ERICSSON LM TELEPHONE CO
Form 6-K
October 18, 2018

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

October 18, 2018

Commission File Number

000-12033

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant s name into English)

Torshamnsgatan 21, 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 Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Announcement of LM Ericsson Telephone Company, October 18, 2018 regarding Ericsson reports third quarter results 2018 .

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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/ XAVIER DEDULLEN
Xavier Dedullen
Senior Vice President, Chief Legal Officer

By: /s/ CARL MELLANDER
Carl Mellander
Senior Vice President, Chief Financial Officer

Date: **October 18, 2018**

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Third quarter report 2018

Stockholm, October 18, 2018

Third quarter highlights

Sales as reported increased YoY by 9% and sales adjusted for comparable units and currency increased by 1%.

Segment Networks showed a sales growth adjusted for comparable units and currency of 5% YoY with strong sales growth in North America as well as in Europe and Latin America.

Gross margin was 36.5% (26.9%). Gross margin excluding restructuring charges improved to 36.9% (28.5%), driven mainly by cost reductions, the continued ramp-up of Ericsson Radio System (ERS) and good progress in reviewing Managed Services contracts.

Operating margin was 6.0% (-7.4%). Operating margin excluding restructuring charges was 7.0% (-1.7%).

Networks operating margin excluding restructuring charges was 16.1% (11.9%) driven by cost reductions and ERS ramp-up, partly offset by increased investments in R&D.

Digital Services operating margin excluding restructuring charges was -15.9% (-29.9%) supported by a gross margin excluding restructuring charges of 36.9% (32.0%). Sequentially, gross margin declined from 42.6% mainly due to increased provisions related to transformation projects.

Managed Services operating margin excluding restructuring charges improved to 6.8% (-9.5%) as a result of cost reductions and customer contract reviews.

Cash flow from operating activities was SEK 2.0 (0.0) b. and free cash flow excluding M&A was SEK 0.7 (-0.8) b. Net cash increased YoY to SEK 32.0 (24.1) b.

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	53.8	49.4	9%	49.8	8%	147.0	147.5
Sales growth adj. for comparable units and currency			*1%*		*7%*		
Gross margin	36.5%	26.9%		34.8%		35.2%	24.0%
Operating income (loss)	3.2	-3.7		0.2		3.1	-15.5
Operating margin	6.0%	-7.4%		0.3%		2.1%	-10.5%
Net income (loss)	2.7	-3.5		-1.8		0.2	-13.9
EPS diluted, SEK	0.83	-1.09		-0.58		0.01	-4.31
EPS (non-IFRS), SEK [1)]	1.03	-0.29		-0.09		1.04	-2.15
Cash flow from operating activities	2.0	0.0		1.4	41%	5.1	-1.6
Free cash flow excluding M&A [2)]	0.7	-0.8		-0.2		1.3	-5.4
Net cash, end of period	32.0	24.1	33%	33.1	-3%	32.0	24.1
Gross margin excluding restructuring charges	*36.9%*	*28.5%*		*36.7%*		*36.5%*	*26.2%*
Operating income (loss) excluding restructuring charges	*3.8*	*-0.8*		*2.0*	*85%*	*6.7*	*-9.4*

Operating margin excluding restructuring charges	*7.0%*	*-1.7%*	*4.1%*	*4.6%*	*-6.4%*

1) EPS diluted, excl. amortizations and write-downs of acquired intangible assets, and excluding restructuring charges. Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.
2) Free cash flow excluding M&A: See Alternative Performance Measures (APM) at the end of the report.

Non-IFRS financial measures are reconciled to the most directly reconcilable line items in the financial statements at the end of this report.

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CEO comments

We continue to execute on our focused strategy, tracking well towards our 2020 targets. We see improvements across our businesses resulting in a gross margin[1]) of 36.9% (28.5%) and an operating margin[1]) of 7.0% (-1.7%). Organic[2]) sales growth was 1% for the Group, despite headwind from exited non-strategic contracts.

We continue to invest in our competitive 5G-ready portfolio to enable our customers to efficiently migrate to 5G. Operators around the world plan for launching 5G services, led by North America. The strong customer interest in 5G generates a gradual increase in costs for field trials. We expect the costs to remain on high levels, at least for the coming 12-18 months, and they are included in our 2020 profitability target of at least 10%.

Networks gross margin[1]) improved to 41.5% (34.8%) with an organic[2]) sales growth of 5%. The strong sales were mainly driven by a continued high activity level primarily in North America. Due to the strong sequential sales increase in the third quarter we expect lower effects from seasonality than normal in the fourth quarter in Networks.

Digital Services gross margin[1]) improved to 36.9% (32.0%) YoY, but declined QoQ. We see clear results of our cost-out activities and good progress in large parts of the business. At the same time, provisions related to large digital transformation projects increased in the quarter, explaining the sequential drop in gross margin. We are not satisfied with the development in these digital transformation projects and are thus increasing our efforts to turn them around.

In Managed Services, gross margin[1]) improved to 12.9% (-4.0%) supported by efficiency gains and customer contract reviews. We have finalized 40 of the targeted 42 contracts, with an annualized profit improvement of SEK 0.9 b. We are increasing our investments in R&D to reshape the offering based on automation and artificial intelligence. We see strong customer interest in the coming solutions, but sales are so far limited as we are in early stages.

1) Excluding restructuring charges
2) Organic sales growth: Sales adjusted for comparable units and currency

In segment Emerging Business and Other, sales grew by 22% driven by growth in the iconectiv business. We continue to invest in strategic future growth areas such as Internet of Things (IoT) and saw increasing momentum with one important customer win with our connectivity platform solutions in the quarter. As parts of the portfolio in Emerging Business are in an early phase, sales are so far limited. We will remain disciplined in our investments in Emerging Business by tracking each venture against delivery milestones.

Even though the cost reduction program, announced in July 2017, has been completed, we continue our efforts to drive efficiency and cost reductions to further increase competitiveness. Our estimate for restructuring charges of SEK 5-7 b. for the full year remains. Free cash flow excluding M&A improved to SEK 0.7 (-0.8) b. and our cash position remains strong. Our work to further strengthen the balance sheet continues.

As previously disclosed, we have been voluntarily cooperating since 2013 with an investigation by the SEC and, since 2015, with an investigation by the DOJ into Ericsson s compliance with the U.S. FCPA. While we cannot comment in detail we can provide the following update on the process. We have identified facts that are relevant to the investigations and these facts have been shared with the authorities. We continue to cooperate with the SEC and the DOJ and are engaged in discussions with them to find a resolution. While the length of these discussions cannot be determined, based on the facts that we have shared with the authorities, we believe that the resolution of these matters will likely result in monetary and other measures, the magnitude of which cannot be estimated currently but may be material. We continue our efforts to improve on our compliance program. See further details in Other information .

There is strong momentum in the global 5G market with lead markets moving forward. The global radio access market is recovering from several years of negative growth and our investments in R&D have positioned us well to benefit from this development. More work remains, however, to get all parts of the business to a satisfactory performance level. We remain confident in reaching our long-term target of at least 12% operating margin beyond 2020.

Börje Ekholm

President and CEO

Planning assumptions going forward

Market related

- The Radio Access Network (RAN) equipment market is estimated to decline by -2% for full-year 2018 with 2% CAGR for 2017-2022. (Source: Dell Oro)

Currency exposure

- Rule of thumb: A weakening by 10% of USD to SEK would have a negative impact of approximately -5% on net sales and approximately -1 percentage point on operating margin (based on 2017 full-year currency exposure).

Ericsson related 2018; Sales

- Sales growth in 2017 between Q3 and Q4 was 17%.
- Due to strong sequential sales increase in the third quarter, lower effects from seasonality than normal are expected in the fourth quarter in Networks.

Ericsson related 2018; Operating expenses

- Gradually increased cost for field trials.
- Operating expenses typically increase between Q3 and Q4 due to seasonality.
  To further strengthen technology leadership, R&D expenses will increase primarily in Networks in Q4.

The divestment of Media Solutions is expected to be closed around year-end 2018 with estimated additional expenses of SEK -0.2 b. in Q4.

Ericsson related 2018; Other

Restructuring charges for full-year 2018 are estimated to be SEK 5-7 b.

