

## Item 11

**The Board of Directors' proposal for resolutions on implementation of an all employee Stock Purchase Plan, a Key Contributor Retention Plan and an Executive Performance Stock Plan and, under each plan respectively, transfer of treasury stock, directed share issue and authorization for the Board of Directors to decide on an acquisition offer**

### **Long-Term Variable Remuneration Program 2009 (LTV 2009)**

The Board of Directors proposes to make no changes to the structure of Ericsson's Long-Term Variable Remuneration Program. The program is an integral part of the company's remuneration strategy and a continued operation would be in line with that of previous years. It is anticipated that the LTV 2009 will require up to 27 million shares, corresponding to a dilution of up to 0.85 percent of outstanding shares, at a cost between SEK 1 017 million and SEK 1 919 million unevenly distributed over the years 2009 – 2013.

#### **Three plans**

The LTV 2009 builds on a common platform, but consists of three separate plans.

The Stock Purchase Plan is an all employee plan and is designed to create an incentive for all employees to become shareholders. The aim is to secure commitment to long-term value creation throughout Ericsson.

The Key Contributor Retention Plan is part of Ericsson's talent strategy and is designed to ensure long-term retention of top-talent individuals with critical skills vital to Ericsson's future performance. Up to ten percent of the company's employees are defined as "key contributors", based on a rigorous selection process incorporating elements such as individual performance, possession of critical skills and future potential. The company monitors the selection process carefully and monitors nominations for bias of factors such as seniority, gender, age and frequency of award. The retention rate for participants has been over 90 percent since the plan was launched.

The Executive Performance Stock Plan is designed to encourage long-term value creation and profit growth, in alignment with shareholders' interests. The plan is offered to an exclusive group of senior managers, up to 0.5 percent of the total employee population. The aim is to attract, retain and motivate executives in a competitive market through performance based share related incentives.

#### **Financing**

The Board of Directors has considered different financing methods for transfer of shares to employees under the LTV 2009, such as transfer of treasury stock and an equity swap agreement with a third party.

The Board of Directors considers the transfer of treasury stock as the most cost efficient and flexible method to transfer shares under the LTV 2009.

The Company's current holding of treasury stock is not sufficient for the carrying out of the LTV 2009. Therefore, the Board of Directors proposes a new issue and buy back of shares as further set out below under heading "Proposals". Under the proposed trans-

actions, shares are issued at the share's quotient value and bought back as soon as the shares have been subscribed for and registered. The purchase price paid by the Company to the subscribers equals the subscription price and an additional market interest for a two week period between the payment of the subscription price and the buy-back of shares. The Company's costs for acquiring the shares are estimated to amount to less than 0.4 öre (SEK 0.004) per share.

The procedure of issuance and buy-back of shares for the Company's long-term variable remuneration programs has previously been decided by the Annual General Meetings of Shareholders in 2001, 2003 and 2008.

Since the costs for the Company in connection with an equity swap agreement will be significantly higher than the costs in connection with transfer of newly issued shares, the main alternative is that the financial exposure is secured by transfer of newly issued shares.

### **Costs**

The total effect on the income statement of the LTV 2009, including financing costs, is estimated to range between SEK 1 017 million and SEK 1 919 million unevenly distributed over the years 2009 – 2013. The costs can be compared with Ericsson's total remuneration costs 2008, including social security fees, amounting to SEK 51 billion.

The calculations are based on assumptions of present participation rate in the Stock Purchase Plan and a 100 percent participation in the Key Contributor Retention Plan and the Executive Performance Stock Plan, at maximum contribution levels.

### **Costs affecting the income statement, but not the cash flow**

Compensation costs, corresponding to the value of matching shares transferred to employees, are estimated to range between SEK 911 million and SEK 1 089 million, depending on the fulfillment of the performance target.<sup>1</sup> The compensation costs are distributed over the LTV 2009 period 2009 – 2013.

