ERICSSON

Mobile infra market seeing mixed trends yet again, remain cautious on Ericsson

Recent positive data points overlook ongoing challenges in mobile infra: Higher mobile capex in the US and at China Mobile are clear positives for the industry, but are not being replicated elsewhere. We retain our expectation of modest market growth and limited margin progress and maintain our 2-Equal Weight rating on Ericsson.

A drift to mobile in the US and a large 2G uptick at China Mobile are positives: We expect AT&T and Verizon to continue shifting capex from fixed to mobile – particularly in 2011/2012 with LTE roll outs. We view China Mobile's 2G push as a means to maintain network quality until TD-LTE arrives in 2012/13.

But European mobile spending illustrates this trend is not globally applicable: Mobile spending in Europe is likely to be flattish in 2011, despite smartphone penetration that has now reached ~30%, as operators continue struggling to generate sufficient revenue growth from mobile data. KPN last week provided the latest evidence of weak mobile data trends.

Sluggish sales growth means carriers cannot raise capex without lowering margins: Service providers must manage ~100% annual traffic growth through: 1) standard annual incremental capacity purchases; 2) software upgrades to existing equipment; 3) ~15% pricing pressure; and 4) offloading, prioritizing, and managing traffic.

Little scope for vendor margin leverage: We believe ZTE and Nokia Siemens will continue to pursue market share at the expense of margin. Huawei's impressive 16% margins leave room for targeted discounting.

Ericsson remains in a difficult position: We see limited scope for upward revision to our 2011/2012 sales growth estimates of 5% and 4%, respectively. Our high-end 13% operating margin appears even less likely to be conservative. As such, we view shares reasonably valued on 12/11x adj. 2011/12 P/E, in line with peers and the market.

ERICb.ST: Financial and Valuation Metrics SEK

FY Dec	2009	2010	2011	2012	2013
EPS	3.77A	5.06A	5.46E	6.31E	N/A
Previous EPS	3.77A	5.06A	5.46E	6.31E	N/A
P/E	N/A	N/A	14.4	12.5	N/A

Source: Barclays Capital

Stock Rating	2-EQUAL WEIGHT Unchanged
Sector View	2-NEUTRAL Unchanged
Price Target	SEK 88.00 Unchanged

Price (21-Apr-2011)	SEK 78.80
Potential Upside/Downside	+12%
Tickers	ERICB SS / ERICb.ST

Market Cap (SEK mn)	257443
Shares Outstanding (mn)	3011.60
Free Float (%)	97.57
52 Wk Avg Daily Volume (mn)	12.6
Dividend Yield (%)	2.9
Return on Equity TTM (%)	7.82
Current BVPS (SEK)	N/A

Source: FactSet Fundamentals

Price Performance	Exchange-STO
52 Week range	SEK 90.45-68.85

Link to Barclays Capital Live for interactive charting

European Technology Hardware

Andrew M. Gardiner, CFA
+44 (0)20 3134 7217
andrew.gardiner@barcap.com
Barclays Capital, London

Youssef Essaegh
+44 (0)20 3134 7250
youssef.essaegh@barcap.com
Barclays Capital, London

U.S. Wireless Equipment
Jeff Kvaal
1.212.526.2216
jeffrey.kvaal@barcap.com
BCI, New York

COMPANY SNAPSHOT

ERICSSON — EUROPEAN TECHNOLOGY HARDWARE

Income statement (SEKm)	2010A	2011E	2012E	2013E	CAGR
Revenue	203,348	214,427	223,357	229,704	4.1%
EBITDA	33,691	35,725	39,164	40,990	6.8%
EBIT	23,738	27,072	30,563	32,008	10.5%
Pre-tax income	28,062	31,283	34,713	36,287	8.9%
Net income	19,887	21,759	24,160	25,255	8.3%
EPS (adjusted) (SEK)	6.17	6.70	7.44	7.77	8.0%
Diluted shares (m)	3,221	3,248	3,248	3,248	0.3%
Dividend per share (SEK)	2.25	2.47	2.79	2.94	9.4%

Margin and return data (%)					Average
Gross margin	38.2	37.8	38.3	38.5	38.2
EBITDA margin	16.6	16.7	17.5	17.8	17.2
EBIT margin	11.7	12.6	13.7	13.9	13.0
Pre-tax margin	13.8	14.6	15.5	15.8	14.9
Net margin	9.8	10.1	10.8	11.0	10.4
ROA	6.1	6.6	7.2	7.2	6.8
ROE	11.4	12.1	12.7	12.4	12.1
ROIC	9.3	10.1	10.7	10.5	10.1

Balance sheet and cash flow (SEK bn)					CAGR
Tangible fixed assets	9,434	10,850	12,318	13,404	12.4%
Intangible fixed assets	46,819	39,739	32,659	25,579	-18.3%
Cash and equivalents	87,150	87,506	102,834	118,070	10.7%
Working capital	69,188	85,493	87,885	90,284	9.3%
Inventories	29,897	25,145	26,023	26,654	-3.8%
Accounts receivable	61,127	80,952	82,725	85,075	11.6%
Accounts payable	24,959	23,727	23,987	24,568	-0.5%
Total assets	281,815	291,753	304,888	318,407	4.2%
Short and long-term debt	41,438	41,438	41,438	41,438	0.0%
Total liabilities	135,030	133,798	134,058	134,639	-0.1%
Shareholders' equity	146,785	157,955	170,830	183,767	7.8%
Change in working capital	(2,858)	16,305	2,392	2,400	NA
Cash flow from operations	26,583	10,545	26,212	27,161	0.7%
Capital expenditure	(3,686)	(4,289)	(4,289)	(4,289)	NA
Free cash flow	29,012	9,818	26,081	27,549	-1.7%
Change in cash	8,066	356	15,327	15,236	23.6%

Valuation and leverage metrics					Average
EV/sales (x)	0.8	0.9	0.8	0.8	0.8
EV/EBITDA (x)	6.0	6.6	5.6	5.0	5.8
EV/EBIT (x)	8.5	8.7	7.2	6.4	7.7
P/E (adjusted) (x)	12.7	13.1	11.8	11.3	12.2
Price/free cash flow (x)	11.0	45.7	13.0	12.5	20.6
FCF yield (%)	9.1	2.2	7.7	8.0	6.7
Price/BV (x)	1.7	1.8	1.7	1.6	1.7
Dividend yield (%)	2.9	2.8	3.2	3.3	3.1

Source: Company data, Barclays Capital

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (25-Apr-2011)	78.80
Price Target	88.00
Ticker	ERICB.SE, ERIC.N (ADR)

Investment case

The telecom equipment market has been challenged in recent year with tight capex spending at telcos and a fierce competition. We continue to see little indications this will change in the near future. We believe Ericsson will show only a small top line and margin improvements over the next few years.

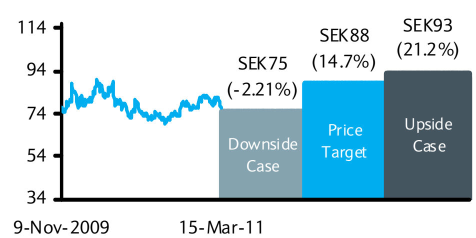
Upside case 93

If spending at telcos beats budgets and our forecasts, EBIT margin could continue to improve over the mid teens and EPS improves +15% above our estimates.