Actual and estimated net impact from amortization and capitalization of development expenses and from recognition and deferral of hardware costs:

SEK b.	Q3 2018 Actual	Q4 2018 Estimate	Q4 2017 Actual	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Cost of sales	-0.2	-0.1	-0.8	-2.6	-0.7	
R&D expenses	-0.5	-0.5	-0.6	-0.3	-1.7	
Total impact	**-0.7**	**-0.6**	**-1.4**	**-2.9**	**-2.4**	**-1 to -2**

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Financial highlights

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	53.8	49.4	9%	49.8	8%	147.0	147.5
Sales growth adj. for comparable units and currency			*1%*		*7%*		
Gross income	19.6	13.3	48%	17.3	13%	51.8	35.4
Gross margin (%)	36.5%	26.9%		34.8%		35.2%	24.0%
Research and development (R&D) expenses	-9.4	-10.5	-11%	-9.8	-4%	-28.2	-27.9
Selling and administrative expenses	-6.6	-5.7	15%	-7.1	-6%	-19.8	-20.8
Impairment losses on trade receivables	-0.4	-1.1	-63%	-0.4	11%	-0.8	-3.0
Other operating income and expenses	0.0	0.4	-93%	0.0		0.1	0.8
Operating income (loss)	3.2	-3.7		0.2		3.1	-15.5
Operating margin (%)	6.0%	-7.4%		0.3%		2.1%	-10.5%
Financial net	-0.6	-0.3	99%	-0.8	-21%	-2.0	-0.7
Taxes	0.1	0.5	-72%	-1.2		-0.9	2.2
Net income (loss)	2.7	-3.5		-1.8		0.2	-13.9
Restructuring charges	-0.6	-2.8	-80%	-1.9	-71%	-3.6	-6.1
Gross income excluding restructuring charges	*19.8*	*14.1*	*41%*	*18.3*	*9%*	*53.7*	*38.6*
Gross margin excluding restructuring charges	*36.9%*	*28.5%*		*36.7%*		*36.5%*	*26.2%*
R&D expenses excluding restructuring charges	*-9.2*	*-8.6*	*6%*	*-9.3*	*-1%*	*-27.2*	*-25.5*
SG&A expenses excluding restructuring charges	*-6.5*	*-5.6*	*15%*	*-6.6*	*-2%*	*-19.2*	*-20.4*
Operating income (loss) excl. restructuring charges	*3.8*	*-0.8*		*2.0*	*85%*	*6.7*	*-9.4*
Operating margin excluding restructuring charges	*7.0%*	*-1.7%*		*4.1%*		*4.6%*	*-6.4%*

Net sales

Sales as reported increased by 9% YoY. Sales adjusted for comparable units and currency increased by 1% YoY. Sales adjusted for comparable units and currency in Networks increased by 5% YoY, driven by strong sales growth in North America as well as sales growth in Europe and Latin America. Digital Services sales adjusted for comparable units and currency decreased by -6% YoY mainly due to continued decline in legacy product sales. Managed Services sales adjusted for comparable units and currency declined by -8% YoY, mainly as a result of customer contract reviews. Sales adjusted for comparable units and currency in Emerging Business and Other increased by 11% YoY, mainly driven by growth in iconectiv.

Sequentially, sales increased by 8%. Sales adjusted for comparable units and currency increased by 7% QoQ, driven by increased Networks sales in market areas South East Asia, Oceania and India, North East Asia as well as in Europe and Latin America. Segment Emerging Business and Other sales increased by 15% QoQ driven by growth in iconectiv.

IPR licensing revenues

IPR licensing revenues increased to SEK 2.1 (2.0) b. YoY and from SEK 1.8 b. sequentially. The QoQ increase was supported by revenues from a customer agreement signed in the quarter.

Gross margin

Gross margin increased to 36.5% (26.9%). Gross margin excluding restructuring charges increased to 36.9% (28.5%) with significant improvements in all segments. Key drivers of the improvement were cost reductions, ramp-up of Ericsson Radio System (ERS) product platform and good progress in customer contract reviews in Managed Services. Completion in 2017 of the amortization of software release development expenses had a positive effect of SEK 0.7 b. YoY. Provisions and customer project adjustments had a negative impact on gross income of approximately SEK -1.3 b. in Q3 2017.

Sequentially, gross margin increased to 36.5% from 34.8% mainly due to lower restructuring charges. Gross margin excluding restructuring charges improved sequentially to 36.9% from 36.7%. Higher gross margin in Networks was partly offset by lower gross margin in Digital Services due to increased provisions related to transformation projects. Increased IPR licensing revenues had a positive impact on gross margin QoQ.

Operating expenses

R&D expenses were SEK -9.4 (-10.5) b. R&D expenses excluding restructuring charges increased to SEK -9.2 (-8.6) b., due to increased 4G and 5G investments in Networks. Sequentially, R&D expenses excluding restructuring charges were stable.

Selling and administrative (SG&A) expenses were SEK -6.6 (-5.7) b. SG&A expenses excluding restructuring charges increased to SEK -6.5 (-5.6) b. YoY. Cost reductions of SEK 0.7 b. YoY were offset by costs related to revaluation of customer financing of SEK -0.9 b. and increased costs for customer field trials. Sequentially, SG&A excluding restructuring charges decreased slightly due to seasonality, partly offset by increased costs related to revaluation of customer financing mainly related to the Middle East, including Iran.

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Impairment losses on trade receivables decreased YoY, to SEK -0.4 (-1.1) b. and were flat QoQ. From 2018, impairment testing is made continuously using a methodology where country and customer risks are assessed.

Since the United States has withdrawn from the Joint Comprehensive Plan Of Action (JCPOA), it is generally more difficult to do business in Iran. Ericsson is exploring, including with EU and US authorities, whether and how the disruptive impact on the Company s ability to maintain and support existing networks of its customers can be minimized. Ericsson s net working capital exposure to customers in Iran was SEK 0.8 b. per Sep 30, 2018.

Other operating income and expenses

Other operating income and expenses were SEK 0.0 (0.4) b. In 2017, the sale of the Power Module business generated a gain of SEK 0.3 b. Other operating income and expenses were flat QoQ.

Consequences of technology and portfolio shifts

Due to technology and portfolio shifts, the Company is reducing the capitalization of development expenses for product platforms and software releases as well as the deferral of hardware costs. As a consequence, higher amortization than capitalization of development expenses and higher recognition than deferral of hardware costs had a negative impact on operating income YoY. The amounts related to capitalized software releases were fully amortized in 2017.

Net impact from amortization and capitalization of development expenses and from recognition and deferral of hardware costs

SEK b.	Q3 2018	Q3 2017	Q2 2018
Cost of sales	-0.2	-0.9	-0.2
R&D expenses	-0.5	-0.6	-0.3
Total impact	**-0.7**	**-1.5**	**-0.5**

Restructuring charges

Restructuring charges were SEK -0.6 (-2.8) b. Restructuring charges in Q2 2018 were SEK -1.9 b.

Operating income and margin

Operating income increased to SEK 3.2 (-3.7) b. YoY. Operating income excluding restructuring charges increased to SEK 3.8 (-0.8) b., driven by increased gross margin, higher sales and lower impairment losses on trade receivables. This was partly offset by increased operating expenses. Operating margin excluding restructuring charges improved to 7.0% (-1.7%).

Operating income improved sequentially to SEK 3.2 b. from 0.2 b. Operating income excluding restructuring charges improved to SEK 3.8 b. from SEK 2.0 b., driven by higher sales.

Financial net

Financial net was SEK -0.6 (-0.3) b. mainly due to negative currency revaluation effects. The revaluation and realization effects of foreign exchange forecast hedging were SEK 0.0 (0.2) b. Financial net improved sequentially to SEK -0.6 b. from SEK -0.8 b due to positive revaluation and realization effects of foreign exchange forecast hedging. In Q2 2018 these effects were SEK -0.3 b.

Taxes

Taxes amounted to SEK 0.1 (0.5) b.

Net income (loss) and EPS

Net income and EPS diluted increased both YoY and QoQ, following improved operating income and positive taxes.

Employees

The number of employees on Sep 30, 2018, was 94,499 a net reduction of 761 employees in the quarter and of 11,353 employees compared with Sep 30, 2017. The decrease is a result of activities under the cost reduction program.

Focused strategy execution

The following four measures are indicators of the progress of strategy execution.

Area	Activity	Status Q3 2018
Networks	Transition to new Ericsson Radio System	86% (2017: 61%) YTD accumulated (ERS radio unit deliveries out of total radio unit deliveries)
Digital Services	- Growth in sales of new product portfolio - Addressing critical customer contracts	- Net sales 12 months rolling: -7% - Out of 45 contracts identified, in total 19 have been addressed (3 in Q318 isolated)
Managed Services	Addressing low-performing customer contracts	Out of a total of 42 contracts identified, 40 (7 in Q318 isolated) have been addressed to result in an annualized profit improvement of SEK 0.9 b. (Q2 2018: SEK 0.8 b.)

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Market area sales

	Third quarter 2018					Change	
SEK b.	Networks	Digital Services	Managed Services	Emerging Business and Other	Total	YoY	QoQ
South East Asia, Oceania and India	5.8	1.3	0.9	0.0	8.0	2%	14%
North East Asia	4.6	0.8	0.3	0.0	5.8	2%	21%
North America	11.8	2.1	1.0	0.0	14.9	21%	4%
Europe and Latin America	8.7	2.9	3.2	0.1	14.8	10%	5%
Middle East and Africa	3.1	1.5	1.0	0.0	5.7	-9%	2%
Other [1)]	1.9	0.4	0.0	2.3	4.6	19%	17%
Total	**35.9**	**9.0**	**6.5**	**2.4**	**53.8**	**9%**	**8%**

1) Market Area Other includes primarily licensing revenues and the major part of segment Emerging Business and Other

South East Asia, Oceania and India

Sales increased slightly YoY, primarily in Digital Services, driven by growth in Australia and India. Networks sales increased slightly YoY, mainly in South East Asia. Managed Services sales declined YoY due to termination of a contract in India in 2017.

