

## Item 14

### **The Board of Directors' proposal for 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 a directed acquisition offer**

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

During 2007 the Remuneration Committee of the Board of Directors of Telefonaktiebolaget LM Ericsson undertook an evaluation of the Company's long-term variable remuneration plans under the leadership of the committee's independent advisor. 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 the Board of Directors believe by far outweighs the costs.

In view of the conclusions above, the Board of Directors propose a program for 2008, which is in all material respect similar to the previous programs.

## **Overview of the Long-Term Variable Remuneration Program 2008**

### **Three plans**

The Long-Term Variable Remuneration Program 2008 (LTV 2008) 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 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% 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 the shares to employees under the LTV 2008, 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 2008.

The Company's current holding of treasury stock is not sufficient for the carrying out of the LTV 2008. Therefore, the Board of Directors proposes an issue of new shares as further set out below under heading "Proposals". Under the proposed transactions, shares are issued at the ratio value to subscribers who have agreed to sell the new shares to the Company as soon as the shares have been issued and registered. The purchase price paid by the Company to the subscribers equals the subscription price and an additional market interest for a two weeks period between the payment of the subscription price and the buy-back of shares. The Company's cost for acquiring the shares is estimated to amount to less than 0.2 öre (SEK 0.002) 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 and 2003. The shares issued in 2003 have been used for the Company's long-term variable remuneration programs 2003 – 2007.

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 2008, including financing costs, is estimated to range between SEK 1 062 million and SEK 1 909 million unevenly distributed over the years 2008 – 2012. The costs can be compared with Ericsson's total remuneration costs 2007, including social security fees, amounting to SEK 45 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 Retention Plan and Executive Performance Stock Plan 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 915 million and SEK 1 111 million, depending on the fulfilment of the performance target.<sup>1</sup> The compensation costs are distributed over the LTV 2008 period 2008 – 2012.

Social security charges as a result of transfer of shares to employees are depending on the outcome of the performance matching, and based on an assumed average share price at matching between SEK 10 and SEK 35, the costs are estimated to range between SEK 135 million and SEK 602 million. The social security costs are expected to occur mainly during 2011 – 2012.

### **Costs that affect the income statement and cash flow**

Plan administration costs have been estimated to SEK 12 million, distributed over the LTV 2008 period 2008 -- 2012.

The cost for acquiring new issued shares is estimated to less than SEK 0.02 million, see above under heading "Financing". The administration cost for transfer of shares by way of an equity swap agreement is estimated to some SEK 180 million at a share price of SEK 14.

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

The Company has approximately 16 billion shares issued. As per 31 December 2007, the Company held 232 million shares in treasury. In order to implement the LTV 2008, a total of 99,5 million shares of series B are required, corresponding to approximately 0.62 percent of the total number of outstanding shares. The number of shares covered by existing incentive programs as per 31 December 2007, including shares to cover social security payments and including 17 million additional shares allocated for the completion of LTV 2007, amounts to approximately 184 million shares, corresponding to approximately 1.15 percent of the number of outstanding shares.

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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.

Out of the 99,5 million shares of series B required for the LTV 2008, 82,3 million shares may be transferred to employees free of consideration, which could cause a dilutive effect of 0.52 percent on earnings per share. The dilutive effect of the matching shares, 0.52 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 17,2 million shares, which may be transferred on the OMX Nordic Exchange Stockholm in order to cover social security payments, as the shares will be sold at market value.

## **Proposals**

### **The Long-Term Variable Remuneration Program 2008**

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 2008, the Board of Directors proposes that no more than in total 82 300 000 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 shares may be sold on the OMX Nordic Exchange 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 2008. Therefore, the Board of Directors proposes a directed share issue of in total 99 500 000 shares of series C to AB Industrivärden and / or Investor AB or subsidiaries of these companies, with a subscription price equivalent to the ratio value of the share (SEK 1). Furthermore, it is proposed that the Board be authorised to decide on a directed offer to acquire all shares of series C at a price in the interval SEK 1 to SEK 1.05 per share. Following the acquisition of all shares of series C, these shares will be converted into shares of series B, thereafter to 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.

#### **1.1 Implementation of the Stock Purchase Plan**

- i. All employees within the Ericsson Group, except for what is mentioned in item iii below, will be offered to participate in the Stock Purchase Plan.
- ii. 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 at the OMX Nordic Exchange Stockholm or ADSs 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 ADSs, free of consideration.
- iii. 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.

