

## Item 12

### **The Board of Director's proposal for resolution on:**

#### **a) Implementation of the Long Term Variable compensation plan 2007 and b) Transfer of Repurchased own Shares**

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#### **Background**

As the employee saving and investment period for the ongoing incentive plan, Long Term Incentive Plan 2006, expires in 2007, the Board of Directors proposes that the Annual General Meeting of Shareholders 2007 resolves on a new program, the Long Term Variable compensation plan 2007.

In order to implement the Long Term Variable compensation plan 2007, the Board of Directors proposes that no more than 42,300,000 shares of series B may be transferred to employees in the Ericsson Group and, moreover, that a portion of the shares also may be transferred at Stockholmsbörsen (the Stockholm Stock Exchange) in order to cover inter alia social security payments. The Company's current holding of own shares will cover the requirement of shares to the Long Term Variable compensation plan 2007.

Information regarding reasons for the proposals, description of previous incentive programs, preparation of the matter, costs and dilution and effects on important key figures are described in the Appendix hereto.

#### **Proposal**

##### **12 a) The Long Term Variable compensation plan 2007**

The Board of Directors proposes that the Annual General Meeting of Shareholders resolves on a Long Term Variable Compensation plan 2007 ("LTV 2007"), including 42,300,000 shares of series B, and comprising three parts (i) the Stock Purchase Plan, (ii) the Key Contributor Program and (iii) the Performance Matching Program, according to the principle guidelines below.

##### *Stock Purchase Plan*

- a) All employees within the Ericsson Group, except for what is mentioned in item c) below, will be offered to participate in the Stock Purchase Plan.
- b) Employees who participate in the Stock Purchase Plan shall, during a 12 month period from the implementation of the plan, be able to save up to 7.5 percent of gross salary for the purchase of shares of series B at Stockholmsbörsen (the Stockholm Stock Exchange) or ADRs at NASDAQ. The CEO shall have the right to save up to 9 percent of gross salary for purchase 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 ADRs free of consideration.

- c) Participation in the LTV 2007, regardless of whether only the Stock Purchase Plan, or also the Key Contributor Program or the Performance Matching Program, presupposes that such participation is legally possible as well as possible with reasonable administrative costs and financial efforts according to the assessment of the Company. The Board of Directors shall however be entitled, but not obligated, to arrange for a cash alternative for key contributors in specific jurisdictions, should any of the aforementioned presuppositions prove not to be at hand. Such cash alternative shall, as far as practicably possible, correspond to the terms for the LTV 2007 involving key contributors.

*Key Contributor Program and Performance Matching Program*

- d) Three categories of employees (key contributors, senior managers and top senior managers) will, in addition to the regular matching of one share pursuant to the Stock Purchase Plan described above, be entitled to additional matching of shares free of consideration within either the Key Contributor Program, covering up to 6,300 key contributors, or the Performance Matching Program, covering up to 170 senior managers and up to 49 top senior managers and the CEO.
- e) If the shares purchased in accordance with the Stock Purchase Plan are retained by an employee within the categories mentioned in d) above 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:
  - (i) Up to 6,300 key contributors are entitled to an additional match of one share for each one purchased.
  - (ii) Up to 170 senior managers may be entitled to an additional performance match of up to four shares for each one purchased.
  - (iii) Up to 49 top senior managers may be entitled to an additional performance match of up to six shares for each one purchased.
  - (iv) The CEO may be entitled to an additional performance match of up to eight shares for each one purchased.

- f) The terms of the additional performance match for senior managers and top senior managers are based on average annual percentage growth rate in earnings per share<sup>1</sup> (“EPS”) between 1 July 2007 and 30 June 2010, with reported EPS for the third quarter and the fourth quarter 2006 and the first quarter and the second quarter 2007 as the starting point. Maximum performance matching shares (i.e. four shares, six shares and eight shares respectively) will be allocated if the average annual EPS growth is at or above 15 percent. No allocation of matching shares will occur if the average annual EPS growth is at or below 3 percent. Matching of shares between average annual EPS growth 3 and 15 percent is linear.
- g) Before the number of performance shares to be matched pursuant to e) above 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.

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In order to implement the LTV 2007 according to the above, the Board of Directors proposes that the Annual General Meeting of Shareholders resolves on transfer of own shares as set out below.