Social security charges as a result of transfer of shares to employees depend on the outcome of the performance matching, and based on an assumed average share price at matching between SEK 30 and SEK 175, the costs are estimated to range between SEK 93 million and SEK 678 million. The social security costs are expected to occur mainly during 2012 – 2013.

### **Costs affecting the income statement and the cash flow**

Plan administration costs have been estimated to SEK 12 million, distributed over the LTV 2009 period 2009 - 2013.

The cost for acquiring newly issued shares is estimated to less than SEK 200 000, see above under heading "Financing". The administration cost for transfer of shares by way of an equity swap agreement is estimated to some SEK 140 million.

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<sup>1</sup> The compensation costs for an alternative Key Contributor Retention Cash Program may vary depending on the development of the stock price during the qualifying period. This has been disregarded in the calculations since these costs represent a minor part of the overall compensation costs.

### **Dilution and effects on important key figures**

The Company has approximately 3.2 billion shares in issue. As per 31 December 2008, the Company held 61 million shares in treasury. In order to implement the LTV 2009, total of up to 27 million shares of series B are required. This corresponds to approximately 0.85 percent of the total number of outstanding shares. The number of shares covered by existing programs as per 31 December 2008, amounts to approximately 44 million shares, corresponding to approximately 1.40 percent of the number of outstanding shares.

Out of the 27 million shares of series B required for the LTV 2009, 22.4 million shares may be transferred to employees free of consideration, which could cause a dilutive effect of 0.70 percent on earnings per share. This dilutive effect is not affected by the price for the shares at the time of matching since they are transferred free of consideration to the employee. There will be no dilutive effect on earnings per share of the 4.6 million shares, which may be transferred on NASDAQ OMX Stockholm in order to cover social security payments, as the shares will be sold at market value.

## **Proposals**

### **The Long-Term Variable Remuneration Program 2009**

The Board of Directors proposes the implementation of (1) a Stock Purchase Plan, (2) a Key Contributor Retention Plan, and (3) an Executive Performance Stock Plan.

In order to implement the LTV 2009, the Board of Directors proposes that no more than in total 22 400 000 shares of series B in Telefonaktiebolaget LM Ericsson (hereinafter referred to as "the Company" or "Ericsson") may be transferred to employees in the Ericsson Group and, moreover, that 4 600 000 shares may be sold on NASDAQ OMX Stockholm in order to cover, inter alia, social security payments.

The Company's current holding of shares in treasury is not sufficient for the carrying out of the LTV 2009. Therefore, the Board of Directors proposes a directed share issue of in total 27 000 000 shares of series C to AB Industrivärden and / or Investor AB or subsidiaries of these companies, with a subscription price equivalent to the quotient value of the share (SEK 5). Furthermore, it is proposed that the Board be authorized to decide on an offer to acquire all shares of series C at a price in the interval SEK 5 to SEK 5.10 per share. Following the acquisition of all shares of series C, these shares will, by virtue of a provision in the Articles of Association, be converted into shares of series B and will thereafter be transferred according to the proposals.

The Board of Directors proposes that the Annual General Meeting of Shareholders resolve in accordance with the proposals set out below.

#### **Item 11.1 Implementation of the Stock Purchase Plan**

All employees within the Ericsson Group, except for what is mentioned in the third paragraph below, will be offered to participate in the Stock Purchase Plan.

Employees who participate in the Stock Purchase Plan shall, during a 12 month period from the implementation of the plan, be able to invest up to 7.5 percent of gross salary in shares of series B in the Company on NASDAQ OMX Stockholm or in ADSs on NASDAQ. The CEO shall have the right to save up to 9 percent of gross salary for pur-

chase of shares. If the purchased shares are retained by the employee for three years from the investment date and the employment with the Ericsson Group continues during that time, the employee will be given a corresponding number of shares of series B or ADSs, free of consideration.

Participation in the Stock Purchase Plan presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the Company.