Downside case 75

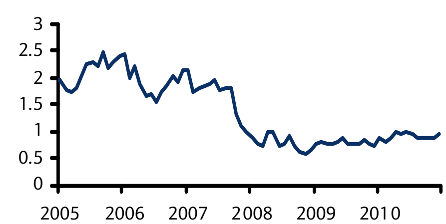
If we assume competitive pressures and capex decline y/y this and next year lead to a decline in revenue from Ericsson by low to mid single digit, margins will be under pressure resulting to a decrease in consenus EPS by -c.30% in 2011/12E

Upside/downside scenarios



Source: Thomson Reuters Datastream, Barclays Capital est.

Ericsson - EV/Sales



Source: Datastream

Revisiting our capex trajectory – Implications for Ericsson

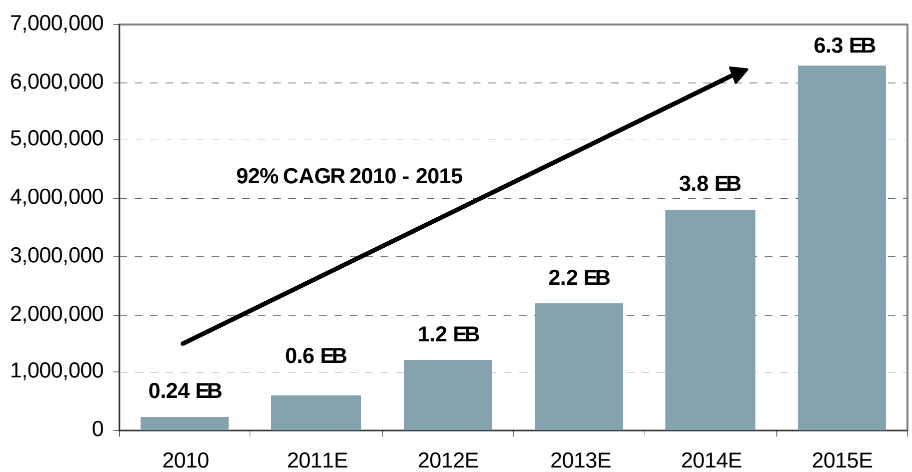
Several data points appear to be challenging our capex view… but is there substance behind the headlines?

Several data points through the course of the quarter appear to have challenged our view of global mobile capital expenditures. Our thesis states that given modest carrier revenue growth, we expect operators to try and succeed in managing capacity increases without materially lifting capital expenditures; most fully detailed in our report "*Winners and Losers from Mobile Data*", March 10, 2010. While Ericsson shares have still underperformed the market year-to-date (Ericsson flat vs. Eurostoxx +5%, Nasdaq +6%), as our macro capex view informs our call on Ericsson, we revisit our thesis in light of these positive data points.

Specifically, we point to three themes:

- **Fundamentally, data traffic continues to grow at an astonishing rate with this trend likely to continue over the next few years.** This has of course been a very well known fact. In 2010, mobile data traffic grew 159% y/y, exceeding projections of 149% y/y growth. Mobile video traffic represented close to 50% of all data traffic last year. Cisco estimates that mobile data traffic will continue to grow at a CAGR of 92% between 2010 and 2015 with video traffic representing close to two-thirds of all traffic by 2015. Video traffic is expected to more than double every year between now and 2015 driven by the increased connections of smartphone, tablets, and other M2M devices. We model over 45% y/y growth in smartphones and 161% growth in tablets this year.

Figure 1: Cisco forecasts 6.3 exabytes per month of mobile data traffic by 2015



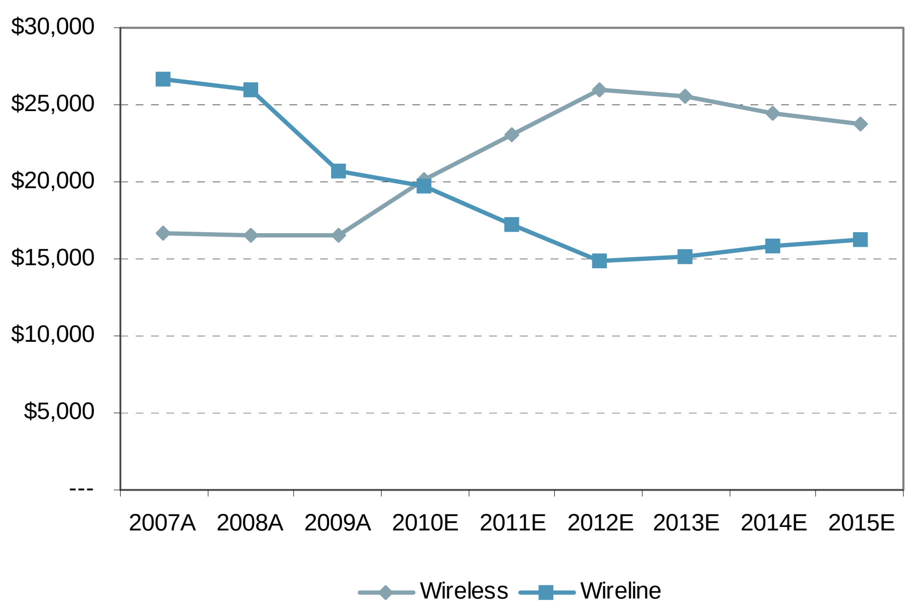
Source: Cisco VNI Mobile, 2011

Instinctively, it appears that operators at some point will need to invest in their networks to support this rapid growth that is unlikely to abate in the near term. Geographically, North America and Europe appear the most impacted given both countries' higher smartphone penetration rates and early adoption of tablets. Furthermore, we had heard for some time now that network utilization has been running at peak rates already in certain areas within Europe.

Within the US, network investment has been a bright spot geographically for equipment vendors and this is likely to continue to be the case, as indicated by AT&T and Verizon in their most recent earnings call. AT&T and Verizon (both covered by our US Telecom Services analyst James Ratcliffe) have both shifted capex, with a strategic focus on wireless over the years. Specifically, AT&T's wireless capex increased approximately 12% in 2009, rising to over 38% y/y growth in 2010. Verizon has seen its wireless capex increase 10% in 2009 and another 18% in 2010. Both carriers expect this trend to continue, guiding 2011 wireless capex up year over year as LTE and backhaul build outs continue. Our Barclays Capital estimates are for a modest 4% increase from AT&T, though following a significant shift in 2010, and a 17% increase from Verizon in 2011.

Overall, AT&T's capex should be flat to slightly down versus 2010 – though capitalized labor declines mean equipment spending should be slightly up. AT&T's 1Q11 capex of $4.1bn represents ~21% of full year guidance for the low to mid $19B range. Similarly, Verizon's F1Q11 capex of $4.4bn represents ~26% of full year capex guidance. We believe Verizon's results in particular suggest a front-loaded capex picture, however, this does not change management's guidance for total spending to be "essentially flat" in 2011. Verizon of course is expected to reduce wireline capex as FiOS build outs wind down. In general, wireless spending in the US has surpassed wireline spending with the gap between the two increasing over the next two years. We note that this does not include T-Mobile USA capex. Furthermore, AT&T highlighted that given the pending acquisition of T-Mobile USA, the firm has projected to spend $8bn in incremental capex over the next seven years. AT&T has not indicated if this $8 bn is incremental to AT&T's own spending or the combination of AT&T's and T Mobile's spending, and thus merits scrutiny. Nevertheless, we expect AT&T's capex over time to lean towards wireless, likely given a more focused investment into LTE.

