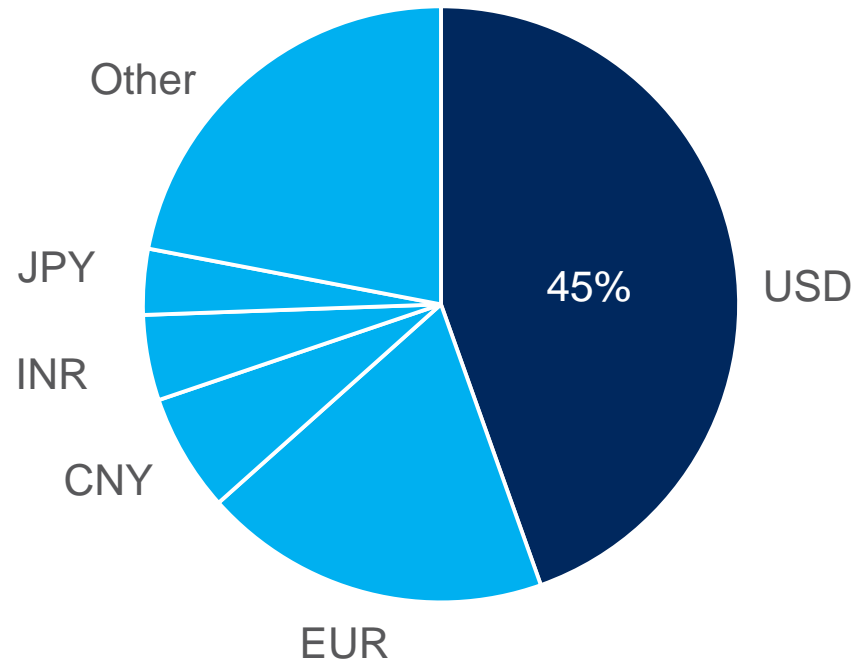


Solid balance sheet – Net cash improved to SEK 34.7 (31.2) b. YoY

SALES AND INCOME EXPOSED TO USD



Sales exposure 2017



Currency risks

- › ~45% sales exposure to USD on net sales
- › USD to SEK movements has a direct impact on reported sales and income
- › For historical FX rates, see ericsson.com

-10% weaker USD to SEK results in ~ -5% impact on sales and ~ -1 pp on OM

PLANNING ASSUMPTIONS

FROM THE Q4 REPORT



	Q1	2018 →
Market outlook		RAN equipment market -2% FY18 (in line with external sources). The Chinese market continues to decline, positive momentum in the U.S.
Net sales	USD/SEK 10% weaker → ~ -5% sales and ~ -1pp OM. For historical FX rates, please see ericsson.com	Focusing the business - reduced FY19 sales by up to SEK 10 b. compared to FY16. Baseline for IPR ~SEK 7b., on an annual basis.
Cost of sales and expenses	Opex typically varies between quarters due to seasonality.	Cost savings of SEK >10 b. implemented by mid-2018. Increased R&D expenses, primarily in Networks.
Restructuring		SEK 5-7 b. FY18
Segment specific assumptions		Actions to improve profitability in Digital Services - positive effects on gross margin in 2H18.

	SEK b.	Q117	Q417	Q118 est.	FY17	FY18 est.	FY19 est.
Actual and estimated capitalization impact	CoS	-0.5	-0.8	-0.3	-2.6	-1	-
	R&D	0.7	-0.6	-0.5	-0.3	-2	-
	Total	0.3	-1.4	-0.8	-2.9	-3	-1 to -2

Based on current visibility, assessments and FX rates



BÖRJE EKHOLM

President and CEO

CLOSING REMARKS

- › Balance sheet and commercial risk review completed
 - No need for additional adjustments and write-downs
- › Strong free cash flow
 - Covering dividend first time in 5 years
 - Improved resilience and financial flexibility
- › Continued solid performance in Networks
 - Gross margin improved significantly YoY
 - Increased R&D to safeguard leading portfolio and improve profitability
- › Continued high losses in Digital Services
 - Expected but not acceptable
 - Focus remains on turnaround – gross margin improvement in 2H 2018

Laid a solid foundation for achieving our financial targets





Q&A



ERICSSON

FOURTH QUARTER 2017

Jan 31, 2018

This presentation contains forward-looking statements. Such statements are based on our current expectations and are subject to certain risks and uncertainties that could negatively affect our business. Please read our earnings reports and our most recent annual report for a better understanding of these risks and uncertainties.