## **Item 11.2 Transfer of treasury stock, share issue and acquisition offer**

### a) *Transfer of treasury stock to employees*

Transfer of no more than 11 600 000 shares of series B in the Company may occur on the following terms and conditions.

- The right to acquire shares shall be granted to such persons within the Ericsson Group covered by the terms and conditions of the Stock Purchase Plan. Furthermore, subsidiaries within the Ericsson Group shall have the right to acquire shares, free of consideration, and such subsidiaries shall be obligated to immediately transfer, free of consideration, shares to their employees covered by the terms and conditions of the Stock Purchase Plan.
- The employee shall have the right to receive shares during the period when the employee is entitled to receive shares pursuant to the terms and conditions of the Stock Purchase Plan, i.e. during the period from November 2009 up to and including November 2013.
- Employees covered by the terms and conditions of the Stock Purchase Plan shall receive shares of series B in the Company, free of consideration.

### b) *Transfer of treasury stock on an exchange*

The Company shall have the right to, prior to the Annual General Meeting in 2010, transfer no more than 2 300 000 shares of series B in the Company, in order to cover certain expenses, mainly social security payments. Transfer of the shares shall be effected on NASDAQ OMX Stockholm at a price within the at each time prevailing price interval for the share.

### c) *Directed issue of shares of series C*

Increase of the share capital in Ericsson with SEK 69 500 000 by an issue of 13 900 000 shares of series C, each share with a quotient value of SEK 5. The terms and conditions of the share issue are the following.

- The new shares shall – with deviation from the shareholders' preferential right – be subscribed for only by AB Industrivärden and / or Investor AB or subsidiaries of these companies.
- The new shares shall be subscribed for during the period May 7, 2009 – May 8, 2009. Over-subscription may not occur.
- The amount that shall be payable for each new share shall be SEK 5.

- Payment for the subscribed shares shall be made at the time of subscription.
  - The new shares shall entitle the holders to dividend payment of an amount that shall equal STIBOR 360 days effective from April 30, 2009 up to and including April 30, 2010, and be calculated on the quotient value of the Company's share.
  - It is noted that the new shares are subject to restrictions pursuant to chapter 4, section 6 (conversion clause) and chapter 20, section 31 (redemption clause) of the Swedish Companies Act.
- d) *Authorization for the Board of Directors to decide on an acquisition offer*  
 Authorization for the Board of Directors to decide that 13 900 000 shares of series C in Ericsson be acquired according to the following.
- Acquisition may occur by an offer to acquire shares directed to all holders of shares of series C in Ericsson.
  - The authorization may be exercised until the Annual General Meeting in 2010.
  - The acquisition shall be made at a price of minimum SEK 5 and maximum SEK 5.10 per share.
  - Payment for acquired shares shall be made in cash.

### **Item 11.3 Equity Swap Agreement with third party**

In the event that the required majority is not reached under item 11.2 above, the financial exposure of the Stock Purchase Plan shall be hedged by the Company entering into an equity swap agreement with a third party, under which the third party shall, in its own name, acquire and transfer shares in the Company to employees covered by the Stock Purchase Plan.

### **Item 11.4 Implementation of the Key Contributor Retention Plan**

In addition to the regular matching of one share pursuant to the Stock Purchase Plan described above, up to ten percent of the employees (presently approximately 7 800) are selected as key contributors and will be offered an additional matching of shares, free of consideration, within the Key Contributor Retention Plan.

If the shares purchased in accordance with the terms and conditions of the Stock Purchase Plan are retained by an employee for three years from the investment date and the employment with the Ericsson Group continues during that time, the employee will be entitled to an additional matching share, free of consideration, for every share purchased, in addition to the regular matching of one share.

Participation in the Key Contributor Retention Plan presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the Company. The Board of Directors shall however be entitled, but not obligated, to arrange for an alternative cash plan for key contributors in specific jurisdictions, should any of the aforementioned pre-

suppositions prove not to be at hand. Such alternative cash plan shall, as far as practical correspond to the terms and conditions of the Key Contributor Retention Plan.