Figure 2: Wireless vs. Wireline Capex, 2007-2015E



Source: Company reports and Barclays Capital estimates

- **China Mobile materially lifting capex in 2011 vs. expectations of the opposite.** China Mobile during its full year results conference call in late March revised 2011 capex up 35% to RMB 132.4bn (~USD $20.3bn) from RMB 98.0bn (~USD $15.0bn). This represents a y/y increase of 7% vs. earlier expectations of a material decline of 21%. Within mobile specifically, equipment spending is expected to increase to RMB 70.2bn, or roughly $10.7bn, representing a y/y increase of 28%. 2G spending appears to be the focus here rather than 3G spending. Ericsson does benefit relatively more given its higher share in 2G vs. 3G at the carrier. On the other hand, transmission spending is set to decline approximately 50% in 2011. Within transmission, China Mobile includes long haul, metro, and fiber backhaul. In addition to the spending at China Mobile Listco, the parent is also investing materially in order to support the 4G TD-LTE trial networks, where spending benefits more the local vendors than the international ones.

Figure 3: China Mobile Capex

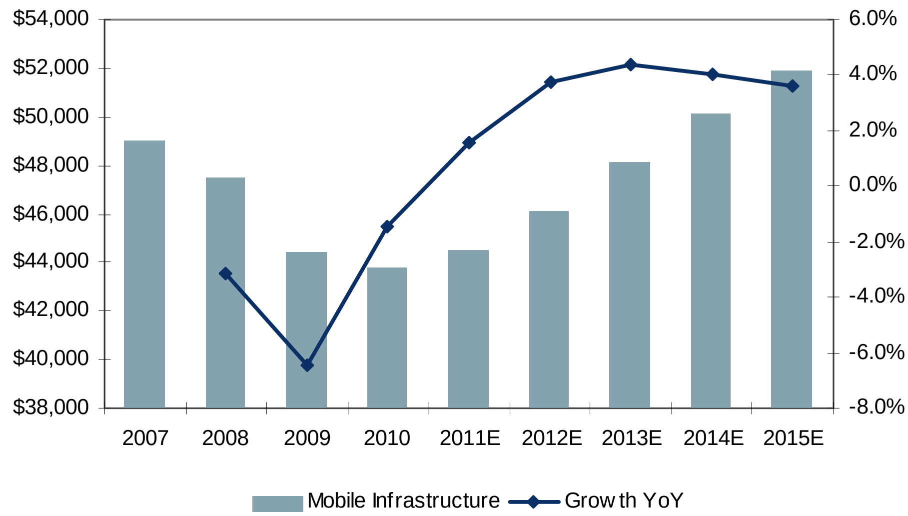
Capex ($ in B)	2008	2009	2010	2011E	2012E	2013E
China Mobile	**20.0**	**18.9**	**19.0**	**20.3**	**19.9**	**19.2**
Infrastructural Networks			8.4	10.7		
New technologies and businesses			2.5	2.8		
Transmission			4.4	2.2		
Support Systems			1.3	1.4		
Plant and infrastructure			2.3	2.4		
Others			**0.8**	**0.6**		

Source: China Mobile

Our thesis remains intact on further analysis

On further analysis, and taking a deeper look across the global carrier landscape, we see our thesis as remaining intact and we retain our balanced view on the mobile systems market and Ericsson specifically. We acknowledge that the US remains a bright spot in equipment spending as AT&T and Verizon are clearly on an aggressive schedule to roll out 4G / LTE networks over this year and next, where Ericsson and Alcatel Lucent remain key beneficiaries. However, in our global view, we find that operators outside of the US are not significantly ramping their mobile investments. Operators in Europe in particular remain cautious. According to Gartner, mobile infrastructure spending is set to grow at a modest 1.5% rate in 2011.

Figure 4: Historical and Projected Mobile Infrastructure Spending, 2007-2015E



Source: Gartner

We outline below several considerations in our review:

- **European operators remain hesitant to increase their capex budgets as increased competition and pricing pressure continue to remain a headwind on revenue growth. Our European Services team led by Maurice Patrick and Jonathan Dann expect European capex to remain under pressure in 2011.** Specifically, Vodafone indicated at its analyst day recently that the company plans to hold capex flattish in 2011, with a potentially modest increase in IT/software but not on the hardware side. Data traffic is growing 100% annually but Vodafone in general believes it can cope with this without increasing hardware spending or pushing too aggressively to LTE. Germany remains the only major market where Vodafone is deploying LTE at the moment, although we note that it is more as a cheaper alternative to rural fiber than an upgrade to cope with the increasing data traffic across Europe. In the other regions, Vodafone continues to favour 3G/HSPA for the time being, where the benefits from upgrading to LTE are still offset by a wider choice of devices and the technical potential in 900 MHz 3G re-farming and a greater emphasis on IP microwave backhaul. We also note that the network modernization theme continues to create opportunities for Huawei to gain foothold.

- **The beginning of 1Q11 results season in Europe has provided further evidence of operators struggling to fully monetise the dramatic growth in mobile data.** We have seen revenue growth trends weaken at a number of operators. Most recently, KPN's results on 21 April highlight that even one of the more forward thinking of European operators is having difficulty getting its subscribers to pay for data. The reason for the company's downgrading of EBITDA expectations were two-fold: on the consumer side, smartphone customers are optimising their usage, using data plans to reduce overage/out-of-bundle voice spend (e.g. instead of utilising regular SMS, they are using applications such as WhatsApp to have essentially unlimited messaging within a fixed data plan, thereby avoiding any SMS overage). On the business side, customers are rationalising overall spend. Interestingly, KPN also raised capex, although as noted above, most of this increase is targeted at IT/back office spending rather than mobile infrastructure.

- **AT&T/T-Mobile acquisition – synergies likely to reduce aggregate capex over time:** While at first glance, spending on infrastructural networks appears to be benefiting from the $8bn in incremental capex announced by AT&T, there remains limited visibility on whether this amount is actually incremental to AT&T and T-Mobile's combined planned capex. We currently forecast T-Mobile USA to spend roughly $3bn in 2011, growing to a modest $3.1bn in 2012. Given the expected synergies cited by the company of approximately $3bn from year three, we do expect to see overall less spending on capex over time for the combined AT&T and T-Mobile.

- **Despite rising capex from China Mobile, China Unicom and China Telecom appear to be taking a more conservative approach.** In China Unicom's recent full year 2010 earnings call, management guided to a modest 1% y/y decline in mobile capex. For 2011, while they plan to increase investments in 3G by 24% y/y, 2G investments are declining by 55%. Additional capex will be used to support in-depth coverage, rather than additional rollouts. Furthermore, management cited that 3G network utilization on average is only 15% and in "hot areas" reaches only 40%. They characterized their 3G network as only lightly loaded and should be well able to handle further sub growth or conversion. Separately, it also appears that China Telecom is looking for a 15% y/y decline in mobile capex.

  In total, capex from China Mobile, China Unicom and China Telecom is expected to rise 6% year over year, and a modest 2% year over year for mobile in particular.

Figure 5: China capex

CAPEX (in B USD)	2009	2010	2011E	2012E	2013E
China Mobile	**18.9**	**18.2**	**20.3**	**19.9**	**19.2**
China Unicom	**16.5**	**10.3**	**11.3**		
Mobile	8.3	3.4	3.5		
Fixed	8.1	6.2	6.4		
China Telecom	**13.4**	**10.2**	**11.2**		
Mobile (Parentco)	7.8	3.9	3.5		
Fixed (Listco)	5.6	6.3	7.6		
TOTAL	**48.8**	**38.7**	**42.7**		
Mobile	35.1	25.5	27.3		
Fixed	13.7	12.5	14.0		

Source: Company reports

- **Furthermore, we continue to believe that operators are utilizing strategies and finding new ways to increase network capacity and efficiency without materially raising internal investments.** As highlighted in our prior research, we take a look at a few of the ways below again. Discussions among a variety of players within the mobile ecosystem have echoed our view that operators indeed employ several methods in which to manage data without increasing capex.

