

ERICSSON LM TELEPHONE CO

Form 11-K

June 19, 2018

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# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

## **FORM 11-K**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2017**

## **ERICSSON US 401(k) Plan**

**(Title of the Plan)**

**ERICSSON INC**

**Formerly Anaconda-Ericsson Inc. and Ericsson North America Inc.**

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6300 Legacy Drive

Plano, TX 75024

(Name and address of principal executive offices of the employer sponsoring the Plan)

# **TELEFONAKTIEBOLAGET LM ERICSSON**

(Exact name of Issuer as specified in its charter)

# **LM ERICSSON TELEPHONE COMPANY**

(Translation of Issuer's Name into English)

Kingdom of Sweden

(Jurisdiction of Incorporation)

(Telefonplan, S-126-25 Stockholm Sweden)

(Name and address of principal executive offices of the Issuer of the securities)

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**Report of Independent Registered Public Accounting Firm**

To the Plan Administrator

Ericsson US 401(k) Plan

Plano, Texas

**Opinion on the Financial Statements**

We have audited the accompanying statements of net assets available for benefits of the Ericsson US 401(k) Plan (the Plan ) as of December 31, 2017 and 2016, the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively, the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on the Plan s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by the Plan s management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Supplemental Information**

The supplemental information in the accompanying schedule Schedule H, line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of the Plan s financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but included supplemental information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the

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information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Plan's auditor since 2004.

Dallas, Texas

June 18, 2018

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**Table of Contents****ERICSSON US 401(k) PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS****DECEMBER 31, 2017 AND 2016****(Thousands of dollars)**

	2017	2016
<b>Assets</b>		
Investments		
Investments, at fair value (Note 4)	<b>\$ 2,788,931</b>	\$ 2,487,200
Investment, at contract value (Note 8)	<b>331,870</b>	364,627
<b>Total investments</b>	<b>3,120,801</b>	2,851,827
Receivables		
Notes receivable from participants	<b>17,231</b>	20,910
Participant's contributions receivable	<b>1,856</b>	
Employer's contributions receivable	<b>3,538</b>	2,014
Other receivable	<b>601</b>	
<b>Total receivables</b>	<b>23,226</b>	22,924
<b>Total Assets</b>	<b>3,144,027</b>	2,874,751
<b>Payables</b>		
Operating and other payables	460	
<b>Net assets available for benefits</b>	<b>\$ 3,143,567</b>	\$ 2,874,751

*See accompanying notes to the financial statements.*

**Table of Contents****ERICSSON US 401(k) PLAN****STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS****FOR THE YEAR ENDED DECEMBER 31, 2017****(Thousands of dollars)****ADDITIONS****Investment income:**

Net appreciation in fair value of investments	\$ 419,316
Dividends	47,379
Other income	3,640

<b>Total investment income</b>	<b>470,335</b>
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<b>Interest on participant notes receivable</b>	<b>867</b>
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## Contributions:

Participants	83,314
Employer	58,434
Rollover	7,954

<b>Total contributions</b>	<b>149,702</b>
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<b>Total Additions</b>	<b>620,904</b>
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**DEDUCTIONS**

Benefits paid to participants	(345,053)
Corrective distribution	(6)
Deemed distribution	(1,581)
Administrative expenses	(5,719)

<b>Total Deductions</b>	<b>(352,359)</b>
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<b>Net increase</b>	<b>268,545</b>
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<b>Transfer into the Plan</b>	<b>271</b>
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**Net assets available for benefits:**

Beginning of year	2,874,751
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End of year	\$ 3,143,567
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*See accompanying notes to the financial statements.*

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**ERICSSON US 401(k) PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

**(Thousands of dollars)**

**1. THE PLAN**

The following description of the Ericsson US 401(k) Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provision. The Plan was created by action of the board of directors of Ericsson Inc. (the Company or Ericsson or the Employer) on May 27, 1983, effective July 1, 1983. The Plan is a defined contribution plan and is administered by an administrative committee (the Committee) which monitors the investment objectives and performance of the Plan's individual investment options.

The Plan is a single employer plan.