### **Item 11.5 Transfer of treasury stock, share issue and acquisition offer**

- a) *Transfer of treasury stock to employees*  
Transfer of no more than 7 100 000 shares of series B in the Company to employees on the same terms and conditions as those set out under item 11.2 a) above.
- b) *Transfer of treasury stock on an exchange*  
Transfer of no more than 1 400 000 shares of series B in the Company on an exchange on the same terms and conditions as those set out under item 11.2 b) above.
- c) *Directed issue of shares of series C*  
Increase of the share capital in Ericsson with SEK 42 500 000 by an issue of 8 500 000 shares of series C, each share with a quotient value of SEK 5, on the same terms and conditions as those set out under item 11.2 c) above.
- d) *Authorization for the Board of Directors to decide on an acquisition offer*  
Authorization for the Board of Directors to decide that 8 500 000 shares of series C in Ericsson be acquired on the same terms and conditions as those set out under item 11.2 d) above.

### **Item 11.6 Equity Swap Agreement with third party**

In the event that the required majority is not reached under item 2.2 above, the financial exposure of the Key Contributor Retention Plan shall be hedged by the Company entering into an equity swap agreement with a third party, under which the third party shall, in its own name, acquire and transfer shares in the Company to employees covered by the Key Contributor Retention Plan.

### **Item 11.7 Implementation of the Executive Performance Stock Plan**

In addition to the regular matching of shares pursuant to the Stock Purchase Plan described above, senior managers, up to 0.5 percent of employees (presently approximately 390, although it is anticipated that the number of participants will be significantly lower) will be offered an additional matching of shares, free of consideration, within the Executive Performance Stock Plan.

If the shares purchased in accordance with the terms and conditions of the Stock Purchase Plan are retained by an employee for three years from the investment date and the employment with the Ericsson Group continues during that time, the employee will be entitled to the following matching of shares, free of consideration, in addition to the regular matching of one share:

- The CEO may be entitled to an additional performance match of up to eight shares for each one purchased.
- Other senior managers may be entitled to an additional performance match of up to either four or six shares for each one purchased.

The nomination of senior managers will be on the basis of position, seniority and performance at the discretion of the Remuneration Committee, which will approve participation and matching share opportunity.

The terms and conditions of the additional performance match under the Executive Performance Stock Plan are based on an average annual percentage growth rate in Earnings per Share<sup>2</sup> ("EPS") between July 1, 2009 and June 30, 2012, with reported EPS for the third and fourth quarters 2008 and the first quarter second quarters 2009 as the starting point. Matching of shares between average annual EPS growth 3 and 15 percent is linear with a threshold at 5 percent. There will be no allocation of shares if the average annual EPS growth is below 5 percent. The minimum matching at 5 percent annual average EPS growth will be 0.6667 share, 1.0 share and 1.3333 shares, depending on whether eligible for 4, 6 or 8 performance matching shares. The maximum number of performance matching shares - 4 shares, 6 shares and 8 shares respectively - will be allocated if the average annual EPS growth is at or above 15 percent.

Before the number of performance shares to be matched are finally determined, the Board of Directors shall examine whether the performance matching is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, and if not, as determined by the Board of Directors, reduce the number of performance shares to be matched to the lower number of shares deemed appropriate by the Board of Directors.

#### **Item 11.8 Transfer of treasury stock, share issue and acquisition offer**

- a) *Transfer of treasury stock to employees*  
Transfer of no more than 3 700 000 shares of series B in the Company to employees on the same terms and conditions as those set out under item 11.2 a) above.
- b) *Transfer of treasury stock on an exchange*  
Transfer of no more than 900 000 shares of series B in the Company on an exchange on the same terms and conditions as those set out under item 11.2 b) above.
- c) *Directed issue of shares of series C*  
Increase of the share capital in Ericsson with SEK 23 000 000 by an issue of 4 600 000 shares of series C, each share with a quotient value of SEK 5, on the same terms and conditions as those set out under item 11.2 c) above.
- d) *Authorization for the Board of Directors to decide on an acquisition offer*  
Authorization for the Board of Directors to decide that 4 600 000 shares of series C in Ericsson be acquired on the same terms and conditions as those set out under item 11.2 d) above.