  - Network management – data traffic prioritization or data caps.

  - Technology evolution / network optimization features to drive further network efficiency and capacity.

  - Macro offload data traffic onto alternative networks – Femtocell, WiFi.

– Pricing pressure driving down equipment prices.

We recently hosted a call with Bytemobile, a provider of Smart Capacity solutions for the mobile core designed to enable mobile operators to control existing network resources in order to mange escalating subscriber demand for capacity due to the rise in bandwidth-intensive content and applications. The company is seeing several of the above methods of management rising data traffic among the carriers.

Therefore, our thesis remains that given modest carrier revenue growth, we expect operators to try and succeed in managing capacity increases without materially lifting capital expenditures. We continue to believe that operators are taking a selective investment approach. Areas that remain high priority includes backhaul, LTE infrastructure, evolved packet core, optical and less so on traditional areas where investment is tapering including CDMA and new landline deployments.

Implications for Ericsson – growth outlook remains muted, quarterly predictability remains difficult

We have taken into account the above industry trends when considering our and the market's expectations for Ericsson in 2011 and, in conclusion, think that expectations are reasonable, if not remarkable.

In revenue terms, we model 5% and 4% revenue growth in 2011 and 2012, which after a recent reduction in consensus expectations are roughly in line with the market view. We forecast Networks (56% of revenue) to grow 6% and 4% in each year. We think this slightly higher than market growth is reasonable for Ericsson given: 1) it is one of the main beneficiaries of the LTE deployments at Verizon and AT&T; and 2) 2G growth at the expense of 3G at China Mobile actually helps Ericsson. We also forecast Global Services (39% of revenue) to grow 5% in both years, an improvement from 1% in 2010 when Ericsson saw pressure from renegotiated contracts, difficult compares from the Sprint contract initiation in 2009 and foreign exchange pressure. We also model 5% revenue growth for Multimedia, although note this actually could prove conservative given that it is this unit that has exposure to operator focus on billing/IT system growth.

Looking to margins, we currently forecast a slightly higher than consensus operating margin of 12.6%. The market expectation remains 11.3%, a decline from 11.7% achieved in 2010. We forecast slight pressure on gross margin to 37.8% in 2011 from 38.2% in 2010, when Ericsson's profitability "benefited" from its inability to ship sufficient equipment due to component shortages. This resulted in a positive mix shift towards software and away from hardware, leading to the higher gross margin. While we forecast a 40bp decline in 2011, consensus is more aggressive in forecasting a 110bp decline to 37.1%. It is this difference that accounts for much of the difference in our operating margin forecast of 12.6% vs. 11.3% consensus. Despite our more optimistic margin forecast, however, our EPS estimate of SEK5.6 is only marginally higher than the market forecast of SEK5.2 due to our more conservative view on the fundamentals at ST-Ericsson and Sony Ericsson. It is also possible that our higher than consensus margin assumptions for Ericsson's core business prove to optimistic, leading to further estimate risk.

From a quarterly point of view, it has been difficult to forecast Ericsson's revenue and gross margin trends for the past three or four years. We do not expect this to change in the near term, particularly given the moving parts within the industry that we highlighted above. For 1Q11, we expect "normal" seasonality, in that revenue declines on the order of 20%

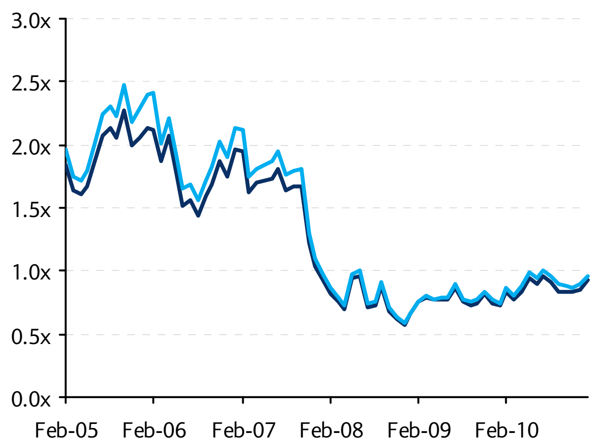
(SEK49.8bn, -21% q/q, consensus SEK48.7bn) and gross margins improve due to product mix (38.5% vs. 4Q10 36.6%, consensus 37.3%). Our slightly more optimistic margin assumption results in our EPS forecast of SEK1.1 being above consensus SEK1.0.

Valuation methodology

We think current valuation is reasonable, with shares trading in line with peers. On our current estimates, Ericsson trades on 0.8x/0.7x 2011/12E EV/Sales and 6X/5x 2011/12E EV/EBITDA, both at the low end of Ericsson's historical ranges. These lower multiples can be justified given the decline in margins from peak and the more muted growth outlook. While we see the opportunity for some estimate surprise, either positive or negative, our industry analysis indicates that full year 2011 and 2012 estimates should not change materially and, therefore, we retain a cautious view on shares and our 2-Equal Weight rating.

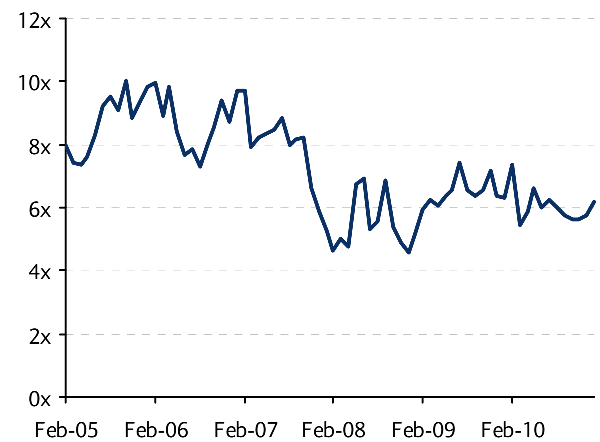
Our EPS estimates for P/E multiple purposes are driven from the EBITA line, to ensure comparability with peers like Nokia and Alcatel-Lucent. On adjusted EPS, Ericsson would trade on 11x 2012E EPS rather than the 13x on published consensus, putting it in line with peers and in line with its historical average value.

Figure 6: Ericsson – EV/Sales, 2005-2010



Source: Thomson Reuters

Figure 7: Ericsson – EV/EBITDA, 2005-2010



Source: Thomson Reuters

Looking to absolute measures of valuation, our sum-of-the-parts remains unchanged at SEK88 per share. We value the company's divisions as follows: Networks 12x 2011E net income, Global Services 11x 2011E net income, Sony Ericsson 0.1x 2011E revenue and ST-Ericsson at -0.3x 2011E revenue. At SEK88, Ericsson would trade on 0.8x/0.9x 2011/12E revenue and 16x/14x 2011/2012E EPS.