Effective August 24, 2009, a Master Trust was created to permit the commingling of trust assets of both the Plan and the Ericsson Services 401(k) Plan. On December 28, 2012 the Ericsson Services 401(k) Plan was merged into the Ericsson US 401(k) Plan formerly called the Ericsson Capital Accumulation and Savings Plan. Total assets transferred into the Plan due to the merger were approximately \$140,800. Effective July 18, 2016 Great-West Trust (Trustee) was made trustee of the Plan and the Master Trust was dissolved. JPMorgan Chase Bank Investor Services was the former trustee (former Trustee). Currently, Empower Retirement, the retirement services business of Great-West Financial, is the recordkeeper of the Plan.

Each pay period participant contributions are made to the Trustee for investment. There are currently seven collective trusts or collectively known as the Stable Value Fund, nine mutual funds, three commingled funds, ten common collective trusts and two separate accounts. In addition there is a self-directed brokerage account (SDA) to which participants may direct their investments. The SDA allows access to a wide variety of mutual funds, stocks and bonds. Brokerage services are provided through the Trustee. Employees interested in SDA can contact Empower or by visiting [empower-retirement.com/participant](http://empower-retirement.com/participant) to request an enrollment kit which includes application information or can contact the call center and request an application. Participants can choose these options for their contributions as well as the Company contributions.

Effective March 1, 2016 the Envivio Defined Contribution Plan merged into the Plan. Total assets transferred into the Plan due to the merger were approximately \$1,542. This allowed the Envivio employees who satisfied the eligibility requirements of the Plan participation in the Plan.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Plan's financial statements are presented using the accrual method of accounting in conformity with U.S. generally accepted accounting principles (GAAP).

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and changes therein. Actual results could differ from those estimates.



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### **ERICSSON US 401(k) PLAN**

### **NOTES TO FINANCIAL STATEMENTS**

### **AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

**(Thousands of dollars)**

#### **Risks and Uncertainties**

The Plan provides for various investment options of specified registered investment companies. The underlying investments held by the registered investment companies may include stocks, bonds, fixed income securities, mutual funds and other investment securities. Such investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities in the near term could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

#### **Contributions and Contribution Receivables**

Contributions are recorded on the accrual method of accounting. Contributions receivable are obligations arising from amounts owed to the Plan from participants or the Employer that have not been included in the Plan's investments at year end. Contributions receivable are recorded at cost, which approximates their fair value. Total contributions receivable were \$5,995 and \$2,014 at December 31, 2017 and 2016, respectively.

#### **Valuation of Investments**

The Plan's investments are reported at fair value, with the exception of the Stable Value Fund which is reported at contract value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). See Note 4 for further discussion of fair value and fair value measurements. See Note 8 for further discussion of investments carried at contract value.

#### **Investment Income**

Purchases and sales of the investments within the Plan are reflected on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

#### **Security Transactions**

The Plan presents in the Statement of Changes in Net Assets Available for Benefits the net appreciation or depreciation in the fair value of its investments which consists of the realized gains and losses and the unrealized appreciation (depreciation) on those investments. Realized gains and losses on security transactions are determined on the trade date (the date the order to buy or sell is executed) as the difference between proceeds received and historical cost. Unrealized gains and losses represent the net change in market value of investments held during the year which are presented at fair value, with adjustments for investments sold.

Upon withdrawal from the Plan, participants invested in Company stock may elect to receive cash or Company stock. Whenever a participant receives stock, the difference between the cost of such stock and the market value on the applicable valuation date is reflected as a realized gain or loss of the Plan. Gains or losses are also realized whenever stocks are sold in satisfaction of the participants' election to take cash upon withdrawal.



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### **ERICSSON US 401(k) PLAN**

### **NOTES TO FINANCIAL STATEMENTS**

### **AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

(Thousands of dollars)

#### **Vesting and Forfeitures**

Company and active participants' capital accumulation contributions, and participants' savings contributions, and the earnings thereon, are fully and immediately vested, with the exception of non-active participants transferred in from other plans, which continue to be subject to the former plans' vesting requirements. Accordingly, the forfeiture balance as of December 31, 2017 and 2016 was \$1,831 and \$1,234, respectively. During 2017, \$182 of forfeitures were used to pay Plan administrative expenses.