North East Asia

Sales increased slightly YoY. Network sales in Mainland China increased with continued deployment of NB IoT, whilst Digital Services sales declined YoY, due to a telecom core contract being further delayed. Large 5G field trials are ongoing in Mainland China.

North America

Sales increased YoY, primarily driven by investments in 5G readiness across all major customers. Digital Services sales increased slightly YoY. Managed Services sales grew YoY, driven by strong variable sales in large customer contracts.

Europe and Latin America

Sales increased YoY driven by continued growth in parts of Europe and Latin America. Managed Services sales declined YoY as a consequence of addressed non-strategic contracts.

Middle East and Africa

Sales declined YoY. Networks sales declined due to challenging economic situations in certain markets. Digital Services sales declined due to timing of project milestones, partly offset by a slight increase in Managed Services sales.

Other

Sales increased YoY, mainly driven by growth in iconectiv (part of segment Emerging Business and Other). IPR licensing revenues amounted to SEK 2.1 (2.0) b.

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Segment results

Networks

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	35.9	31.9	13%	32.4	11%	96.9	95.2
Of which products	*25.3*	*21.7*	*17%*	*22.3*	*14%*	*67.1*	*64.9*
Of which IPR licensing revenues	*1.8*	*1.6*	*7%*	*1.5*	*18%*	*4.8*	*5.0*
Of which services	*10.6*	*10.1*	*5%*	*10.1*	*5%*	*29.8*	*30.3*
Sales growth adjusted for comparable units and currency			*5%*		*9%*		
Gross income	14.8	10.7	39%	12.6	18%	38.5	31.6
Gross margin	41.3%	33.4%		38.8%		39.7%	33.2%
Operating income	5.7	2.4	138%	3.5	60%	12.6	8.5
Operating margin	15.7%	7.5%		10.9%		13.0%	8.9%
Restructuring charges	-0.1	-1.4	-91%	-0.7	-83%	-1.4	-3.6
Gross income excl. restructuring charges	*14.9*	*11.1*	*34%*	*13.0*	*14%*	*39.5*	*33.7*
Gross margin excl. restructuring charges	*41.5%*	*34.8%*		*40.2%*		*40.7%*	*35.4%*
Operating income excl. restructuring charges	*5.8*	*3.8*	*53%*	*4.3*	*35%*	*13.9*	*12.1*
Operating margin excl. restructuring charges	*16.1%*	*11.9%*		*13.3%*		*14.4%*	*12.7%*

Net sales

Sales as reported increased by 13% YoY and sales adjusted for comparable units and currency increased by 5%. The increase is mainly due to strong growth in North America as well as sales growth in Europe and Latin America, driven by investments in 5G readiness and LTE networks.

Sales as reported increased by 11% QoQ and sales adjusted for comparable units and currency increased by 9%.

Gross margin

Gross margin increased YoY to 41.3% (33.4%). Gross margin excluding restructuring charges increased to 41.5% (34.8%) due to improved margins of hardware and services, driven by cost reductions, a successful shift of the radio platform and a favorable market mix. The change in net impact from higher capitalization than deferral of hardware cost was SEK 0.5 b. YoY.

Gross margin increased QoQ from 38.8%. Gross margin excluding restructuring charges increased QoQ from 40.2%. The increase was driven by a higher share of both software sales, including IPR licensing revenues, and LTE capacity sales.

Operating margin

Operating margin improved YoY to 15.7% (7.5%) including restructuring charges of SEK -0.1 (-1.4) b. Operating margin excluding restructuring charges was 16.1% (11.9%). The improvement was driven by higher gross margin and sales, partly offset by increased operating expenses. In the quarter, operating income was negatively impacted by revaluation of customer financing and impairment losses of trade receivables of SEK -1.2 b.

Operating margin increased QoQ to 15.7% from 10.9%. Operating margin excluding restructuring charges increased to 16.1% from 13.3%. Improvements were seen across all offerings and were driven by higher sales and gross margin, partly offset by increased operating expenses.

Net impact from amortization and capitalization of development expenses and from recognition and deferral of hardware costs

SEK b.	Q3 2018	Q3 2017	Q2 2018
Cost of Sales	-0.1	-0.6	-0.2
R&D expenses	0.0	-0.1	0.2
Total impact	**-0.1**	**-0.7**	**0.0**

Strategy execution

As presented at the 2017 Capital Markets Day, the target for Networks is to improve the operating margin to 15%-17% by 2020. Three important ongoing activities for profitability improvements are to:

- invest in R&D to safeguard a leading portfolio

- fully transition the radio unit deliveries to Ericsson Radio System (ERS) for increased competitiveness

- continue to make savings in service delivery and common costs.

The ERS, which was introduced to the market in 2015, has proven to be competitive as well as creating a strong market position. The ERS accounted for 86% of total radio unit deliveries year to date.

The plan is to have fully transitioned the radio unit deliveries to ERS by the end of 2018.

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Digital Services

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	9.0	8.9	1%	8.8	2%	25.1	26.9
Of which products	*4.6*	*4.9*	*-6%*	*4.5*	*3%*	*13.0*	*14.6*
Of which IPR licensing revenues	*0.4*	*0.4*	*7%*	*0.3*	*18%*	*1.0*	*1.1*
Of which services	*4.4*	*4.1*	*8%*	*4.4*	*1%*	*12.1*	*12.4*
Sales growth adjusted for comparable units and currency			*-6%*		*0%*		
Gross income	3.2	2.6	22%	3.5	-7%	9.6	3.6
Gross margin	35.7%	29.3%		39.1%		38.1%	13.3%
Operating income (loss)	-1.8	-3.8	-53%	-2.4		-6.8	-15.0
Operating margin	-19.9%	-42.2%		-26.9%		-27.0%	-55.7%
Restructuring charges	-0.4	-1.1	-68%	-0.9	-59%	-1.8	-1.8
Gross income excl. restructuring charges	*3.3*	*2.9*	*16%*	*3.8*	*-12%*	*10.2*	*4.3*
Gross margin excl. restructuring charges	*36.9%*	*32.0%*		*42.6%*		*40.7%*	*15.8%*
Operating income (loss) excl. restructuring charges	*-1.4*	*-2.7*		*-1.5*		*-4.9*	*-13.2*
Operating margin excl. restructuring charges	*-15.9%*	*-29.9%*		*-16.9%*		*-19.7%*	*-49.0%*

Net sales

Sales as reported increased by 1% YoY with stable sales in the new portfolio and a continued decline in legacy product sales. Sales adjusted for comparable units and currency decreased by -6% YoY. The interest for Ericsson s 5G-ready and cloud-native products remains strong and several contracts were signed in the quarter.

Sales were stable QoQ.

Gross margin

Gross margin improved YoY to 35.7% (29.3%). Gross margin excluding restructuring charges increased YoY to 36.9% (32.0%) supported by cost reductions in services. Reduced amortization of software release development expenses had a positive impact of SEK 0.3 b. YoY.

Gross margin declined QoQ from 39.1%. Gross margin excluding restructuring charges declined QoQ from 42.6%, due to increased provisions related to large transformation projects.

Operating income (loss)

Operating income (loss) improved YoY to SEK -1.8 (-3.8) b. Operating income (loss) excluding restructuring charges improved to SEK -1.4 (-2.7) b., supported by reductions in cost of sales and operating expenses. Restructuring charges declined YoY to SEK -0.4 (-1.1) b.

Operating income (loss) improved QoQ to SEK -1.8 b. from -2.4 b. Operating income excluding restructuring charges improved to SEK -1.4 b. from -1.5 b., driven by reduced operating expenses partly offset by reduced gross margin. Total restructuring charges declined QoQ to SEK -0.4 from -0.9 b.

Net impact from amortization and capitalization of development expenses

SEK b.	Q3 2018	Q3 2017	Q2 2018
Cost of Sales	0.0	-0.3	0.0
R&D expenses	-0.4	-0.4	-0.4
Total impact	**-0.4**	**-0.7**	**-0.4**

Strategy execution

As presented at the Capital Markets Day 2017, the target is to turn around Digital Services into low single-digit operating margin by 2020. Cost reduction activities continue across the areas of service delivery, SG&A and R&D. While new ways of working are improving R&D efficiency, investments continue in the portfolio of 5G-ready and cloud-native products in order to defend current market position and prepare Digital Services for future profitable growth.

In the quarter, Ericsson acquired CENX, a US-based service assurance company.

A key activity for the turnaround is to complete, renegotiate or exit 45 identified critical customer contracts and the plan is to address approximately 50% of those contracts in 2018. A total of 19 contracts had been addressed at the end of Q3 2018.

The sales shift towards the new portfolio continues. Rolling 12 months, sales of the new portfolio decreased by -7% compared with -14% in the previous quarter. However, the ongoing digitalization drives opportunities for operators to reduce costs and be more agile by; automating operations, digitally serving and engaging with customers and building programmable core networks. Consequently, operators increasingly invest in the areas where Digital Services provide solutions.