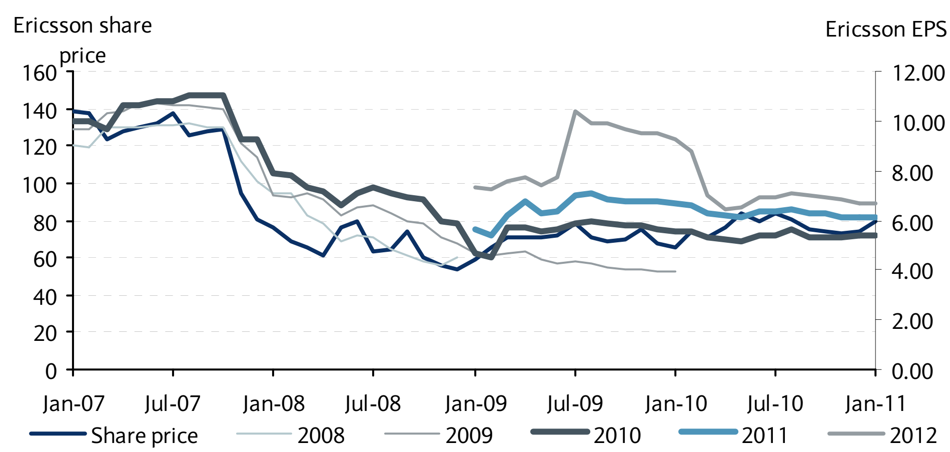
Figure 8: Ericsson – sum-of-the-parts (SEK m)

	Revenue		EBIT margin		EV / Sales		EV / EBIT		P/E			
	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	EV	Per share
Core business	214,427	223,357	13%	13%	1.1x	1.1x	8.9x	8.0x	13x	11x	238,272	SEK 74
Networks	119,401	123,580	17%	17%	1.4x	1.3x	8.1x	7.8x	12x	11x	161,781	SEK 50
Services	83,937	88,133	13%	13%	1.0x	0.9x	7.6x	7.1x	11x	10x	83,487	SEK 26
Multimedia	11,090	11,644	10%	12%	0.5x	0.5x	5.2x	N/A	7.1x	5.6x	5,545	SEK 2
Other / intra-group (group discount)											-12,541	-SEK 4
Sony Ericsson (in SEK, 50%)	55,396	56,675	2%	3%	0.1x	0.0x	2.4x	1.9x	3.2x	2.6x	2,770	SEK 1
ST-Ericsson (in SEK, 50%)	12,566	13,194	-17%	-2%	-0.6x	-0.3x	1.8x	18.5x	N/A	N/A	-3,770	-SEK 1
TOTAL ENTERPRISE	**248,408**	**258,292**	**12%**	**14%**	**1.0x**	**0.9x**	**9.0x**	**7.8x**	**13.1x**	**11.3x**	**237,272**	**SEK 74**
+ Cash											87,701	SEK 26
- Debt											-35,855	-SEK 11
- Minority interests											-1,679	-SEK 1
TOTAL EQUITY									**17.6x**	**16.4x**	**287,440**	**SEK 88**

Source: Company data, Barclays Capital estimates

An adjusted DCF at SEK88 implies fairly conservative assumptions when it comes to Ericsson's long-term margin profile. Our DCF analysis implies revenue growth would slow on a through cycle basis to 4.5% and operating margins would decline to 7.5%. The revenue assumption is arguably correct, as clearly the telecom infrastructure market is maturing and our analysis suggests the market may never again grow at the double digit rates to which we were once accustomed. Put another way, Ericsson has often stated the view that the telecom infrastructure market should grow at twice the rate of GDP, although again this spread will arguably narrow as the industry matures, making a 2.5% assumption reasonable. As for margins, Ericsson remains the leader in mobile infrastructure and should continue to generate higher margins than most of its peers. Even in a cyclical downturn (with added structural pressures) that we have experienced over the past two years, Ericsson has continued to generate low double-digit operating margins. While these will continue to come under pressure, we view 8% long-term margins for an industry leader as reasonably conservative.

Figure 9: Ericsson – consensus EPS estimates vs stock price



Source: Datastream

Our target of SEK88 provides 12% potential upside to current levels. While we view this as an attractive level of upside, this combined with the still challenging, if somewhat better, fundamentals in the telecom infrastructure market lead us to prefer in the telecom equipment space Nokia (1-OW), where we see greater potential given the stronger end market for handsets and the greater company-specific catalysts. Our EUR8.20 price target for Nokia represents >30% potential upside to last close.

Figure 10: Ericsson – income statement, 2009-2012E

SEK M, Dec FY	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E
Total revenue	206,477	45,112	47,972	47,481	62,783	203,348	49,781	52,355	50,026	62,265	214,427	223,357
Adj. cost of sales	-132,098	-27,727	-29,258	-28,960	-39,795	-125,740	-30,616	-32,460	-31,016	-39,227	-133,319	-137,923
Adj. gross profit	74,379	17,385	18,714	18,521	22,988	77,608	19,166	19,895	19,010	23,038	81,109	85,434
Adj. gross margin	*36.0%*	*38.5%*	*39.0%*	*39.0%*	*36.6%*	*38.2%*	*38.5%*	*38.0%*	*38.0%*	*37.0%*	*37.8%*	*38.3%*
Adj. research & development	-27,010	-7,265	-7,132	-7,221	-8,258	-29,876	-7,431	-7,580	-7,428	-8,171	-30,611	-31,529
Adj. selling & administrative	-25,874	-5,881	-6,754	-5,731	-6,928	-25,294	-6,098	-6,342	-6,120	-7,038	-25,599	-26,111
Adj. other income & expenses	2,282	302	500	620	581	2,003	500	500	500	500	2,000	2,000
Adj. share in JV/assoc. earnings	-6,178	-260	-142	3	-304	-703	-899	-115	152	310	-553	553
Amort of IPR, brands and other intangible assets	7,818	2,169	1,211	1,301	1,260	5,941	1,260	1,260	1,260	1,260	5,040	5,040
Restruct of IPR, brands and other intangibles	-3,455	-945	0	0	0	-945	0	0	0	0	0	0
Adj. EBITA	21,962	5,505	6,397	7,493	9,339	28,734	6,497	7,617	7,373	9,898	31,386	35,387
Adj. EBITA margin	*11%*	*12%*	*13%*	*16%*	*15%*	*14%*	*13%*	*15%*	*15%*	*16%*	*15%*	*16%*
Adj. EBITA ex SEMC / ST-E	*14%*	*13%*	*14%*	*16%*	*15%*	*14%*	*15%*	*15%*	*14%*	*15%*	*15%*	*16%*
Adj. operating profit	17,599	4,281	5,186	6,192	8,079	23,738	5,237	6,357	6,113	8,638	26,346	30,347
Adj. operating margin	*8.5%*	*9.5%*	*10.8%*	*13.0%*	*12.9%*	*11.7%*	*10.5%*	*12.1%*	*12.2%*	*13.9%*	*12.3%*	*13.6%*
Adj. operating margin ex JV	*11.5%*	*10.1%*	*11.1%*	*13.0%*	*13.4%*	*12.0%*	*12.3%*	*12.4%*	*11.9%*	*13.4%*	*12.5%*	*13.3%*
Financial income	1,874	278	470	168	131	1,047	200	200	200	200	800	740
Financial expenses	-1,549	-438	-596	-302	-383	-1,719	-407	-407	-407	-407	-1,628	-1,628
Adj. profit before tax	17,924	4,121	5,060	6,058	7,827	23,066	5,030	6,151	5,906	8,431	25,518	29,458
Adjusted profit before tax (EBITA)	22,287	5,345	6,271	7,359	9,087	28,062	6,290	7,411	7,166	9,691	30,558	34,498
- tax rate	*-33.9%*	*-30.0%*	*-30.0%*	*-30.0%*	*-26.9%*	*-28.8%*	*-30%*	*-30%*	*-30%*	*-30%*	*-30.0%*	*-30.0%*
Adj. tax	-6,609	-1,238	-1,516	-1,818	-2,104	-6,676	-1,509	-1,845	-1,772	-2,529	-7,655	-8,838
Adjusted tax - EBITA	-7,554	-1,606	-1,879	-2,208	-2,443	-8,086	-1,887	-2,223	-2,150	-2,907	-9,167	-10,350
Profit before min. int.	4,127	1,274	2,027	3,553	4,381	11,235	3,521	4,306	4,134	5,902	17,863	20,621
Adj. profit before min. int.	11,315	2,883	3,544	4,240	5,723	16,390	3,521	4,306	4,134	5,902	17,863	20,621
Adj. profit before min interest - EBITA	14,733	3,739	4,392	5,151	6,644	19,976	4,403	5,188	5,016	6,784	21,391	24,149
Minority interests	-455	-10	-146	124	-57	-89	-35	-35	-35	-35	-139	-139
Net profit	3,672	1,264	1,881	3,677	4,324	11,146	3,487	4,271	4,100	5,867	17,724	20,482
Adjusted net profit	10,860	2,873	3,398	4,364	5,666	16,301	3,487	4,271	4,100	5,867	17,724	20,482
Adjusted net profit - to shareholders - EBITA	14,278	3,729	4,246	5,275	6,587	19,887	4,369	5,153	4,982	6,749	21,252	24,010
EPS - basic, reported	1.15	0.40	0.59	1.15	1.35	3.49	1.09	1.34	1.28	1.84	5.54	6.41
EPS - diluted, reported	1.14	0.39	0.58	1.14	1.34	3.46	1.08	1.32	1.26	1.80	5.46	6.31
EPS - basic, adjusted	3.73	0.90	1.06	1.36	1.77	5.10	1.09	1.34	1.28	1.84	5.54	6.41
EPS - diluted, adjusted	3.71	0.89	1.06	1.35	1.76	5.06	1.08	1.32	1.26	1.80	5.46	6.31