#### **Expenses of the Plan**

All net costs and expenses of the Plan and its administration, including all fees and expenses of the Trustee, are paid by the Company. All taxes, commissions and other charges on purchases, sales and transfers of Company stock and other securities are paid by the Trustee out of the fund or account involved in such purchase or sale. Participants are responsible for their own managed account fees, brokerage fees, and loan fees.

#### **Administration**

The Committee is responsible for the general administration of the Plan and for carrying out its provisions. Members of the Committee serve without compensation from the Plan.

#### **Notes Receivable from Participants**

Notes receivables from participants may be granted to participants in an amount not to exceed 50% of the participant's contribution account. The maximum loan amount is fifty thousand dollars minus the participant's highest loan balance (if any) during the previous 12 months; the minimum loan amount is one thousand dollars. Loans may be repaid through payroll deductions over a selected period between 12 months and 60 months. An employee is allowed only one loan at a time. If an employee misses payments, he/she will be required to make up the payments and accrued interest immediately. Failure to keep the loan current could result in the loan being classified as a deemed distribution, which is taxable income to the employee. Interest on the loan is set at the time of issuance, and the rate is the prime rate plus 1%. At December 31, 2017, interest rates range from 3.25% to 10.50%.

#### **Termination Priorities**

The Company reserves the right, by action of the board, to amend, suspend or terminate the Plan. In the event that the Plan is terminated or the Company discontinues its contributions, all amounts allocated to the participants' accounts and all assets held under the Plan will be held for distribution to the participants.

The Company currently has no plans to terminate the Plan.

#### **Benefit Payments**

At December 31, 2017 and 2016, there were no benefit claims which had been processed and approved for payment but not yet paid. At Empower Retirement, the recordkeeper of the Plan, benefit payments are determined, paid and taxed to participants based upon the date the check is first processed. For financial statement purposes, benefit payments are recorded when paid.



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**NOTES TO FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

**(Thousands of dollars)**

**3. PLAN PARTICIPATION**

The Company offers the Plan for eligible U.S. employees to which qualified employees may elect to contribute stated percentages of eligible pay. Participation by eligible employees is voluntary and is defined as any regular salaried or hourly employee who is employed by a participating employer and receives regular compensation in the form of a weekly, biweekly semi-monthly or monthly salary from an Ericsson U.S. payroll. All eligible employees may participate in the Plan the first day of any calendar quarter following the date they become eligible. At December 31, 2017 and 2016, the numbers of active participants were roughly seven thousand and nine thousand, respectively.

Eligible participants may contribute on a pre-tax and/or Roth basis any whole percentage from 1% to 50% of their eligible earnings up to current IRS limits into the Capital Accumulation 401(k) portion of the Plan; participants may also contribute any whole percentage from 1% to 5% of their eligible earnings to the Savings portion on an after-tax basis. The Company contributes 3% of a participant's eligible pay for employees who are not actively participating in the Company's Defined Benefit Plan, whether or not the employee contributes. The Company also matches 100% of the first 3% and an additional 50% on the 4<sup>th</sup> % and 5<sup>th</sup> % contributed. All employee and Employer contributions are 100% vested immediately.

Participants may change their percentage payroll deduction elections at anytime during the year using the web-based Empower Retirement Retireonline system. Participants may change investment percentages between funds at any time during the year. Participants may transfer existing fund balances to other available investment options at any time during the year. There are no restrictions on the transfer of investment balances from L M Ericsson Telephone Co. shares of Common Stock to other investment funds.

Each participant's account is credited with the participant's contributions, Company contributions and Plan earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants may direct the investment of their account balances into various investment options offered by the Plan.

Participants may, at any time, request certain in-service withdrawals in the form of a normal or hardship withdrawal. Normal withdrawals may be requested from the Employee Savings account and Company Savings account for money that has been in the Plan for two full calendar years. Hardship withdrawals must meet certain requirements including approval by the Committee.