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Managed Services

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	6.5	6.6	-2%	6.5	-1%	18.9	19.6
Sales growth adjusted for comparable units and currency			*-8%*		*-1%*		
Gross income (loss)	0.8	-0.4		0.8	0%	2.1	-0.9
Gross margin	12.5%	-5.4%		12.4%		11.1%	-4.5%
Operating income (loss)	0.4	-0.7		0.3	37%	0.8	-2.8
Operating margin	6.3%	-11.0%		4.6%		4.3%	-14.4%
Restructuring charges	0.0	-0.1		-0.1		-0.2	-0.3
Gross income (loss) excl. restructuring charges	*0.8*	*-0.3*		*0.9*	*-9%*	*2.3*	*-0.6*
Gross margin excl. restructuring charges	*12.9%*	*-4.0%*		*14.0%*		*12.1%*	*-3.0%*
Operating income (loss) excl. restructuring charges	*0.4*	*-0.6*		*0.4*	*5%*	*1.0*	*-2.5*
Operating margin excl. restructuring charges	*6.8%*	*-9.5%*		*6.5%*		*5.4%*	*-12.8%*

Net sales

Sales as reported decreased by -2% YoY. Sales in Managed Services IT and Network Design and Optimization showed growth. Sales adjusted for comparable units and currency decreased by -8% YoY, as a result of contract exits.

Sales as reported decreased slightly QoQ. Sales adjusted for comparable units and currency decreased by -1% QoQ.

Gross margin

Gross margin increased YoY to 12.5% (-5.4%). Gross margin excluding restructuring charges increased to 12.9% (-4.0%) supported by customer contract reviews as well as results of efficiency measures.

Gross margin increased slightly QoQ to 12.5% from 12.4%. Gross margin excluding restructuring charges decreased QoQ to 12.9% from 14.0%.

Operating income

Operating income increased YoY to SEK 0.4 (-0.7) b. Operating income excluding restructuring charges improved to SEK 0.4 (-0.6) b. due to higher gross margin.

Sequentially, operating income excluding restructuring charges was flat at SEK 0.4 b.

Strategy execution

To reshape the solutions, investments are increasing in artificial intelligence, automation and analytics in order to further enhance user experience, improve efficiency and better manage the increasingly complex networks of tomorrow. Customer interest in the coming solutions is strong, but sales are so far limited as the solutions are in early stages.

As presented at the 2017 Capital Markets Day, the ambition for Managed Services is to improve the operating margin to 4%-6% in 2020. In order to focus the business and improve profitability, 42 managed services contracts (out of >300) have been identified for exit, renegotiation or transformation. At the end of the quarter, 40 of the 42 contracts had been addressed, resulting in an annualized profit improvement of approximately SEK 0.9 b. The divestment of Ericsson Local Services AB (LSS) was concluded on August 31, 2018.

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Emerging Business and Other (includes Emerging Business, MediaKind, Red Bee Media and iconectiv)

SEK b.	Q3 2018	Q3 2017	YoY change	Q2 2018	QoQ change	9 months 2018	9 months 2017
Net sales	2.4	2.0	22%	2.1	18%	6.1	5.8
Sales growth adjusted for comparable units and currency			*11%*		*15%*		
Gross income	0.8	0.4	113%	0.5	56%	1.6	1.1
Gross margin	32.3%	18.4%		24.4%		26.6%	19.5%
Operating income (loss)	-1.0	-1.5		-1.3		-3.5	-6.2
Operating margin	-42.9%	-76.7%		-63.5%		-57.4%	-106.3%
Restructuring charges	0.0	-0.2	-84%	-0.1		-0.2	-0.4
Gross income excl. restructuring charges	*0.8*	*0.4*	*87%*	*0.6*	*39%*	*1.7*	*1.3*
Gross margin excl. restructuring charges	*32.3%*	*21.1%*		*27.4%*		*28.5%*	*22.0%*
Operating income (loss) excl. restructuring charges	*-1.0*	*-1.3*		*-1.2*		*-3.3*	*-5.8*
Operating margin excl. restructuring charges	*-41.5%*	*-66.2%*		*-57.4%*		*-53.8%*	*-99.7%*

Net sales

Sales as reported increased by 22% YoY. Sales adjusted for comparable units and currency increased by 11%, driven by growth in the iconectiv business through the multi-year number portability contract in the United States, which is now fully up and running. Sales in the media business (MediaKind and Red Bee Media) were stable at SEK 1.4 (1.4) b.

Sales increased by 18% QoQ, primarily driven by growth in iconectiv. Sales adjusted for comparable units and currency increased by 15% QoQ.

Gross margin

Gross margin increased YoY to 32.3% (18.4%). Gross margin excluding restructuring charges increased to 32.3% (21.1%), supported by an increased share of iconectiv sales and by margin improvements in the media business.

Gross margin increased QoQ from 24.4%. Gross margin excluding restructuring charges increased QoQ from 27.4%, supported by an increased share of iconectiv sales and by margin improvements in the media business.

Operating income (loss)

Operating income improved YoY to SEK -1.0 (-1.5) b. Operating income excluding restructuring charges improved to SEK -1.0 (-1.3) b., driven by improved results in iconectiv and media business. Operating income excluding restructuring charges and corporate allocations for the media business was SEK -0.4 (-0.6) b.

Operating income improved QoQ to SEK -1.0 from -1.3 b. Operating income excluding restructuring charges improved to SEK -1.0 from -1.2 b., driven by stronger sales in iconectiv. Costs related to the planned transaction for

MediaKind impacted the result negatively by SEK -0.1 b. in the quarter.

Net impact from amortization and capitalization of development expenses

SEK b.	Q3 2018	Q3 2017	Q2 2018
Cost of Sales	-0.1	0.0	0.0
R&D expenses	0.0	-0.1	-0.1
Total impact	**-0.1**	**-0.1**	**-0.1**

Strategy execution

As outlined at the Capital Markets Day in 2017, the target for segment Emerging Business and Other, including iconectiv, is a break-even result by 2020.

Selective investments will continue in Emerging Business in order to build a position and grow sales in new areas. Parts of the portfolio are still in an early phase, with focus on generating sales and scale the business. As sales do not yet cover the required investments this results in a negative bottom line. Ericsson will remain disciplined in its investments in Emerging Business by tracking each venture against delivery milestones.

For MediaKind, Ericsson is partnering with One Equity Partners (OEP), retaining a 49% ownership stake. This allows Ericsson to capture the upside of the business while at the same time taking an active part in the expected consolidation of the industry. Activities are ongoing to complete the transaction around year-end 2018.

For Red Bee Media, the target is to achieve a sustainable profitable business by continuing to develop and manage the business as an independent and focused media services entity within Ericsson. Operations and services propositions will be further developed, in line with the Red Bee Media tactical and transformational strategic execution plans.

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Cash flow

SEK b.	Q3 2018	Q3 2017	Q2 2018
Net income reconciled to cash	2.9	-0.8	-0.3
Changes in operating net assets	-0.9	0.8	1.7
Cash flow from operating activities	2.0	0.0	1.4
Cash flow from investing activities	-1.7	3.3	1.6
Cash flow from financing activities	0.3	1.4	-3.7
Effect of exchange rate changes on cash	-1.6	0.0	1.0
Net change in cash and cash equivalents	-1.0	4.8	0.4
Free cash flow excluding M&A	*0.7*	*-0.8*	*-0.2*
Free cash flow	*0.3*	*-0.5*	*-0.6*

Operating activities

Cash flow from operating activities was SEK 2.0 (0.0) b., driven by SEK 2.9 b. of net income reconciled to cash. Change in operating net assets was SEK -0.9 b., with increased trade receivables and contract assets as well as increased inventory. Sale of trade receivables continued to trend downwards and was reduced YoY. Cash outlays related to restructuring charges were SEK -1.2 (-1.5) b. in the quarter.

Investing activities

Cash flow from investing activities was SEK -1.7 (3.3) b. Investments in M&A were SEK -0.4 (0.4) b., mainly related to acquisition of CENX in Digital Services. Cash flow from investments in property, plant and equipment was SEK -1.1 (-0.7) b. and capitalized development expenses were SEK -0.2 (-0.1) b.

Financing activities

Cash flow from financing activities was positive at SEK 0.3 (1.4) b. due to an increase in borrowings and effects of foreign exchange rates on financial items.

Free cash flow

Free cash flow improved to SEK 0.3 (-0.5) b. due to increased cash flow from operating activities partly offset by increased investments in M&A.

Free cash flow excluding M&A increased QoQ to SEK 0.7 b. and free cash flow increased QoQ to SEK 0.3 b. from SEK -0.6 b., mainly due to increased cash flow from operating activities.

Free cash flow YTD was SEK 0.0 (-5.0) b.

