

Ericsson resolves U.S. FCPA investigations



Ola Rembe

Ericsson Communications



This presentation contains forward-looking statements. Such statements are based on our current expectations and are subject to risks and uncertainties that could materially affect our business and results. Please read our earnings reports and our most recent annual report for a better understanding of these risks and uncertainties and please see the last page in this presentation for further information about forward-looking statements. Any forward-looking statements made during this presentation speaks only as of the date of this presentation and Ericsson expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them.



Börje Ekholm

President and CEO

Xavier Dedullen

Chief Legal Officer

Carl Mellander

Chief Financial Officer

Financial implications of settlement



- Ericsson has agreed to a combined payment of USD 979 m. plus interest of USD 81.5 m.
- Fully covered by the SEK 11.5 b. provision made in Q3 2019
- Full amount to be paid in December, affecting Q4 cash-flow with SEK 10.1 b.
- Part of remaining provision to be kept for compliance monitor cost to be paid over 3 years
- Pre-judgement interest amount lower than anticipated – allowing release of the remaining provision
- Ericsson able to manage the associated cash outflow with available funds
- Capital structure strategy and funding plans remain intact
- Commitment to financial targets for 2020 and 2022 remains intact

Background on the investigations and settlement



United States Department of Justice
Deferred Prosecution Agreement



- A DOJ proceeding is a criminal enforcement action
- DOJ initiated their investigation in 2015

United States Securities and Exchange Commission
Consent to entry of Final Judgment



- An SEC proceeding is a civil enforcement action.
- SEC initiated their investigation in 2013

The resolution relates to historical FCPA breaches ending Q1 2017. The agencies resolve their investigation independently of one another using their own discretion and applying different standards of proof. Some investigation findings shared with both agencies

The settlement with the DOJ



- Ericsson has agreed to enter into a Deferred Prosecution Agreement (DPA) with the DOJ to resolve criminal charges relating to violation of bribery provision of the FCPA in Djibouti.
- The DPA also resolves criminal charges relating to violations of the accounting provisions of the FCPA in China, Djibouti, Indonesia, Kuwait, and Vietnam.
- In connection with the matter in Djibouti, Ericsson's Egyptian subsidiary pled guilty to bribery.
- As part of the resolution Ericsson will pay a fine of USD 520,650,432
- Ericsson has agreed to engage an independent compliance monitor for 3 years and the Company continues to undertake significant reforms to strengthen its Ethics & Compliance program.
- While this commitment applies to both agencies, only one monitor will be appointed. The DOJ will oversee the conduct of the monitorship.
- In return for Ericsson complying with the terms of the DPA, the DOJ agrees to defer the prosecution of its charges and to have them dismissed at the end of the term

The settlement with the SEC



- The SEC has charged Ericsson with violations of the accounting provisions of the FCPA in China, Djibouti, Indonesia, Kuwait, Saudi Arabia and Vietnam and of the bribery provisions of the FCPA in Djibouti, China and Saudi Arabia.
- To resolve these civil charges, Ericsson agreed to the entry of a final judgment which contains a civil injunctive order enjoining Ericsson from violating the provisions of the FCPA in the future.
- As part of the resolution Ericsson will pay profit disgorgement amount of USD 458,380,000, plus pre-judgement interest of USD 81,540,000.
- Ericsson agreed to the appointment of a monitor for 3 years. While this commitment applies to both agencies, only one monitor will be appointed. The DOJ will oversee the conduct of the monitorship.

What happened



- While the Company had a compliance program and a supporting control framework they were not adequately implemented.
- Specifically, certain employees in some markets, some of whom were executives in those markets, acted in bad faith and knowingly failed to implement sufficient controls. They were able to enter into transactions for illegitimate purposes and, together with people under their influence, used sophisticated schemes in order to hide their wrongdoing:
 - They entered into sham contracts or contracts at inflated prices, including the creation of cash pools outside of the company's control where the ultimate beneficiaries of the funds were unknown; and
 - They arranged for excessive travel and entertainment of customer representatives without a demonstrable business purpose.

Overview of Ericsson's Ethics and Compliance Program



Based on the independent compliance advisory firms' detailed independent audit and recommendations, Ericsson has mapped out all the areas for improvement and is systematically addressing them. Specifically, these efforts have focused on:

1. Ensuring that we **employ the right people** and encourage the **right culture**, backed up by **disciplinary measures** to ensure that everyone lives up to our values;
2. Better **assessment and monitoring of third-party business partners**;
3. Improved **compliance and investigation capabilities**; and
4. Strengthened **internal controls**.



Summary



- The agreements end the FCPA related investigations by the DOJ and SEC
- We have entered into two separate settlements that allow us to close another chapter on this legacy issue
- The combined payment of USD 1.06 b. (SEK 10.1 b.) is fully covered by the SEK 11.5 b. provision taken in Q3 2019.
- Ericsson is acting to ensure that we are equipped to do business the right way. Work to enhancing ethics and compliance will never stop – continuous improvement and innovation are paramount
- Building a culture where speaking-up and integrity are cornerstones in how we conduct business
- Our focus is on the way forward and on regaining the trust of our stakeholders. We will continue to invest and to implement the best methods and systems available.



Q&A