Source: Company data, Barclays Capital estimates

Figure 11: Ericsson – balance sheet, 2009-2012E

SEK M, Dec FY	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E
Capitalised development expenses	2,079	2,189	2,706	2,868	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010
Goodwill	27,375	27,638	30,003	26,346	27,151	27,151	27,151	27,151	27,151	27,151	27,151	27,151
IPR, brands & other intangibles	18,739	17,107	16,801	17,191	16,658	16,658	14,888	13,118	11,348	9,578	9,578	2,498
Property, plant & equipment	9,606	9,319	9,810	9,290	9,434	9,434	9,746	10,086	10,355	10,850	10,850	12,318
Equity in JV and associates	11,578	11,286	11,596	10,079	9,803	9,803	8,904	8,788	8,940	9,250	9,250	9,802
Other financial assets	3,663	3,167	3,927	3,988	4,579	4,579	4,579	4,579	4,579	4,579	4,579	4,579
Deferred tax assets	14,327	14,710	16,053	14,208	12,737	12,737	12,737	12,737	12,737	12,737	12,737	12,737
Total non-current assets	**87,367**	**85,416**	**90,896**	**83,970**	**83,372**	**83,372**	**81,014**	**79,469**	**78,120**	**77,155**	**77,155**	**72,095**
Current assets												
Inventories	22,718	24,126	29,397	30,304	29,897	29,897	26,622	32,460	32,648	25,145	25,145	26,023
Trade receivables	66,410	62,695	69,385	57,831	61,127	61,127	66,375	72,214	66,701	80,952	80,952	82,725
Customer financing, current	1,444	1,885	2,132	2,251	3,123	3,123	3,123	3,123	3,123	3,123	3,123	3,123
Other current receivables	15,146	15,853	17,429	18,705	17,146	17,146	17,146	17,146	17,146	17,146	17,146	17,146
Short-term investments	53,926	56,816	51,980	54,977	56,286	56,286	56,286	56,286	56,286	56,286	56,286	56,286
Cash and cash equivalents	22,798	21,039	15,610	21,197	30,864	30,864	27,305	16,020	25,303	31,415	31,415	47,039
Total current assets	**182,442**	**182,414**	**185,933**	**185,265**	**198,443**	**198,443**	**196,858**	**197,249**	**201,208**	**214,067**	**214,067**	**232,342**
Total assets	**269,809**	**267,830**	**276,829**	**269,235**	**281,815**	**281,815**	**277,872**	**276,719**	**279,328**	**291,222**	**291,222**	**304,437**
Stockholders' equity	139,870	140,290	138,309	137,395	145,106	145,106	148,627	145,733	149,854	155,745	155,745	168,700
Minority interest in equity of subsids.	1,157	1,163	2,115	1,674	1,679	1,679	1,679	1,679	1,679	1,679	1,679	1,679
Total equity	**141,027**	**141,453**	**140,424**	**139,069**	**146,785**	**146,785**	**150,306**	**147,412**	**151,533**	**157,424**	**157,424**	**170,379**
Post-employment benefits	8,533	8,061	8,498	8,075	5,092	5,092	5,092	5,092	5,092	5,092	5,092	5,092
Provisions, non-current	461	499	513	408	353	353	353	353	353	353	353	353
Deferred tax liabilities	2,270	2,307	2,431	2,432	2,571	2,571	2,571	2,571	2,571	2,571	2,571	2,571
Borrowings, non-current	29,996	29,257	29,491	28,016	26,955	26,955	26,955	26,955	26,955	26,955	26,955	26,955
Other non-current liabilities	2,035	2,200	2,296	3,178	3,296	3,296	3,296	3,296	3,296	3,296	3,296	3,296
Total non-current liabilities	**43,295**	**42,324**	**43,229**	**42,109**	**38,267**	**38,267**	**38,267**	**38,267**	**38,267**	**38,267**	**38,267**	**38,267**
Provisions, current	11,970	11,566	12,548	10,529	9,391	9,391	9,391	9,391	9,391	9,391	9,391	9,391
Borrowings, current	2,124	2,017	3,797	4,353	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808
Trade payables	18,864	17,806	20,266	20,724	24,959	24,959	17,495	19,236	17,723	23,727	23,727	23,987
Other current liabilities	52,529	52,664	56,565	52,451	58,605	58,605	58,605	58,605	58,605	58,605	58,605	58,605
Total current liabilities	**85,487**	**84,053**	**93,176**	**88,057**	**96,763**	**96,763**	**89,299**	**91,040**	**89,527**	**95,531**	**95,531**	**95,791**
Total equity & liabilities	**269,809**	**267,830**	**276,829**	**269,235**	**281,815**	**281,815**	**277,872**	**276,719**	**279,328**	**291,222**	**291,222**	**304,437**