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Financial position

SEK b.	Sep 30 2018	Sep 30 2017	Jun 30 2018
+ Cash and cash equivalents	36.1	26.2	37.0
+ Interest-bearing securities, current	6.6	6.5	8.3
+ Interest-bearing securities, non-current	23.0	22.4	21.5
Gross cash	**65.7**	**55.1**	**66.9**
Borrowings, current	2.5	3.0	2.6
Borrowings, non-current	31.2	28.0	31.1
Net cash	**32.0**	**24.1**	**33.1**
Equity	96.0	112.7	93.6
Total assets	264.8	267.2	265.3
Capital turnover (times)	1.3	1.1	1.2
Return on capital employed (%)	2.6%	-11.8%	0.1%
Equity ratio (%)	36.2%	42.2%	35.3%
Return on equity (%)	0.0%	-15.2%	-5.7%

Gross cash decreased by SEK -1.2 b. and net cash decreased by SEK -1.1 b. in the quarter, due to negative effects of exchange rate changes on cash of SEK -1.6 b. Gross cash was SEK 65.7 b. and net cash was SEK 32.0 b.

Liability for post-employments benefits decreased in the quarter, to SEK 25.5 b. from SEK 27.3 b., due to increased interest rates in Swe-den.

The Swedish defined benefit obligation (DBO) has been calculated using a discount rate based on the yields of Swedish government bonds. If the discount rate had been based on Swedish covered mortgage bonds, the liability for post-employment benefits would have been approximately SEK 8.5 b. lower as of Sep 30, 2018.

The average maturity of long-term borrowings as of Sep 30, 2018, was 3.6 years, a decrease from 4.3 years 12 months earlier.

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Parent Company

Income after financial items was SEK 3.3 (2.6) b. The increase was mainly due to higher recognized dividends from subsidiaries and due to a gain on sale of shares in Ericsson India Private Ltd of SEK 1.0 b.

At the end of the quarter, gross cash (cash, cash equivalents, short-term investments and interest-bearing securities non-current) amounted to SEK 55.2 (53.6) b.

In accordance with the conditions of the long-term variable compensation program (LTV) for Ericsson employees, 2,977,975 shares from treasury stock were sold or distributed to employees during the third quarter. The holding of treasury stock at September 30, 2018, was 40,403,957 Class B shares.

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Other information

Ericsson announced changes to Executive Team

On July 18, 2018, Ericsson announced that the Company has appointed Jan Karlsson Senior Vice President, Head of Business Area Digital Services, and member of Ericsson s Executive Team, effective August 1, 2018. Jan Karlsson has been acting in this position since February 1, 2018.

Ericsson expects to close the divestment of its majority stake in MediaKind around year-end

On September 18, 2018, Ericsson announced that the Company expects to close the divestment of its majority stake in MediaKind around year-end as compared to previously communicated Q3 2018. As communicated in the Q2 2018 earnings release, the divestment of MediaKind is estimated to create additional expenses of SEK -0.3 b.

SEC and DOJ inquiries

As previously disclosed, Ericsson has been voluntarily cooperating since 2013 with an investigation by the United States Securities and Exchange Commission (SEC) and, since 2015, with an investigation by the United States Department of Justice (DOJ) into Ericsson s compliance with the U.S. Foreign Corrupt Practices Act (FCPA). While Ericsson cannot comment in detail the Company can provide the following update on the process. The Company has identified facts that are relevant to the investigations. These facts have been shared with the authorities by the Company.

The Company continues to cooperate with the SEC and the DOJ and is engaged in discussions with them to find a resolution. While the length of these discussions cannot be determined, based on the facts that the Company has shared with the authorities, it believes that the resolution of these matters will likely result in monetary and other measures, the magnitude of which cannot be estimated currently but may be material. Potential future cash outflows are currently not capable of being reliably estimated. Accordingly, no provisions have been recorded for such potential exposure.

Ericsson continuously seeks to strengthen its ethics and compliance program with risk-relevant policies, processes and tools for preventing, detecting and remediating non-compliance. These efforts have been further reinforced in recent years. In addition, in 2016 the Board hired an independent compliance advisory firm to assist the Company and the Board on compliance related matters. Their recommendations are currently being implemented. Recent improvement efforts focused on the following areas: people and culture (including tone from the top, senior leadership vetting, disciplinary processes, and training), third party engagements (including resources, policies, controls and processes), compliance and investigation capabilities (including resources, policies, governance, processes and tools), and internal control capabilities (including resources, governance, processes and tools).

The Company is committed to having a robust and fit-for-purpose compliance program and is continuously looking to improve on ways to better manage its compliance risks throughout the Company with due effort and attention.

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Risk factors

Ericsson s operational and financial risk factors and uncertainties are described in our Annual Report 2017. Risk factors and uncertainties in focus short term for the Parent Company and the Ericsson Group include, but are not limited to:

Potential negative effects on operators willingness to invest in network development due to uncertainty in the financial markets and a weak economic business environment, or reduced consumer telecom spending, or increased pressure on Ericsson to provide financing, or delayed auctions of spectrum

Intense competition from existing competitors as well as new entrants, including IT companies entering the telecommunications market, which could have a material adverse effect on the results

Uncertainty regarding the financial stability of suppliers, for example due to lack of financing

Effects on gross margins and/or working capital of the business mix in the Networks segment between capacity sales and new coverage build-outs

Effects on gross margins of the business mix including new network build-outs and new managed services or digital transformation deals with initial transition costs

Effects of the ongoing industry consolidation among our customers as well as between our largest competitors, e.g. with postponed investments and intensified price competition as a consequence

New and ongoing partnerships which may not be successful and expose us to future costs

Changes in foreign exchange rates, in particular USD

Political unrest and uncertainty in certain markets, as well as escalating trade disputes and sanctions

Effects on production and sales from restrictions with respect to timely and adequate supply of materials, components and production capacity and other vital services on competitive terms

No guarantees that strategy execution, specific restructuring or cost-savings initiatives, profitability restoring efforts and/or organizational changes will be sufficient, successful or executed in time to deliver any improvements in earnings

Cybersecurity incidents, which may have a material negative impact

Rapidly changing technologies and the ways these are brought to the market, which could be disruptive to the business

Ericsson is subject to risks associated with the development and implementation of new solutions or technologies under existing customer contracts. The Company may not be successful or incur delays in developing or implementing such solutions or technologies, which could result in damage claims and loss of customers which may have an adverse impact on liquidity and results of operations.

Ericsson monitors the compliance with all relevant trade regulations and trade embargoes applicable to dealings with customers operating in countries where there are trade restrictions or trade restrictions are discussed.

Ericsson strives to operate globally in accordance with Group policies and directives for business ethics and conduct and has a dedicated ethics and compliance program. However, in some of the countries where the Company operates, corruption risks can be high and compliance failure could have a material adverse impact on our business, financial condition and brand.

Ericsson is voluntarily cooperating with investigations by the United States Securities and Exchange Commission and the United States Department of Justice regarding its compliance with the U.S. Foreign Corrupt Practices Act. The Company continues to cooperate with the SEC and DOJ and is engaged in discussions with them to find a resolution. While the length of these discussions cannot be determined, based on the facts that the Company has shared with the authorities, Ericsson believes that the resolution of these matters will likely result in monetary and other measures, the magnitude of which cannot be estimated currently but may be material. Potential future cash outflows are currently not capable of being reliably estimated. Accordingly, no provisions have been recorded for such potential exposure.

Stockholm, October 18, 2018

Telefonaktiebolaget LM Ericsson

Börje Ekholm, President and CEO

Org. no. 556016-0680

Date for next report: January 25, 2019

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Auditors Review Report

Introduction

We have reviewed the condensed interim financial information (interim report) of Telefonaktiebolaget LM Ericsson (publ.) as of September 30, 2018, and the nine months period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm, October 18, 2018

PricewaterhouseCoopers AB

Bo Hjalmarsson

Authorized Public Accountant

Auditor in Charge

Johan Engstam

Authorized Public Accountant

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Editor s note

Press briefing and live webcast

Ericsson will hold a press and analyst briefing, starting at 09:00 CEST on October 18, 2018, at Ericsson Studio, Grönlandsgatan 8, Kista, Sweden. The press briefing is open to journalists and analysts. The briefing will also be available through a live video webcast at: www.ericsson.com/press and www.ericsson.com/investors

Conference call

A conference call for financial analysts, investors and journalists will start at 14:00 CEST.

A live audio webcast of the conference call will be available at: www.ericsson.com/investors and www.ericsson.com/press Replay of the conference call will be available approximately one hour after the call has ended and will remain available for seven days.

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Forward-looking statements

This report includes forward-looking statements, including statements reflecting management s current views relating to the growth of the market, future market conditions, future events, financial condition, and expected operational and financial performance, including, in particular the following:

Our goals, strategies, planning assumptions and operational or financial performance expectations

Industry trends, future characteristics and development of the markets in which we operate

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 research and development 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

Technology and industry trends including the regulatory and standardization environment in which we operate, competition and our customer structure.

The words believe, expect, foresee, anticipate, assume, intend, likely, projects, may, could, plan will, should, would, predict, aim, ambition, seek, potential, target, might, continue, or, in each variations, and similar words or expressions are used to identify forward-looking statements. Any statement that refers to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements.

We caution investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond our control that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Important factors that could affect whether and to what extent any of our forward-looking statements materialize include, but are not limited to, the factors described in the section Risk Factors , and in Risk Factors in the Annual Report 2017.

These forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events, whether as a result of new information, future events or otherwise, except as required by applicable law or stock exchange regulation.