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<sup>2</sup> Earnings per Share is calculated by dividing the reported net income for the Ericsson Group by the average number of shares outstanding during the period.

## **Item 11.9 Equity Swap Agreement with third party**

In the event that the required majority is not reached under item 11.8 above, the financial exposure of the Executive Performance Stock Plan shall be hedged by the Company entering into an equity swap agreement with a third party, under which the third party shall, in its own name, acquire and transfer shares in the Company to employees covered by the Executive Performance Stock Plan.

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### **Special authorization for the President**

The Board of Directors further proposes that the President be authorized to make such minor adjustments to the resolutions above as may prove necessary in connection with the registration with the Companies Registration Office.

### **Majority rules**

The resolutions of the Annual General Meeting of Shareholders on implementation of the three plans according to items 11.1, 11.4 and 11.7 above requires that more than half of the votes cast at the General Meeting approve the proposals. The General Meeting's resolutions on transfers of treasury stock, directed share issues and authorizations for the Board of Directors to decide on an offer to acquire treasury stock according to items 11.2, 11.5 and 11.8 above, shall be adopted as one resolution for each of the three items, whereby it is required that shareholders representing at least nine-tenths of the votes cast as well as the shares represented at the General Meeting approve the proposals. A valid resolution in accordance with the proposals for an equity swap agreement under items 11.3, 11.6 and 11.9 above requires that more than half of the votes cast at the General Meeting approve the proposals.

### **Description of ongoing variable remuneration programs**

The Company's ongoing variable remuneration programs are described in detail in the Annual Report 2008 in the note to the Consolidated Financial Statements, Note C29 and on the Company's website. The Remuneration report published in the Annual Report outlines how the Company implements its remuneration policy in line with corporate governance best practice.

### **Miscellaneous**

The reasons for the deviation from the shareholders' preferential rights and the base for determination of the subscription price and transfer price are as follows.

The transfer of treasury stock, share issues and authorization for the Board to decide on an acquisition offer form a part of the implementation of the LTV 2009. The Board considers it to be an advantage for Ericsson and the shareholders if the employees are encouraged to become shareholders in Ericsson. In order to minimize Ericsson's costs for the LTV 2009 the subscription price has been determined to the quotient value of the share. The base for determination of the transfer price is set out under the proposals for implementation of each of the plans under the LTV 2009.

The Board's statement under chapter 19, section 22 of the Swedish Companies Act is attached to this proposal.

Stockholm, March 2009

BOARD OF DIRECTORS

## **The Board of Directors' of Telefonaktiebolaget LM Ericsson statement under Chapter 19, Section 22 of the Swedish Companies Act**

In view of the Board of Director's proposal on an authorization for the Board of Directors to decide on an offer to acquire the Company's own shares, the Board hereby makes the following statement pursuant to Chapter 19, Section 22 of the Swedish Companies Act.

As a basis for its proposal, the Board of Directors has assessed the Company's and the Group's need for financial resources, liquidity, financial position in other respects and long-term ability to meet their commitments. According to the annual report for 2008, the Group reports an equity ratio of 49.7 percent and net cash amounts to SEK 34.7 billion.

The Board of Directors has also considered the Company's and the Group's position in general. In this respect, the Board of Directors has taken into account known commitments that may have an impact on the financial positions of the Company and its subsidiaries.

The proposed authorization for the Board of Directors to decide on an offer to acquire the Company's own shares does not limit the Company's ability to make investments or raise funds, and it is our assessment that the proposal is well-balanced considering the nature, scope and risks of the business activities as well as the capital requirements for the Company and the Group.

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Stockholm, March 2009

BOARD OF DIRECTORS