Source: Company data, Barclays Capital estimates

Figure 12: Ericsson – cash flow statement, 2009-2012E

SEK M, Dec FY	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E
CASH FLOW FROM OPERATIONS												
Net income	**4,127**	**1,274**	**2,027**	**3,553**	**4,381**	**11,235**	**3,521**	**4,306**	**4,122**	**5,891**	**17,839**	**20,621**
Adjustments: net income to cash												
Taxes	-1,011	-166	-560	-226	1,303	351	0	0	0	0	0	0
Earnings/dividends in JV / assoc.	6,083	313	364	123	676	1,476	899	115	-152	-310	553	-553
Deprec., amort. and impairments	12,124	3,133	2,304	2,270	2,246	9,953	2,129	2,152	2,176	2,196	8,653	8,601
Other	-340	-435	-260	-947	2,352	710	0	0	0	0	0	0
Changes in operating net assets												
Inventories	5,207	-1,465	-3,462	-3,763	773	-7,917	3,275	-5,838	-188	7,503	4,752	-878
Customer financings	598	-598	-208	-437	-882	-2,125	0	0	0	0	0	0
Trade receivables	7,668	3,954	-3,816	7,443	-3,175	4,406	-5,248	-5,839	5,513	-14,251	-19,825	-1,773
Trade payables (inc. in other op assets until 1Q08)	-3,522	-955	1,433	1,292	4,194	5,964	-7,464	1,741	-1,512	6,004	-1,232	260
Provisions and OPEB	-2,950	-1,058	788	-1,726	-743	-2,739	0	0	0	0	0	0
Other operating net assets	-3,508	-1,703	-1,317	4,237	4,052	5,269	0	0	0	0	0	0
Total net change in net working cap.	**3,493**	**-1,825**	**-6,582**	**7,046**	**4,219**	**2,858**	**-9,438**	**-9,936**	**3,813**	**-744**	**-16,305**	**-2,392**
Net cash from operations	**24,476**	**2,294**	**-2,707**	**11,819**	**15,177**	**26,583**	**-2,888**	**-3,363**	**9,959**	**7,033**	**10,740**	**26,277**
CASH FLOW FROM INVESTING												
Investments in PP&E	-4,006	-659	-1,016	-1,027	-984	-3,686	-996	-1,047	-1,001	-1,245	-4,289	-4,289
Sales of PP&E	534	47	45	17	15	124	0	0	0	0	0	0
Acquisitions/divestments of subsids.	-17,505	-1,080	-868	-559	-325	-2,832	0	0	0	0	0	0
Product development	-1,443	-278	-724	-317	-325	-1,644	325	325	325	325	1,300	1,300
Other investing activities	2,029	1,859	-1,819	-817	-710	-1,487	0	0	0	0	0	0
Short-term investments	-17,071	-3,844	5,949	-3,368	-1,753	-3,016	0	0	0	0	0	0
Net cash from investing activities	**-37,462**	**-3,955**	**1,567**	**-6,071**	**-4,082**	**-12,541**	**-671**	**-722**	**-676**	**-920**	**-2,989**	**-2,989**
CASH FLOW FROM FINANCING												
Dividends paid	-6,318	0	-6,401	-238	-38	-6,677	0	-7,200	0	0	-7,200	-7,666
Other financing activities	4,618	-56	1,529	1,165	-1,631	1,007	0	0	0	0	0	0
Net cash from financing activities	**-1,700**	**-56**	**-4,872**	**927**	**-1,669**	**-5,670**	**0**	**-7,200**	**0**	**0**	**-7,200**	**-7,666**
Foreign exchange adjustment	-328	-42	583	-1,088	241	-306	0	0	0	0	0	0
Net increase in cash	**-15,014**	**-1,759**	**-5,429**	**5,587**	**9,667**	**8,066**	**-3,559**	**-11,286**	**9,284**	**6,112**	**551**	**15,623**
Cash at beginning of period	22,798	22,798	21,039	15,610	21,197	22,798	30,864	27,305	16,020	25,303	30,864	31,415
Cash at end of period	**22,798**	**21,039**	**15,610**	**21,197**	**30,864**	**30,864**	**27,305**	**16,020**	**25,303**	**31,415**	**31,415**	**47,039**

Source: Company data, Barclays Capital estimates

ANALYST(S) CERTIFICATION(S)

We, Andrew M. Gardiner, CFA, Youssef Essaegh and Jeff Kvaal, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

IMPORTANT DISCLOSURES

For current important disclosures, including, where relevant, price target charts, regarding companies that are the subject of this research report, please send a written request to: Barclays Capital Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to http://publicresearch.barcap.com or call 1-212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Research analysts employed outside the US by affiliates of Barclays Capital Inc. are not registered/qualified as research analysts with FINRA. These analysts may not be associated persons of the member firm and therefore may not be subject to NASD Rule 2711 and incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst's account.

On September 20, 2008, Barclays Capital acquired Lehman Brothers' North American investment banking, capital markets, and private investment management businesses. All ratings and price targets prior to this date relate to coverage under Lehman Brothers Inc.

Barclays Capital produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Primary Stocks (Ticker, Date, Price)

Ericsson (ERICb.ST, 21-Apr-2011, SEK 78.80), 2-Equal Weight/2-Neutral

Materially Mentioned Stocks (Ticker, Date, Price)

Nokia (NOK1V.HE, 21-Apr-2011, EUR 5.96), 1-Overweight/2-Neutral

Guide to the Barclays Capital Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

European Technology Hardware		
Aixtron AG (AIXGn.DE)	Alcatel-Lucent (ALUA.PA)	ARM Holdings PLC (ARM.L)
ASML Holding NV (ASML.AS)	CSR plc (CSR.L)	Ericsson (ERICb.ST)
Infineon Technologies AG (IFXGn.DE)	Kudelski S.A. (KUD.S)	Logitech International SA (LOGN.VX)
Nokia (NOK1V.HE)	Pace plc (PIC.L)	STMicroelectronics NV (STM.PA)
Technicolor S.A. (TCH.PA)	TomTom NV (TOM2.AS)	

IMPORTANT DISCLOSURES CONTINUED

Distribution of Ratings:

Barclays Capital Inc. Equity Research has 1731 companies under coverage.

43% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 53% of companies with this rating are investment banking clients of the Firm.

42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 45% of companies with this rating are investment banking clients of the Firm.

12% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 36% of companies with this rating are investment banking clients of the Firm.

Guide to the Barclays Capital Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

Barclays Capital offices involved in the production of equity research:

London

Barclays Capital, the investment banking division of Barclays Bank PLC (Barclays Capital, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Capital Japan Limited (BCJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCC, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

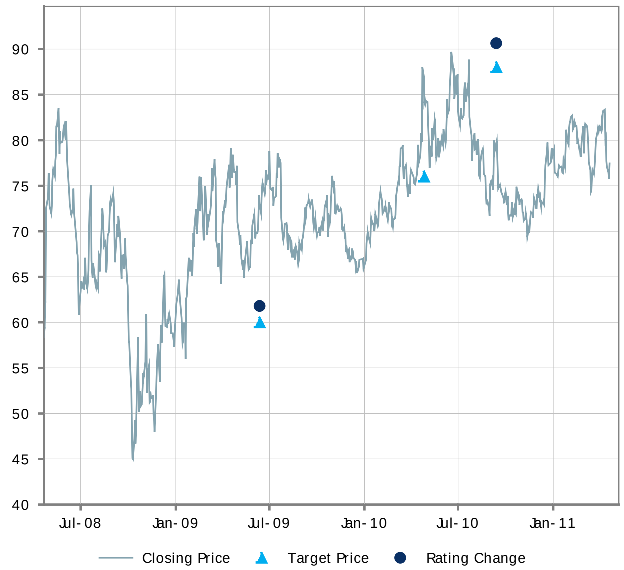
IMPORTANT DISCLOSURES CONTINUED

Ericsson (ERICB SS / ERICb.ST)

SEK 78.80 (21-Apr-2011)

Stock Rating	Sector View
2-EQUAL WEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - SEK (as of 21-Apr-2011)



Link to Barclays Capital Live for interactive charting

Currency=SEK

Date	Closing Price	Rating	Price Target
13-Sep-2010	79.65	2-Equal Weight	88.00
26-Apr-2010	86.90		76.00
12-Jun-2009	73.00	3-Underweight	60.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Ericsson or one of its affiliates.

Barclays Bank PLC and/or an affiliate trades regularly in the shares of Ericsson.