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Financial statements and

other information

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Financial statements

Consolidated income statement

SEK million	2018	Jul-Sep 2017	Change	2018	Jan-Sep 2017	Change
Net sales	53,810	49,413	9%	147,029	147,497	0%
Cost of sales	-34,180	-36,132	-5%	-95,208	-112,086	-15%
Gross income	**19,630**	**13,281**	**48%**	**51,821**	**35,411**	**46%**
Gross margin (%)	36.5%	26.9%		35.2%	24.0%	
Research and development expenses	-9,388	-10,519	-11%	-28,244	-27,949	1%
Selling and administrative expenses	-6,625	-5,741	15%	-19,834	-20,782	-5%
Impairment losses on trade receivables 1)	-409	-1,094	-63%	-806	-2,969	-73%
Operating expenses	**-16,422**	**-17,354**	**-5%**	**-48,884**	**-51,700**	**-5%**
Other operating income and expenses	31	415		126	795	
Shares in earnings of JV and associated companies	2	6		31	29	
Operating income (loss)	**3,241**	**-3,652**	**-189%**	**3,094**	**-15,465**	**-120%**
Financial income	-225	-139		-22	-248	
Financial expenses	-414	-182		-1,968	-449	
Income after financial items	**2,602**	**-3,973**	**-165%**	**1,104**	**-16,162**	**-107%**
Taxes	146	516	-72%	-883	2,222	-140%
Net income (loss)	**2,748**	**-3,457**	**-179%**	**221**	**-13,940**	**-102%**
Net income (loss) attributable to:						
Stockholders of the Parent Company	2,745	-3,561		23	-14,100	
Non-controlling interests	3	104		198	160	
Other information						
Average number of shares, basic (million)	3,293	3,279		3,290	3,275	
Earnings (loss) per share, basic (SEK) 2)	0.84	-1.09		0.01	-4.31	
Earnings (loss) per share, diluted (SEK) 3)	0.83	-1.09		0.01	-4.31	

1) Impairment of trade receivables has been calculated according to IFRS 9 in 2018 and according to IAS 39 in 2017. Previously, these losses have been reported as selling and administrative expenses.

2) Based on net income (loss) attributable to stockholders of the Parent Company.
3) Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.

Statement of comprehensive income (loss)

	Jul-Sep		Jan-Sep	
SEK million	2018	2017	2018	2017
Net income (loss)	**2,748**	**-3,457**	**221**	**-13,940**
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefits pension plans incl. asset ceiling	1,223	-2,618	497	-1,646
Revaluation of borrowings due to change in credit risk	-292		-226	
Tax on items that will not be reclassified to profit or loss	-217	546	-270	217
Items that may be reclassified to profit or loss				
Available-for-sale financial assets				
Gains/losses arising during the period		5		78
Reclassification adjustments on gains/losses included in profit or loss				5
Revaluation of other investments in shares and participations				
Fair value remeasurement		-5		-3
Changes in cumulative translation adjustments	-1,237	-1,728	1,804	-4,523
Share of other comprehensive income on JV and associated companies	-5	-8	15	-7
Tax on items that may be reclassified to profit or loss		1		-17
Total other comprehensive income (loss), net of tax	**-528**	**-3,807**	**1,820**	**-5,896**
Total comprehensive income (loss)	**2,220**	**-7,264**	**2,041**	**-19,836**
Total comprehensive income (loss) attributable to:				
Stockholders of the Parent Company	2,223	-7,327	1,807	-19,939
Non-controlling interest	-3	63	234	103

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Consolidated balance sheet

SEK million	Sep 30 2018	Jun 30 2018	Dec 31 2017
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development expenses	4,918	5,458	4,593
Goodwill	30,514	30,145	27,815
Intellectual property rights, brands and other intangible assets	3,493	3,883	4,148
Property, plant and equipment	12,810	12,894	12,857
Financial assets			
Equity in JV and associated companies	625	658	624
Other investments in shares and participations	1,572	1,587	1,279
Customer finance, non-current	780	1,367	2,178
Interest-bearing securities, non-current	23,014	21,501	25,105
Other financial assets, non-current	6,254	6,805	5,897
Deferred tax assets	24,648	23,573	21,963
	108,628	**107,871**	**106,459**
Current assets			
Inventories	30,635	30,050	25,547
Contract assets	14,794	12,460	13,120
Trade receivables	41,456	41,580	48,105
Customer finance, current	1,240	1,664	1,753
Other current receivables	25,446	26,344	22,301
Interest-bearing securities, current	6,591	8,304	6,713
Cash and cash equivalents	36,058	37,049	35,884
	156,220	**157,451**	**153,423**
Total assets	**264,848**	**265,322**	**259,882**
EQUITY AND LIABILITIES			
Equity			
Stockholders equity	95,087	92,689	96,935
Non-controlling interest in equity of subsidiaries	866	871	636
	95,953	**93,560**	**97,571**
Non-current liabilities			
Post-employment benefits	25,475	27,306	25,009
Provisions, non-current	3,420	2,819	3,596

Deferred tax liabilities	1,274	1,332	901
Borrowings, non-current	31,187	31,131	30,500
Other non-current liabilities	4,456	4,549	2,776
	65,812	**67,137**	**62,782**
Current liabilities			
Provisions, current	5,275	6,715	6,283
Borrowings, current	2,463	2,642	2,545
Contract liabilities	30,108	30,959	29,076
Trade payables	28,914	28,563	26,320
Other current liabilities	36,323	35,746	35,305
	103,083	**104,625**	**99,529**
Total equity and liabilities	**264,848**	**265,322**	**259,882**
Of which interest-bearing liabilities	*33,650*	*33,773*	*33,045*
Assets pledged as collateral	5,768	5,702	5,215
Contingent liabilities [1)]	1,490	1,363	1,561

1) Contingent liabilities does not include any amounts related to investigation by the SEC and the DOJ about Ericsson s compliance with the U.S Foreign Corrupt Practices Act (FCPA). For information about the investigation by the SEC and the DOJ, please refer to Other information on page 13 of this report.

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Consolidated statement of cash flows

SEK million	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
Operating activities					
Net income (loss)	2,748	-3,457	221	-13,940	-32,433
Adjustments to reconcile net income to cash					
Taxes	-2,101	-1,323	-5,487	-7,261	-9,064
Earnings/dividends in JV and associated companies	28	73	13	58	56
Depreciation, amortization and impairment losses	1,893	4,146	5,849	11,774	27,892
Other	348	-218	1,056	261	440
Net income reconciled to cash	**2,916**	**-779**	**1,652**	**-9,108**	**-13,109**
Changes in operating net assets					
Inventories	-1,773	1,061	-6,496	-3,637	4,719
Customer finance, current and non-current	1,001	456	1,948	762	798
Trade receivables and contract assets	-3,503	623	5,474	3,625	1,379
Trade payables	953	-1,061	1,607	-679	1,886
Provisions and post-employment benefits	-265	-608	-634	4,343	4,755
Contract liabilities	-220	-1,910	304	2,324	5,024
Other operating assets and liabilities, net	2,931	2,200	1,200	812	4,149
	-876	**761**	**3,403**	**7,550**	**22,710**
Cash flow from operating activities	**2,040**	**-18**	**5,055**	**-1,558**	**9,601**
Investing activities					
Investments in property, plant and equipment	-1,088	-739	-2,895	-2,772	-3,877
Sales of property, plant and equipment	102	12	277	118	1,016
Acquisitions/divestments of subsidiaries and other operations, net	-425	371	-1,305	383	276
Product development	-151	-126	-730	-1,306	-1,444
Other investing activities	-190	42	-427	110	-463
Interest-bearing securities	30	3,756	3,152	-8,806	-11,578
Cash flow from investing activities	**-1,722**	**3,316**	**-1,928**	**-12,273**	**-16,070**
Cash flow before financing activities	**318**	**3,298**	**3,127**	**-13,831**	**-6,469**
Financing activities					
Dividends paid	-2	-145	-3,291	-3,423	-3,424
Other financing activities	254	1,563	-223	6,829	8,902
Cash flow from financing activities	**252**	**1,418**	**-3,514**	**3,406**	**5,478**
Effect of exchange rate changes on cash	-1,562	48	561	-331	-91
Net change in cash and cash equivalents	**-992**	**4,764**	**174**	**-10,756**	**-1,082**

Cash and cash equivalents, beginning of period	**37,050**	**21,446**	**35,884**	**36,966**	**36,966**
Cash and cash equivalents, end of period	**36,058**	**26,210**	**36,058**	**26,210**	**35,884**

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Consolidated statement

of changes in equity

SEK million	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
Opening balance [1]	97,571	135,257	135,257
Opening balance adjustment due to IFRS 9	-983		
Adjusted opening balance	**96,588**	**135,257**	**135,257**
Total comprehensive income (loss)	2,041	-19,836	-35,232
Sale/repurchase of own shares	76	-28	-5
Stock issue (net)		15	15
Long-term variable compensation plans	540	650	885
Dividends paid	-3,291	-3,424	-3,424
Transactions with non-controlling interests	-1	76	75
Closing balance	**95,953**	**112,710**	**97,571**

[1] The opening balance adjustment for IFRS 15 on initial application date (January 1, 2016) was SEK -4,353 million. Opening balances of 2017 and 2018 have been restated for IFRS 15.

