

# Remuneration

This chapter outlines how we implement our remuneration policy in line with corporate governance best practice throughout Ericsson, with specific references to senior management. Details of senior management remuneration and Board Directors' fees can be found in the notes to the Consolidated Financial Statements, Note C29: "Information regarding Employees, Members of the Board of Directors and Management". The Company is required to submit the formal remuneration policy for senior management for shareholder approval at the Annual General Meeting and the appropriate resolution for 2008, which remains materially the same as the 2007 policy, together with resolutions relating to the Company's long-term variable remuneration plans are set out in the Notice of Annual General Meeting on Ericsson's website ([www.ericsson.com](http://www.ericsson.com)). The auditors' opinion on how we have followed our policy during 2007 is also posted on the website.

## Clear controls

Remuneration processes by the nature of their sensitivity require clear controls. Within Ericsson these controls are based on three pillars: Board of Directors and Remuneration Committee authorization, audit controls and our internal system that requires two levels of managers to approve any remuneration decision. In addition, the Annual General Meeting approves the terms of our long-term variable remuneration plans and the remuneration policy for the senior management comprising the Group Management Team, including the CEO, hereafter referred to as "Group Management."

## The Remuneration Committee

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration of Group Management, including fixed salaries, pensions, other benefits and short-term and long-term variable remuneration. The Remuneration Committee also approves variable remuneration outcomes, prepares remuneration related proposals for Board and shareholder approval and develops and monitors the remuneration policy, strategies and general guidelines for employee remuneration. The Committee is sensitive to pay and employment conditions throughout the Company when dealing with Group Management remuneration. The purpose and function of the Committee will continue going forward and its terms of reference can be found on our website.

The Remuneration Committee is chaired by Michael Treschow

and its other members are Nancy McKinstry, Börje Ekholm and Monica Bergström, all of whom are non-executive directors and independent as required by the Swedish Code of Corporate Governance. The Chairman continues to ensure that the Company maintains contact, as necessary, with its principal shareholders on the subject of remuneration.

The Company's General Counsel acts as secretary to the Committee and the CEO, the Senior Vice President Human Resources & Organization and the Vice President Compensation & Benefits attend the Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed or decided.

The Remuneration Committee has appointed an independent expert advisor, Gerrit Aronson, to assist and advise the Committee. Gerrit Aronson provided no other services to the Company during 2007. The Remuneration Committee is also provided with national and international pay data collected from external survey providers and can call on other independent expertise should it so require.

## Remuneration Policy

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness. Different remuneration elements are designed to reflect these principles. Therefore a mix of several remuneration elements is applied in order to reflect the remuneration principles in a balanced way.

The remuneration policy and the Remuneration Committee's terms of reference for subsequent years will be reviewed annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This will help to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy and, in accordance with Swedish law, the policy will be brought to shareholders annually for approval.

## Fixed Salary

Fixed salaries are set to be competitive, taking account of global remuneration practices together with an individual's home market. The absolute levels are determined by the size and complexity of the job and the year-to-year performance of the individual jobholder. Group Management salaries are, together with other elements of remuneration, subject to an annual review by the Remuneration Committee, which considers external pay

data to ensure that levels of pay remain competitive and appropriate in light of the Company's remuneration policy. When setting fixed salaries the Remuneration Committee considers the impact on total remuneration, including pension contributions and associated costs.

### **Variable Remuneration and Performance**

At Ericsson we strongly believe that, where possible, we should encourage variable remuneration throughout the Company as we believe it reinforces performance, enables businesses to have more flexible pay-roll costs and supports employee alignment to clear targets.

Performance is specifically reflected in the variable remuneration – both in an annual variable component and in a long-term variable part. Although this may vary over time to take account of pay trends, currently the target level of the short-term variable remuneration for Group Management is between 30 and 40 percent of the fixed salary, but outcomes can vary between zero and twice the target opportunity. The long-term variable remuneration is set to achieve a target of around 30 percent of the fixed salary. In both cases the variable pay is measured against the achievement of specific business objectives, reflecting the judgment of the Board of Directors as to the right balance between fixed and variable pay and the market practice for remuneration of executives. All variable remuneration plans have maximum award and vesting limits.

#### **Short-Term Variable Remuneration**

The annual variable remuneration is through cash-based programs, with specific business targets derived from the annual business plan approved by the Board of Directors. The exact nature of the targets will vary depending on the specific job but for Group Management may include financial targets at either corporate level or at a specific business unit level, operational targets, employee motivation targets and customer satisfaction targets.

We operate global short-term variable plans for management and for sales professionals and these plans are adopted to local requirements. The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are then cascaded to unit-related targets, all subject to the two level management approval process. The Remuneration Committee monitors the appropriateness of the target levels throughout the year and has the authority to revise them should they not remain relevant, stretching and/or enhance shareholder value. Employees not covered by global short-term variable plans may be eligible for local plans, which vary in design according to local competitive practice. Performance has a significant effect on the

overall remuneration of the individual. In 2006 Ericsson enjoyed one of several years of outstanding performance with short-term variable remuneration paying out at or near the maximum opportunity for Group Management. During 2007, our profitability did not develop to expectations and, as a result, payments will generally be significantly lower.

#### **Long-Term Variable Remuneration**

Share based long-term variable remuneration plans are submitted each year for approval by shareholders at the Annual General Meeting. For Group Management the payout is determined by three specific variables: The individual's own investment in shares, a long-term financial target at group level and the share price development.