### **Proposal**

#### **12 b) Transfer of Own Shares**

- a) No more than 42,300,000 shares of series B can be transferred.
- b) Right to acquire shares shall be granted to such persons within the Ericsson Group covered by the terms and conditions for the LTV 2007. Further, 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 of the LTV 2007.
- c) The employee shall have the right to receive shares during the period when the employee is entitled to receive shares in accordance with the terms of the LTV 2007, i.e. during the period from November 2007 up to and including November 2011.
- d) Employees covered by the terms of the LTV 2007 shall, subject to certain conditions, receive shares free of consideration.
- e) Further, the Company shall have the right to, prior to the Annual General Meeting of Shareholders 2008, transfer no more than 7,300,000 shares of series B, out of the holding of 42,300,000 shares of series B, in order to cover certain payments, mainly social security payments. Transfer of the shares shall be effected at Stockholmsbörsen at a price within the, at each time, registered price interval for the share.

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<sup>1</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.

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

The transfer of own shares forms a part of the implementation of the LTV 2007. The Board of Directors considers it to be an advantage for the Company and its shareholders that the employees are shareholders in the Company.

The base for determination of the transfer prices is seen from the Board of Directors' proposal under relevant headings above.

*Supermajority*

The resolutions on implementation of the LTV 2007 according to item 12 a) above and the transfer of repurchased own shares according to item 12 b) above shall be made as one "package". Accordingly, the supermajority rules in the Swedish Companies Act, Chapter 16, shall apply, meaning that 90 percent of the votes cast as well as the shares represented at the General Meeting of Shareholders must vote to approve of the "package".

**Stockholm, March 2007**  
**The Board of Directors**

## **Reasons for the Proposal**

Stock related incentives are an important part of Swedish and international remuneration practice. Therefore the Board of Directors of Ericsson finds it important to continue to use shares as a vital incentive within the Company. The Board of Directors is of the opinion that the LTV 2007 is designed to meet the Company's needs and the shareholders' interest.

The proposed LTV 2007 is based on the following principles reflecting some of the Company's continuing remuneration principles:

- a) employees must invest some of their own money,
- b) employees must remain within the company for a specified time to receive the benefit,
- c) participation in the enhanced programs is selective – according to individual performance, critical skills and competitiveness, and
- d) any incentive program for the top management is conditional on the performance of the company

The proposed LTV 2007 is designed to (i) offer an incentive for all employees to participate in the company, which is consistent with our industry and with our ways of working, (ii) to give recognition as a method of retention to key employees and (iii) to focus selected executives on driving earnings and provide competitive compensation based on Swedish practice.

## **Description of Ongoing Incentive Programs**

The Company has ongoing incentive programs according to the below. The numbers have, when appropriate, been subject to recalculations as a result of bonus issue, split and new issue of shares.

### *The Stock Purchase Plan*

Under the Stock Purchase Plan, employees can save up to 7.5 percent of the gross salary, for purchase of class B shares at market price on the Stockholm Stock Exchange or ADRs at NASDAQ (contribution shares). If the contribution shares are retained by the employee for three years after the investment and the 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 ADRs free of consideration. Employees in 86 countries participate in the plan.

The below table shows the periods for employees' purchase of shares (contribution period) and participation details.

<b>Plan</b>	<b>Contribution Period</b>	<b>Number of participants at launch</b>	<b>Take-up rate -% of all employees</b>
Stock Purchase Plan 2003 1 <sup>st</sup> year	August 2003 – July 2004	11,000	22%
Stock Purchase Plan 2003 2 <sup>nd</sup> year	August 2004 – July 2005	15,000	30%
Stock Purchase Plan 2005	August 2005 – July 2006	16,000	29%
Stock Purchase Plan 2006	August 2006 – July 2007	17,000	29%

#### *The Key Contributor Program*

The Key Contributor Program is designed to give recognition to key employees as a method of retention. Under the program, about 10 percent of the employees (2004: up to 4,500, 2005: up to 5,000 and 2006: up to 6,040) have been selected to obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The first program was introduced in August 2004 and has been repeated 2005 and 2006.

#### *The Performance Matching Program for executives*

The Performance Matching Program is designed to focus the management on driving earnings and provide competitive compensation based on Swedish practice. Under the program, executives (2004: up to 200 executives, 2005 and 2006: up to 220 executives) have been selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve-month program period. The performance matching is subject to the fulfilment of a performance target. Several possible measures have been evaluated but earnings per share (EPS) growth during a three-year period has been found to best suit the company. The program was introduced in 2004 and has been repeated 2005 and 2006. In the 2006 program the CEO is allowed to invest up to 9 percent of the gross salary in shares and may obtain up to eight performance matching shares in addition to the ordinary one matching share.