Consolidated income statement

- isolated quarters

Isolated quarters, SEK million	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Net sales	53,810	49,808	43,411	57,881	49,413	50,281	47,803
Cost of sales	-34,180	-32,475	-28,553	-45,365	-36,132	-35,652	-40,302
Gross income	**19,630**	**17,333**	**14,858**	**12,516**	**13,281**	**14,629**	**7,501**
Gross margin (%)	36.5%	34.8%	34.2%	21.6%	26.9%	29.1%	15.7%
Research and development expenses	-9,388	-9,783	-9,073	-9,938	-10,519	-8,364	-9,066
Selling and administrative expenses	-6,625	-7,053	-6,156	-8,245	-5,741	-6,818	-8,223
Impairment losses on trade receivables [1]	-409	-369	-28	-680	-1,094	-235	-1,640
Operating expenses	**-16,422**	**-17,205**	**-15,257**	**-18,863**	**-17,354**	**-15,417**	**-18,929**

Other operating income and expenses	31	11	84	-12,926[2)]	415	239	141
Shares in earnings of JV and associated companies	2	26	3	-5	6	12	11
Operating income (loss)	**3,241**	**165**	**-312**	**-19,278**	**-3,652**	**-537**	**-11,276**
Financial income	-225	275	-72	-124	-139	-27	-82
Financial expenses	-414	-1,085	-469	-394	-182	83	-350
Income after financial items	**2,602**	**-645**	**-853**	**-19,796**	**-3,973**	**-481**	**-11,708**
Taxes	146	-1,157	128	1,303	516	24	1,682
Net income (loss)	**2,748**	**-1,802**	**-725**	**-18,493**	**-3,457**	**-457**	**-10,026**
Net income (loss) attributable to:							
Stockholders of the Parent Company	2,745	-1,885	-837	-18,476	-3,561	-471	-10,068
Non-controlling interests	3	83	112	-17	104	14	42
Other information							
Average number of shares, basic (million)	3,293	3,290	3,286	3,283	3,279	3,275	3,272
Earnings (loss) per share, basic (SEK) [3)]	0.84	-0.58	-0.25	-5.63	-1.09	-0.14	-3.08
Earnings (loss) per share, diluted (SEK) [4)]	0.83	-0.58	-0.25	-5.63	-1.09	-0.14	-3.08

1) Impairment of trade receivables has been calculated according to IFRS 9 in 2018 and according to IAS 39 in 2017. Previously, these losses have been reported as selling and administrative expenses.

2) Includes write-down of goodwill of SEK -13.0 billion.

3) Based on net income (loss) attributable to stockholders of the Parent Company.

4) Potential ordinary shares are not considered when their conversion to ordinary shares would increase earnings per share.

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Consolidated statement

of cash flows - isolated quarters

	2018			2017			
Isolated quarters, SEK million	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating activities							
Net income (loss)	2,748	-1,802	-725	-18,493	-3,457	-457	-10,026
Adjustments to reconcile net income to cash							
Taxes	-2,101	-1,071	-2,315	-1,803	-1,323	-1,826	-4,112
Earnings/dividends in JV and associated companies	28	-19	4	-2	73	-8	-7
Depreciation, amortization and impairment losses	1,893	2,065	1,891	16,118	4,146	2,197	5,431
Other	348	568	140	179	-218	-48	527
Net income reconciled to cash	**2,916**	**-259**	**-1,005**	**-4,001**	**-779**	**-142**	**-8,187**
Changes in operating net assets							
Inventories	-1,773	-1,910	-2,813	8,356	1,061	-1,492	-3,206
Customer finance, current and non-current	1,001	547	400	36	456	1,140	-834
Trade receivables and contract assets	-3,503	1,661	7,316	-2,246	623	184	2,818
Trade payables	953	1,252	-598	2,565	-1,061	19	363
Provisions and post-employment benefits	-265	478	-847	412	-608	315	4,636
Contract liabilities	-220	-233	757	2,700	-1,910	-573	4,807
Other operating assets and liabilities, net	2,931	-94	-1,637	3,337	2,200	550	-1,938
	-876	**1,701**	**2,578**	**15,160**	**761**	**143**	**6,646**
Cash flow from operating activities	**2,040**	**1,442**	**1,573**	**11,159**	**-18**	**1**	**-1,541**
Investing activities							
Investments in property, plant and equipment	-1,088	-951	-856	-1,105	-739	-1,018	-1,015
Sales of property, plant and equipment	102	52	123	898	12	37	69
Acquisitions/divestments of subsidiaries and other operations, net	-425	-431	-449	-107	371	9	3
Product development	-151	-325	-254	-138	-126	-315	-865
Other investing activities	-190	-398	161	-573	42	-42	110
Interest-bearing securities	30	3,656	-534	-2,772	3,756	-676	-11,886
Cash flow from investing activities	**-1,722**	**1,603**	**-1,809**	**-3,797**	**3,316**	**-2,005**	**-13,584**
Cash flow before financing activities	**318**	**3,045**	**-236**	**7,362**	**3,298**	**-2,004**	**-15,125**
Financing activities							
Dividends paid	-2	-3,289		-1	-145	-3,274	-4
Other financing activities	254	-383	-94	2,073	1,563	-5,636	10,902
Cash flow from financing activities	**252**	**-3,672**	**-94**	**2,072**	**1,418**	**-8,910**	**10,898**

Effect of exchange rate changes on cash	-1,562	980	1,143	240	48	-594	215
Net change in cash and cash equivalents	**-992**	**353**	**813**	**9,674**	**4,764**	**-11,508**	**-4,012**
Cash and cash equivalents, beginning of period	**37,050**	**36,697**	**35,884**	**26,210**	**21,446**	**32,954**	**36,966**
Cash and cash equivalents, end of period	**36,058**	**37,050**	**36,697**	**35,884**	**26,210**	**21,446**	**32,954**

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Parent Company income statement

SEK million	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
Net sales					
Cost of sales					
Gross income					
Operating expenses	-879	-216	-1,385	-860	-1,294
Other operating income and expenses	399	557	1,153	1,747	1,616
Operating income	**-480**	**341**	**-232**	**887**	**322**
Financial net	2,015	44	3,487	1,753	-2,297
Income after financial items	**1,535**	**385**	**3,255**	**2,640**	**-1,975**
Transfers to (-) / from untaxed reserves					-120
Taxes	-101	-40	-256	-148	-53
Net income (loss)	**1,434**	**345**	**2,999**	**2,492**	**-2,148**

Parent company statement

of comprehensive income (loss)

SEK million	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
Net income (loss)	**1,434**	**345**	**2,999**	**2,492**	**-2,148**
Revaluation of borrowings due to change in credit risk	292		342		
Tax on items that will not be reclassified to profit or loss	-64		-75		
Available-for-sale financial assets					
Gains/losses arising during the period		5		78	68
Reclassification adjustments on gains/losses included in profit or loss				5	5
Revaluation of other investments in shares and participations					
Fair value remeasurement					102
Tax on items that may be reclassified to profit or loss		-1		-18	-14
Total other comprehensive income, net of tax	**228**	**4**	**267**	**65**	**161**
Total comprehensive income (loss)	**1,662**	**349**	**3,266**	**2,557**	**-1,987**

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Parent company balance sheet

SEK million	Sep 30 2018	Dec 31 2017
ASSETS		
Fixed assets		
Intangible assets	170	329
Tangible assets	306	346
Financial assets[1) 2)]	115,254	119,896
	115,730	**120,571**
Current assets		
Inventories		1
Receivables [2)]	44,328	41,173
Short-term investments	6,292	6,446
Cash and cash equivalents	25,896	18,715
	76,516	**66,335**
Total assets	**192,246**	**186,906**
STOCKHOLDERS EQUITY, PROVISIONS AND LIABILITIES		
Equity		
Restricted equity	48,164	48,164
Non-restricted equity [2)]	39,181	39,578
	87,345	**87,742**
Provisions	1,079	602
Non-current liabilities [2)]	62,776	60,623
Current liabilities	41,046	37,939
Total stockholders equity, provisions and liabilities	**192,246**	**186,906**
[1)]*Of which interest-bearing securities, non-current*	*23,014*	*25,105*

2) The following 2018 opening balances have been adjusted due to IFRS 9: financial assets increased by SEK 8 million, receivables decreased by SEK 4 million, non-restricted equity decreased by SEK 28 million, and non-current liabilities increased by SEK 31 million.

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Additional information

Accounting policies

The group

This interim report is prepared in accordance with IAS 34. The term IFRS used in this document refers to the application of IAS and IFRS as well as interpretations of these standards as issued by IASB s Standards Interpretation Committee (SIC) and IFRS Interpretations Committee (IFRIC). The accounting policies adopted are consistent with those of the annual report for the year ended December 31,2017 and should be read in conjunction with that annual report, with exception for the accounting policies described below.