All long-term variable remuneration plans are designed to form part of a well balanced total remuneration. Ericsson has no formal guidelines for equity ownership but the long-term variable remuneration facilitates that Group Management and a large proportion of Ericsson's employees build up a significant personal ownership in the Company's stock over time. This is achieved through a combination of personal investment and stock-based remuneration made up of three different but linked plans: The Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Share Plan.

#### **The Stock Purchase Plan**

The Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate in the Company, which is consistent with industry practice and with our ways of working. Under the plans, employees can save up to 7.5 percent (CEO 9 percent) of gross fixed salary for purchase of class B shares at market price on the OMX Nordic Exchange Stockholm or ADSs at NASDAQ (contribution shares) during a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of class B shares or ADSs free of consideration. Employees in 88 countries participate in the plan and in November 2007 the number of participants was 19,000 or approximately 26 percent of employees.

Participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment and hence the matching spans over two financial years and two tax years.

### **The Key Contributor Retention Plan**

The Key Contributor Retention Plan is designed to give recognition for performance and potential as well as encourage retention of key employees. Under the program up to 10 percent of employees are selected through a nominations process that identifies individuals according to performance, critical skills and potential. Participants obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The plan was introduced in 2004 and has been repeated 2005, 2006 and 2007.

### **The Executive Performance Stock Plan**

The Executive Performance Stock Plan was introduced in 2004 and has been repeated 2005, 2006 and 2007. The plan is designed to focus management on driving earnings and provide competitive remuneration. Senior executives, including Group Management, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan. For the 2006 and 2007 programs, the CEO is allowed to invest up to 9 percent of fixed salary in contribution shares and may obtain up to eight performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching is subject to the fulfillment of an Earnings per Share (EPS) performance target.

The past and continued use of average annual EPS growth relative to challenging and stretching targets as a performance measure reflects the Company's ongoing strategy of adding shareholder value through the long-term improvement of profitability. Furthermore, the use of a constant and key financial performance measure alongside the inherent share price focus of the co-investment principle ensures close alignment with the long-term interests of shareholders whilst providing clear, transparent and continuous line-of-sight for participants. The Remuneration Committee has been satisfied that the present approach remains preferable to other measures, including those that reflect relative performance, but alternative measures are considered on an ongoing basis.

The performance targets are not capable of being retested after the end of the three-year performance period. If the minimum required performance is not achieved, all matching shares subject to performance will lapse. The Board may also reduce the number of performance matching shares, if deemed appropriate, considering the Company's financial results and position, conditions on the stock market and other circumstances at the time of matching.

### **2007 Evaluation of Long-Term Variable Remuneration**

During 2007, the Remuneration Committee undertook an evaluation of the Company's long-term variable remuneration plans under the leadership of its independent advisor Gerrit Aronson. A number of third-party providers assisted the Company in surveying and analyzing the participant populations of the Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan. The evaluation looked at how well the plans adhere to original principles, testing key features, auditing administration and scrutinizing outcomes and costs.

The objectives of the Stock Purchase Plan of providing an investment opportunity for all of Ericsson's employees and thus reinforcing a "One Ericsson" aligned with shareholder interests were shown to have been successful. Over a quarter of all employees world-wide invest in contribution shares; participation currently being as high as 45 percent in Sweden and with North America not far behind. In a survey of our employees, the two most prominent reasons for participation were attractiveness of investment and "the importance to view Ericsson from a shareholder perspective." Of those surveyed who participate in the plan the majority agreed or strongly agreed that the plan aligns participants' interests with those of shareholders, as did a significant proportion of non-participants.

The nomination process for the Key Contributor Retention Plan was audited and found to be robust. During the period 2004 to 2007, just over half of those nominated had been nominated once only. The objectives of the plan of retaining key contributors by recognizing performance together with critical skills and potential were also shown to have been met. Surveying individuals nominated for the plan and their managers, both managers and nominees recognized performance and future potential as the two key reasons for nominations. Of participating nominees, most agreed or strongly agreed that this plan has increased loyalty to Ericsson.

The Executive Performance Stock Plan is well supported by participants and outcomes follow performance and share price. Viewed against a Swedish peer group the plan is competitive, however, against Ericsson's global competitors the plan provides earnings opportunities towards the lower end of the scale.

Overall the cost and share usage of the programs have been modest in comparison with most practices around the world. The dilution from all three plans for 2004, 2005 and 2006 is estimated to come out at less than 0.2 percent per year of award with the cost below 3 percent of total remuneration costs.

The conclusions drawn from the extensive research were that the current plans are very effective and achieve their objectives with a positive impact on the business that we believe by far

outweighs the costs. It is therefore the Board of Directors' intention to repeat the Stock Purchase Plan, as well as the Key Contributor Retention Plan and the Executive Performance Stock Plan in 2008, subject to approval from shareholders.

#### 2001 and 2002 Stock Option Plans

Three grants of stock options were made in 2001 and 2002 that had vested but not expired as of 31 December 2007. For further details please see Note C29: "Information regarding Employees, Members of the Board of Directors and Management".

#### **Pensions and benefits**

Pension benefits follow the competitive practice in the employee's home country and in addition to any national system for social security, pension benefits may contain various supplementary Company plans. The basic principle is that other benefits, such as company car and medical schemes, shall also be competitive in the local market.