**4. FAIR VALUE MEASUREMENTS**

The accounting standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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**AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

**(Thousands of dollars)**

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in Accounting Standards Codification ASC Topic 820: A) Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. B) Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost). C) Income approach: Techniques to convert future amounts to a single present amount based upon market expectation (including present value techniques, option-pricing and excess earnings models).

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

**Mutual Funds**

Mutual funds represent investments with various registered investment managers. The fair values of these investments are determined by reference to the fund's underlying assets, which are principally marketable equity and fixed income securities. Shares held in mutual funds traded on national securities exchanges are valued at the quoted market price as of December 31, 2017 and 2016 and classified as Level 1 assets.

**Self-Directed Brokerage Accounts (SDA)**

SDA accounts include investments in cash and cash equivalents, common stock, preferred stock, registered investment companies and partnerships and are classified as Level 2 investments. Cash and cash equivalent investments include cash and short-term interest-bearing investments with initial maturities of three months or less. Such amounts are recorded at cost, plus accrued interest. Common stock and preferred stock traded in active markets on national securities exchanges are valued at closing prices on the last business day of each period presented. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using the Plan's investment manager's best estimates. Mutual funds in registered investment companies are valued as mentioned above. Partnerships are valued using the Plan's investment manager's best estimates based on the partnership's financial statements and the plans allocation of earnings and losses.

**Commingled Funds and Common Collective Trusts**

Valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund minus applicable costs and liabilities and then divided by the number of shares outstanding. As these assets are measured at net asset value they are therefore excluded from the fair value hierarchy and included in other.

**Common Stocks**

Ericsson Inc. common stock and common stocks held in participant-directed brokerage accounts are stated at fair value as quoted on a recognized securities exchange and are valued at the last reported sales price on the last business day of the Plan year and are classified as Level 1 investments.

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(Thousands of dollars)

Separately Managed Accounts

Self-managed fund consisting of a portfolio of assets under the management of a professional investment firm and primarily valued using prices obtained from independent pricing services and are classified as Level 2 investments.

The following tables provide information about the financial assets carried at fair value on a recurring basis as of December 31, 2017 and 2016. In 2016 the Plan adopted Accounting Standards Update ASU 2015-12 that eliminated fair value measurement and disclosure requirements for fully benefit-responsive investments (i.e. the Stable Value Fund).

<b>December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Other (a)</b>	<b>Total</b>
Mutual funds	\$ 1,646,546	\$	\$	\$	\$ 1,646,546
Separate accounts		227,039			227,039
Ericsson stock fund	31,546				31,546
Commingled funds				304,587	304,587
Common collective trusts				505,428	505,428
Self-directed accounts		73,785			73,785
<b>Total investments at fair value</b>	<b>\$ 1,678,092</b>	<b>\$ 300,824</b>	<b>\$</b>	<b>\$ 810,015</b>	<b>\$ 2,788,931</b>

<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Other (a)</b>	<b>Total</b>
Mutual funds	\$ 1,554,095	\$	\$	\$	\$ 1,554,095
Separate accounts		275,991			275,991
Ericsson stock fund	30,855				30,855
Commingled funds				557,366	557,366
Self-directed accounts		68,893			68,893
<b>Total investments at fair value</b>	<b>\$ 1,584,950</b>	<b>\$ 344,884</b>	<b>\$</b>	<b>\$ 557,366</b>	<b>\$ 2,487,200</b>

(a) - As these assets are measured at net asset value they are therefore excluded from the fair value hierarchy and included in other.



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**AS OF DECEMBER 31, 2017 AND 2016, AND FOR THE YEAR ENDED DECEMBER 31, 2017**

**(Thousands of dollars)**

**5. NET ASSET VALUE PER SHARE**

The following table for December 31, 2017 and 2016, sets forth a summary of the Plan's investments with a reported NAV.

<b>Investment</b>	<b>Fair Value Estimated Using NAV per Share</b>		<b>Unfunded Commitment</b>
	<b>December 31, 2017 Fair Value</b>	<b>December 31, 2016 Fair Value <sup>(a)</sup></b>	