The performance target for the 2004 program is annual average EPS growth between five (0 performance matching shares) and 25 percent (maximum performance matching shares). The performance target for the 2005 and 2006 programs is annual average EPS growth between three (0 performance matching shares) and 15 percent (maximum performance matching shares). The Board may reduce the number of performance matching shares to be matched if deemed appropriate by the Board considering the Company's financial results and position, conditions on the stock market and other circumstances at the time of matching.

### *Stock Option Plans*

<b>Plan</b>	<b>Grant/Expiry Date</b>	<b>Strike Price <sup>1)</sup> (SEK)</b>	<b>Vesting period from grant date</b>	<b>No. of participants at grant</b>	<b>No. of participants end 2006</b>
1999 Stock Option Plan	1 March 00/ 28 Feb 07	128.00	30% after 3 years, 40% after 4 years, 30% after 5 years	1,800	1,070
Millennium Stock Option Plan	17 Jan 00/ 17 Jan 07	93.80	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	8,000	2,591
Stock Option Plan 2001 - May Grant	14 May 01/ 14 May 08	30.50	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	15,000	7,698
Stock Option Plan 2001 - November Grant <sup>2)</sup>	19 Nov 01/ 19 Nov 08	25.70	1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years	900	527
Stock Option Plan 2002 <sup>2)</sup>	11 Nov 02/ 11 Nov 09	7.80	1/3 after 1 year, 1/3 after 2 years 1/3 after 3 years	12,800	6,881

1) Market price at grant date – re-pricing is only permitted under limited circumstances principally relating to changes in the capital structure of Ericsson.

2) For stock options exercised during 2006, the weighted average share price was SEK 26.49.

### *Shares for all plans*

All plans, except the Millennium Stock Option Plan, are funded with treasury stock. Sale of shares is recognized directly in equity. The Millennium Stock Option Plan is based on warrants, i.e. options entitling the holders to subscribe for Class B shares. The warrants are held by subsidiary companies to Telefonaktiebolaget L M Ericsson, which have granted options to their employees. Treasury stock for the 1999 Stock Option Plan was repurchased in year 2000 on the Stockholm Stock Exchange. Treasury stock for all remaining plans was issued in a directed cash issue of Class C shares at a nominal amount of SEK 1, and purchased under a public offering at SEK 1 per share plus a premium corresponding to the subscribers' financing costs and then converted to Class B shares.

For all plans, additional shares and warrants have been allocated for financing of social security expenses. For the Millennium Stock Option Plan, the warrants designated for social security have been exchanged for a call option issued by a bank in order to hedge also equity against potential social security payments. For all other plans, treasury stock is sold on the Stockholm Stock Exchange to cover the social security payments when arising due to exercise of options or matching of shares. During 2006, 2,075,564 shares were sold at an average price of SEK 27.07.

If all options outstanding as of December 31, 2006, were exercised, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 34 million Class B shares would be issued and approximately 197 million Class B shares, held as treasury stock, would be transferred. The total,

approximately 231 million Class B shares, corresponds to 1.5 percent of the total number of shares outstanding, 15,881 million.

The below table shows the number of shares (representing options and matching rights but excluding shares for social security costs) allocated for each ongoing plan and changes during 2006. It also shows compensation costs charged for each plan. The total compensation costs charged for the Long Term Variable Compensation plans during 2006 amount to SEK 389 million.