Valuation Methodology: We think current valuation is reasonable, with shares trading in line with peers. On our current estimates, Ericsson trades on 0.8x/0.7x 2011/12E EV/Sales and 6X/5x 2011/12E EV/EBITDA, both at the low end of Ericsson's historical ranges. The former can be justified given the decline in margins from peak, but the latter less so. Our EPS estimates for P/E multiple purposes are driven from the EBITA line, to ensure comparability with peers like Nokia and Alcatel-Lucent. On adjusted EPS, Ericsson would trade on 11x 2012E EPS rather than the 13x on published consensus, putting it in line with peers and in line with its historical average value. Looking to absolute measures of valuation, our sum-of-the-parts remains broadly unchanged and the result is still SEK88 per share. We value the company's divisions as follows: Networks 12x 2011E net income, Global Services 11x 2011E net income, Sony Ericsson 0.1x 2011E revenue and ST-Ericsson at -0.6x 2011E revenue. At SEK88, Ericsson would trade on 0.8x/0.9x 2011/12E revenue and 16x/14x 2011/2012E EPS. An adjusted DCF at SEK88 implies fairly conservative assumptions when its comes to Ericsson's long-term margin profile. Our DCF analysis implies revenue growth would slow on a through cycle basis to 4.5% and operating margins would decline to 7.5%. The revenue assumption is arguably correct, as clearly the telecom infrastructure market is maturing and our analysis suggests the market may never again grow at the double digit rates to which we were once accustomed. Put another way, Ericsson has often stated the view that the telecom infrastructure market should grow at twice the rate of GDP, although again this spread will arguably narrow as the industry matures, making a 2.5% assumption reasonable. As for margins, Ericsson remains the leader in mobile infrastructure and should continue to generate higher margins than most of its peers. Even in a cyclical downturn (with added structural pressures) that we have experienced over the past two years, Ericsson has continued to generate low double-digit operating margins. While these will continue to come under pressure, we view 8% long-term margins for an industry leader as reasonably conservative.

Risks which May Impede the Achievement of the Price Target: The key risks for Ericsson relative to our expectations are: 1) the telecommunications infrastructure market fares better or worse than we expect; 2) Ericsson gains/loses market share; 3) competition continues to increase, particularly from the likes of Huawei (China) and keeps pressure on pricing and margins; 4) Ericsson's JVs (Sony Ericsson, ST-Ericsson) either turn around sooner than anticipated or require material funding from their parents; 5) fluctuation in the Swedish krona impacts on revenue growth and margins.

IMPORTANT DISCLOSURES CONTINUED

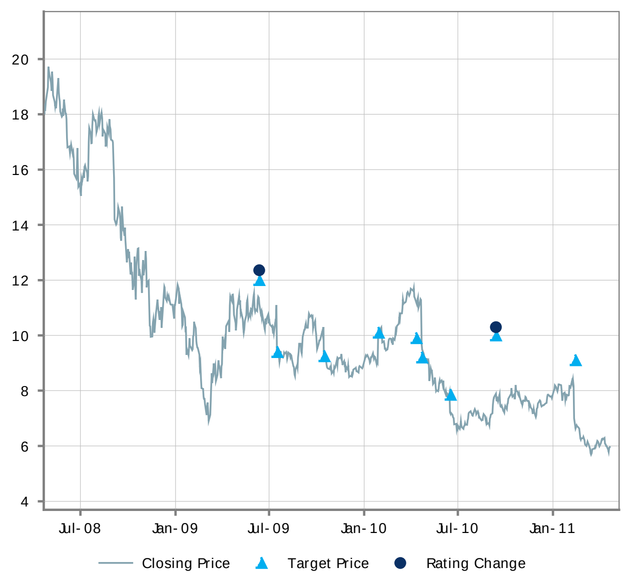
Nokia (NOK1V FH / NOK1V.HE)

EUR 5.96 (21-Apr-2011)

Stock Rating **1-OVERWEIGHT**

Sector View **2-NEUTRAL**

Rating and Price Target Chart - EUR (as of 21-Apr-2011)



Link to Barclays Capital Live for interactive charting

Currency=EUR

Date	Closing Price	Rating	Price Target
14-Feb-2011	6.63		9.10
13-Sep-2010	7.89	1-Overweight	10.00
17-Jun-2010	7.16		7.85
23-Apr-2010	9.49		9.20
12-Apr-2010	11.18		9.90
29-Jan-2010	10.14		10.10
16-Oct-2009	9.09		9.25
17-Jul-2009	9.36		9.40
12-Jun-2009	11.15	2-Equal Weight	12.00

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Nokia or one of its affiliates.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Nokia in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the shares of Nokia.

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Nokia within the past 12 months.

Nokia is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

Nokia is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Barclays Bank PLC is associated with specialist firm Barclays Capital Market Makers, which makes a market in Nokia stock. At any given time, the associated specialist may have "long" or "short" inventory position in the stock; and the associated specialist may be on the opposite side of orders executed on the Floor of the Exchange in the stock.

Valuation Methodology: 1Q11 results were slightly better than expected as Nokia benefited from good trends in the overall market and an above expectation performance at its infrastructure division. Nokia provided more clarity on the trajectories the different moving parts of the transition to Windows Phone and as a result we fine-tune our model and although our 2012/13 EPS remain intact, we slightly revise down our 2011 estimate to €42c from €47c as the benefits from the restructuring program will be apparent only from early 2012.

We believe consensus will likely now consolidate and gradually improve as confidence in Nokia returns with the new management executing on the transformation plan. A positive change in estimate revisions is one of the key drivers of share price appreciation in the tech space and Nokia is no different. Furthermore, valuation is reasonable, with shares trading in line with peers currently. On our current estimates, Nokia trades on 0.5x/0.5x 2011/12E EV/Sales and 6.0x/5.7x 2011/12E EV/EBIT, both at historical lows for Nokia. On an adjusted EPS basis, Nokia trades on 14x/12x 2011/12E P/E, putting it in line with large cap peers Cisco and Ericsson, but with greater likelihood of positive estimate revisions in medium term.

Looking to absolute measures of valuation. We continue to value Navteq and Nokia Siemens networks at 15x 2012E EPS and 0.3x 2012E EV/sales, respectively, in our sum-of-the-parts analysis. We continue to value Devices and Services at 12x 2012E P/E based on our expectation of improving fundamentals in the handset business. On our new estimates, our sum of the parts valuation leads to a EUR8.2, level at which Nokia would trade on 0.9x/0.9x 2011/12E revenue and 17x/14x 2011/2012E EPS.

A DCF with at €8.20 per share valuation assumes revenue growth remaining in the low single digits over the next decade and operating margins declining to c.5% from current levels as the market matures.

Our price target of €8.20 provides upside of 38% from current levels. Given such attractive levels of upside and the likelihood for positive estimate momentum over the remainder of the year, we reiterate our 1-Overweight for Nokia.

Risks which May Impede the Achievement of the Price Target: The key risks for Nokia relative to our expectations are: 1) the wireless handset market fundamentals do not improve as expected; 2) Nokia's future product portfolio is uncompetitive and it loses market share; 3) competition increases and it loses market share and faces increased price pressure, which in turn puts incremental pressure on margins; 4) the telecommunications infrastructure market fundamentals may remain weak for longer than anticipated; 5) Nokia Siemens may struggle to gain/retain market share and its revenue and profitability could further deteriorate.

Other Material Conflicts: Barclays Capital is acting as sole advisor to Nokia Siemens in their potential acquisition of Motorola Inc.'s network equipment business. Barclays Capital is also providing financing in connection with this potential transaction.