New standards as from January 1, 2018

Two new IFRS standards are effective as from January 1, 2018, IFRS 9 Financial instruments and IFRS 15 Revenue from Customer Contracts .

Presentation in the financial statements

For IFRS 15 the Company has adopted the full retrospective method for transition, which mean that prior year comparatives have been restated and equity has been adjusted at the initial application date (January 1, 2016). The Company has applied IFRS 9 retrospectively on the required effective date, January 1, 2018. The 2018 opening balances have been adjusted, but the previous periods have not been restated.

Based on the new requirements under IFRS 15, contract assets and contract liabilities have been added as new lines in the consolidated balance sheet and statement of cash flow. Previously, contract assets were reported as trade receivables and contract liabilities were reported as deferred revenue and as advances from customers within other current liabilities. Due to IFRS 9, impairment losses on trade receivables are reported on a separate line in the consolidated income statement. Previously, these losses have been reported as Selling and administrative expenses. In the statement of comprehensive income, a new line has been added for revaluation of borrowings due to changes in credit risk. A new line has been added to the consolidated statement of equity showing the adjustment to the opening balance.

The prior periods financial statements and key ratios presented in this quarterly report have been restated to reflect adoption of these new standards.

Accounting policy IFRS 9 Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at amortized cost, at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL). The classification depends on the characteristics of the asset and the business model in which it is held.

Financial assets at amortized cost

Financial assets are classified as amortized cost if the contractual terms give rise to payments that are solely payments of principal and interest on the principal amount outstanding and the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows. These assets are subsequently measured at amortized cost using the effective interest method, minus impairment allowances.

Financial assets at fair value through other comprehensive income (FVOCI)

Assets are classified as FVOCI if the contractual terms give rise to payments that are solely payments of principal and interest on the principal amount outstanding and the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These assets are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (OCI), except for effective interest, impairment gains and losses and foreign exchange gains and losses recognized in the income statement. Upon derecognition, the cumulative gain or loss in OCI is reclassified to the income statement.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets that are not classified as either amortized cost or FVOCI are classified as FVTPL. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term. Derivatives are classified as held for trading, unless they are designated as hedging instruments for the purpose of hedge accounting. Assets held for trading are classified as current assets. Debt instruments classified as FVTPL, but not held for trading, are classified on the balance sheet based on their maturity date (i.e. those with a maturity longer than one year are classified as non-current). Investments in shares and participations are classified as FVTPL and classified as non-current financial assets.

Gains or losses arising from changes in the fair values of the Financial assets at fair value through profit or loss category (excluding derivatives and customer financing) are presented in the income statement within Financial income in the period in which they arise. Gains and losses on derivatives are presented in the income statement either as Cost of sales, Other operating income, Financial income or Financial expense, depending on the intent with the transaction. Gains and losses on customer financing are presented in the income statement as Selling expenses.

Impairment in relation to financial assets

At each balance sheet date, financial assets classified as either amortized cost or FVOCI and contract assets are assessed for impairment based on Expected Credit Losses (ECL). Allowances for trade receivables and contract assets are always equal to lifetime ECL. The loss is recognized in the income statement. When there is no reasonable expectation of collection, the asset is written off.

Borrowings

Borrowings by the Parent Company are designated FVTPL because they are managed and evaluated on a fair value basis. Changes in fair value are recognized in the income statement, except for changes in fair value due to change in credit risk which are recognized in Other comprehensive income.

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Summary of changes to classification of financial assets and financial liabilities

Type of asset	IAS 39 classification	IFRS 9 classification	Reason for IFRS 9 classification
Cash equivalents, interest-bearing securities, and derivatives (held for trading)	FVTPL	FVTPL	Held for trading portfolios are classified as FVTPL (no change).
Cash equivalents (not held for trading)	Loans and receivables	Amortized cost	These assets are held to collect contractual cash flows.
Interest-bearing securities (not held for trading)	Available-for-sale	FVTPL	These assets are not held for trading but are managed and evaluated on a fair value basis.
Trade receivables	Loans and receivables	FVOCI	Trade receivables are managed in a business model whose objective is achieved through both collection of contractual cash flows and selling of assets.
Customer financing	Loans and receivables	FVTPL	Customer finance assets are managed in a business model with the objective to realize cash flows through the sale of assets.
Investments in shares and participations (equity instruments)	Available-for-sale	FVTPL	This is an accounting policy choice under IFRS 9.
Borrowings by parent company	Amortized cost	Designated FVTPL	These borrowings are managed and evaluated on a fair value basis.

Fair value hedging and fair value hedge accounting

Fair value hedge accounting is no longer applied as of January 1, 2018.

Financial guarantees

Financial guarantee contracts are initially recognized at fair value (i.e., usually the fee received). Subsequently, these contracts are measured at the higher of:

The expected credit losses.

The recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight-line-method.

Accounting policy IFRS 15 Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers establishes a new principle-based model of recognizing revenue from customer contracts. It introduces a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.

The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of Ericsson s business is for the sale of standard products and services.

Standard products and services

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time, from the delivery of the related products. These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer s perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Contractual terms may vary, therefore judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service.

Transaction prices under these contracts are mostly billed upon delivery of the hardware or software, and completion of installation services, although a proportion may be billed upon formal acceptance of the related installation services. This will result in a contract asset for the proportion of the transaction price that is not yet billed.

Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Transaction prices under these contracts are billed over time, often on a quarterly basis. Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears.

Contract for standard products and services applies to business in all segments.

Customized solution

Some products and services are sold together as part of a customized solution to the customer. This type of contract requires significant installation and integration services to be delivered within the solution, normally over a period of more than 1 year. These products and services are viewed together as a combined performance obligation. This type of contract is usually sold as a firm contract in which the scope of the solution and obligations of both parties are clearly defined for the duration of the contract.

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Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects. Formal acceptance term is considered a key indicator of transfer of control for a customized solution and shall therefore be obtained prior to recognizing revenue. If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer.

Transaction price under these contracts are represented by progress payments or billing milestones as defined in the contracts. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts. In some contracts, revenue may be recognized in advance of billing milestones if enforceable payment rights exist at all times over the contract duration. This will result in a contract asset balance until billing milestones are reached.

Contract for customized solution applies to the Business Support Systems (BSS) business within the segment Digital Services and the Media Solutions business within the segment Emerging Business and Other.

Intellectual Property Rights (IPR)

This type of contract relates to the patent and licensing business. The Company has assessed that the nature of its IPR contracts is such that they provide customers a license with the right to access Ericsson intellectual properties over time, therefore revenue shall be recognized over the duration of the contract. Royalty revenue based on sales or usage is recognized when the sales and usage occurs.

The transaction price on these contracts is usually structured as a royalty fee based on sales or usage over the period, measured on a quarterly basis. This results in a receivable balance if the billing is performed the following quarter after measurement. Some contracts include lump sum amounts, payable either up front at commencement or on an annual basis. This results in a contract liability balance if payment is in advance of revenue, as revenue is recognized over time.

As described in Note C3 Segment Information of the Annual Report 2017, revenue from IPR licensing contracts are allocated to the segments Networks and Digital Services.

Impact of IFRS 9 and IFRS 15 on balance sheet items

	As reported at 31.12 2017	IFRS 15 restatement	Restated balance at 31.12.2017	IFRS 9 adjustment	Adjusted balance at 1.1.2018
ASSETS					
Non-current assets					

Deferred tax assets	21,228	735	21,963	288	22,251
Current assets					
Inventories	24,960	587	25,547		25,547
Contract assets		13,120	13,120		13,120
Trade receivables	63,210	-15,105	48,105	-1,240	46,865
EQUITY AND LIABILITIES					
Equity					
Stockholder s equity	99,540	-2,605	96,935	-983	95,952
Non-current liabilities					
Borrowings, non-current	30,500		30,500	31	30,531
Current liabilities					
Provisions	6,350	-67	6,283		6,283
Contract liabilities		29,076	29,076		29,076
Other current liabilities	62,370	-27,065	35,305		35,305

Segment reporting

Changes applied in Q1 2018

As of Q1 2018, sales related to 3PP routing business are reported in Networks (earlier Digital Services). Comparative periods have been restated to reflect this change. In Q1 2018, these sales were SEK 151 (160) million.

Changes applied in Q2 2018

As of Q2 2018, sales related to Application Development and Maintenance (ADM) and certain sales related to Business Support Solution (BSS) was moved between segments Managed Services and Digital Services, with increased sales in Managed Services and a corresponding sales decrease in Digital Services (net effect of SEK 1.9 b in 2017). The corresponding impact on 2017 gross income was SEK 0.2 b (positive for Managed Services, negative for Digital Services). Historical data has been restated to reflect the organizational change.

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Net sales by segment by quarter

	2018			2017			
Isolated quarters, SEK million	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Networks	35,934	32,393	28,602	37,077	31,871	31,699	31,638
Of which Products	*25,336*	*22,319*	*19,473*	*25,404*	*21,734*	*21,281*	*21,858*
Of which Services	*10,598*	*10,074*	*9,129*	*11,673*	*10,137*	*10,418*	*9,780*
Digital Services	8,987	8,833	7,262	11,820	8,930	9,901	8,101
Of which Products							