Plan (million shares)	Originally designated <sup>1)</sup>	Outstanding beginning of 2006	Granted during 2006	Exercised / matched during 2006	Forfeited during 2006	Expired during 2006	Outstanding end of 2006	No. of options exercisable	Compensation Costs charged during 2006 <sup>3)</sup>
1999 Stock Option Plan	1.4	0.8	-	-	0.1	-	0.7	0.7	-
Millennium Stock Option Plan	71.6	31.2	-	-	2.8	-	28.4	28.4	-
2001 Stock Option Plan - May Grant	44.9	25.9	-	-	2.3	-	23.6	23.6	-
2001 Stock Option Plan - Nov Grant	2.6	1.5	-	0.1	0.1	-	1.3	1.3	-
2002 Stock Option Plan	53.9	33.3	-	8.1	0.5	-	24.7	24.7	-
2003 Stock Purchase Plan (2-year plan) and 2004 Key Contributor and Performance Matching programs	151.7	33.3	0.1	5.4	1.0	-	27.0 <sup>2)</sup>	-	245 <sup>3)</sup>
2005 Stock Purchase Plan, Key Contributor and Performance Matching programs	31.5	5.9	19.4	1.3	0.4	-	23.6 <sup>2)</sup>	-	138 <sup>3)</sup>
2006 Stock Purchase Plan, Key Contributor and Performance Matching programs	31.8	-	5.8	-	-	-	5.8 <sup>2)</sup>	-	6 <sup>3)</sup>

1) Adjusted for split, bonus issue and rights offering when applicable.

2) Presuming maximum performance matching under the Performance Matching Program.

3) Fair value is calculated as the share price on the investment date reduced by the net present value of the dividend expectations during the three year vesting period. Net present value calculations are based on data from external party. For shares under the performance matching programs, the Company assesses the probability of meeting the performance targets when calculating the compensation costs. Fair value of Class B share at each investment date during 2006 was: February 15 SEK 25.67, May 15 SEK 22.49, August 15 SEK 20.32 and November 15 SEK 26.14.

## Preparation of the Matter

The proposal on the LTV 2007 to the Annual General Meeting of Shareholders has been prepared by the Remuneration Committee of the Board of Directors supported by independent international expertise and in consultation with major shareholders. The Remuneration Committee consists of the following Board members: Michael Treschow (Chairman of the Committee), Nancy McKinstry, Börje Ekholm and Monica Bergström. The Remuneration Committee briefed the Board of Directors on the main features of the LTV 2007 at the Board Meetings held on October 18, 2006, December 15, 2006 and February 23,

2007. At the Board Meeting held on March 4, 2007, the Board of Directors decided that a proposal on LTV 2007 should be presented to the General Meeting of Shareholders. Apart from the employee representative in the Remuneration Committee and the officials who have prepared the matter for the Remuneration Committee, no employee who may be included in the program has participated in the preparation of LTV 2007.

## **Costs**

The total effect on the income statement is estimated to range between SEK 857 million and SEK 1,287 million unevenly distributed over the years 2007 – 2011. The costs shall be compared with Ericsson's total remuneration costs 2006, including social security fees, amounting to SEK 43 billion.

The calculations are based on an assumption of participation in the Stock Purchase Plan at present level and a 100 percent participation in the Key Contributor and Performance Matching programs at maximum contribution level.

### *Costs that affect the income statement, but will not have an effect on the cash flow*

Compensation costs, corresponding to the value of matching shares transferred to employees, is estimated to range between SEK 757 million and SEK 910 million, depending on the fulfilment of the performance target<sup>3</sup>. The compensation costs are distributed over the plan period 2007 - 2011.

Social security charges as a result of transfer of shares to employees is, depending of the outcome of the performance matching and based on an assumed average share price at matching between SEK 15 and SEK 50, estimated to range between SEK 88 million and SEK 365 million. The social security costs are expected to occur mainly during 2010 – 2011.

### *Costs that affect the Income Statement and Cash Flow*

Administration costs have been estimated at a maximum of SEK 12 million.

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

The Company has approximately 16 billion shares on issue. As per 31 December 2006, the Company held 251 million own shares. In order to implement the LTV 2007, a total of 42.3 million shares of series B are required, corresponding to approximately 0.27 percent of the total number of outstanding shares. The number of potential shares covered by existing incentive programs as per 31 December 2006, including shares to cover social security payments, amounts to approximately 193 million shares, corresponding to approximately 1.21 percent of the number of outstanding shares.

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<sup>3</sup> The compensation costs for an alternative Key Contributor Cash Program may vary depending on the development of the share price during the qualifying period. This has been disregarded in the calculations since these costs represent a minor part of the overall compensation costs.

Out of the 42.3 million shares of series B required for the LTV 2007, 35 million shares may be transferred to employees free of consideration, which could cause a dilutive effect of 0.22 percent on earnings per share. The dilutive effect of the matching shares, 0.22 percent, 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, however, be no dilutive effect on earnings per share of the 7.3 million shares, which may be transferred at Stockholmsbörsen as the shares are sold at market value.