

# Provisions in fourth quarter 2018 related to reshaping BSS business

- Provisions for estimated costs of SEK 6.1 b. to be taken in fourth quarter results, of which SEK 3.1 b. restructuring charges
- Planned measures will materially reduce losses in Business Support System (BSS) already in 2019. Reshaped BSS strategy expected to set Segment Digital Services on a strong path to achieving the target of low single-digit operating margin (excluding restructuring) in 2020
- Provisions mainly relate to estimated costs associated with expected changes in project scopes including customer compensation payments, provisions for project delays, and write-down of intangible assets
- Further restructuring charges related to the planned measures, including related headcount reductions, estimated to SEK1.5 b. are anticipated in 2019

Ericsson's (NASDAQ: ERIC) focus on simplifying and stabilizing the business has during the three first quarters of 2018 resulted in stronger gross margins and a stabilizing topline. Focus has been on addressing underperforming areas while creating a strong platform for future growth. There has been solid progress in most portfolio areas.

In Segment Digital Services, that has yet to complete its turnaround, actions proceed according to plan with efficiency improvements, cost reductions and half of the identified 45 critical and non-strategic projects addressed to date. However, the Business Support System (BSS) area is not showing satisfactory progress jeopardizing Segment Digital Services' overall profitability target for 2020.

The company's past BSS strategy included pursuing large transformation projects based on pre-integrated solutions, including development of a next generation BSS platform, the full-stack Revenue Manager. The strategy has not been successful and to date the full-stack Revenue Manager has not generated any revenues.

The anticipated customer demand for a full-stack pre-integrated BSS solution has not materialized. Delays in product and feature development has also made the full-stack Revenue Manager less competitive. R&D resources in BSS have been focused on full-stack Revenue Manager, causing further delays in product releases of the established platform. In addition, certain complex transformation projects experienced delays and cost overruns.

Consequently, at the Capital Markets Day on November 8, 2018, Ericsson presented a revised BSS strategy, including increased investments in the established platform, Ericsson Digital BSS, and refocusing the full-stack Revenue Manager to fulfilling existing customer commitments only.

Focusing on the established and competitive billing, charging, mediation, order management, and catalog portfolio, with an existing large installed base, will strengthen Ericsson's BSS business.

Furthermore, since 2017, Ericsson is applying a selective approach to large transformation projects focusing on projects based on available products.

The company has now decided to pursue additional measures to speed up the restructuring of the BSS business, including its product and contract portfolio. Provisions for the cost for executing on these planned measures will, together with necessary contract loss provisions, negatively impact operating income in Q4 2018 by SEK 6.1 b., mainly impacting gross margin. Out of this amount, SEK 3.1 b., is treated as restructuring charges. Further restructuring charges related to the planned measures, including related headcount reductions, estimated to SEK 1.5 b. are anticipated in 2019.

Provisions mainly relate to estimated costs associated with expected changes in project scopes including customer compensation payments, provisions for project delays, and write-down of intangible assets. The vast majority of the provision amount will impact cash flow, starting in 2019 and continuing over several years as projects are completed.

The planned measures will materially contribute to reducing losses in the BSS area already in 2019 and de-risk the plan. The company's current assessment is that the reshaped BSS strategy will set Segment Digital Services on a strong path to achieving the operating margin targets (excluding restructuring) of low single-digit in 2020 and 10 – 12 percent no later than 2022.

Under the revised strategy investments will be increased in the established portfolio, Ericsson Digital BSS – making it ready for new business models related to 5G and IoT, including technology evolution to cloud native and micro services. Developed capabilities in Revenue Manager will be added to the established portfolio.

Additional detail will be presented in connection with Ericsson's fourth quarter and full year 2018 earnings report scheduled for January 25, 2019.

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This information is information that Telefonaktiebolaget LM Ericsson is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above at 09:15 CET on January 10, 2019.