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

### **1.2.1 Transfer of treasury stock to employees**

Transfer of no more than 39 700 000 shares of series B in the Company may occur on the following terms and conditions.

- i. 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.
- ii. 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 2008 up to and including November 2012.
- iii. Employees covered by the terms and conditions of the Stock Purchase Plan shall receive shares of series B in the Company, free of consideration.

### **1.2.2 Transfer of treasury stock on an exchange**

The Company shall have the right to, prior to the Annual General Meeting in 2009, transfer no more than 8 000 000 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 the OMX Nordic Exchange Stockholm at a price within the at each time prevailing price interval for the share.

### **1.2.3 Directed issue of shares of series C**

Increase of the share capital in Ericsson with SEK 47 700 000 by an issue of 47 700 000 shares of series C, each share with a ratio value of SEK 1. The terms and conditions of the share issue are the following.

- i. 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.
- ii. The new shares shall be subscribed for during the period from 28 July 2008 - 4 August 2008. Over-subscription may not occur.
- iii. The amount that shall be payable for each new share shall be SEK 1.
- iv. Payment for the subscribed shares shall be made at the time of subscription.
- v. The new shares shall entitle the holders to dividend payment of an amount that shall equal STIBOR 360 days effective from 30 April 2008 up to and including 30 April 2009, and be calculated on the ratio value of the Company's share.

- vi. 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.

#### 1.2.4 Authorization for the Board of Directors to decide on a directed acquisition offer

Authorization for the Board of Directors to decide that 47 700 000 shares of series C in Ericsson be acquired according to the following.

- i. Acquisition may occur by an offer to acquire shares directed to all holders of shares of series C in Ericsson.
- ii. The authorization may be exercised until the Annual General Meeting in 2009.
- iii. The acquisition shall be made at a price of minimum SEK 1 and maximum SEK 1.05 per share.
- iv. Payment for acquired shares shall be made in cash.

### **1.3 Equity Swap Agreement with third party**

In the event that the required majority is not reached under item 1.2 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 such employees covered by the Stock Purchase Plan.

### **2.1 Implementation of the Key Contributor Retention Plan**

- i. 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 7 400) are selected as key contributors and will be offered an additional matching of shares, free of consideration, within the Key Contributor Retention Plan.
- ii. 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 held, in addition to the regular matching of one share.
- iii. 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 presuppositions prove not to be at hand. Such alternative cash plan shall, as far as practicably possible, correspond to the terms and conditions of the Key Contributor Retention Plan.

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

### **2.2.1 Transfer of treasury stock to employees**

Transfer of no more than 28 000 000 shares of series B in the Company to employees may take place on the same terms and conditions as those set out under item 1.2.1 above.

### **2.2.2 Transfer of treasury stock on an exchange**

Transfer of no more than 5 600 000 shares of series B in the Company on an exchange may take place on the same terms and conditions as those set out under item 1.2.2 above.

### **2.2.3 Directed issue of shares of series C**

Increase of the share capital in Ericsson with SEK 33 600 000 by an issue of 33 600 000 shares of series C, each share with a ratio value of SEK 1, on the same terms and conditions as those set out under item 1.2.3 above.

### **2.2.4 Authorization for the Board of Directors to decide on a directed acquisition offer**

Authorization for the Board of Directors to decide that 33 600 000 shares of series C in Ericsson may be acquired on the same terms and conditions as those set out under item 1.2.4 above.

## **2.3 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 such employees covered by the Key Contributor Retention Plan.

## **3.1 Implementation of the Executive Performance Stock Plan**

- i. 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 350, 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.
- ii. 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:
  - a. The CEO may be entitled to an additional performance match of up to eight shares for each one purchased.
  - b. Other senior managers may be entitled to an additional performance match of up to either four or six shares for each one purchased.

- iii. 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.
- iv. 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 1 July 2008 and 30 June 2011, with reported EPS for the third quarter and the fourth quarter 2007 and the first quarter and the second quarter 2008 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.
- iv. 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.

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

### **3.2.1 Transfer of treasury stock to employees**

Transfer of no more than 14 600 000 shares of series B in the Company to employees may take place on the same terms and conditions as those set out under item 1.2.1 above.

### **3.2.2 Transfer of treasury stock on an exchange**

Transfer of no more than 3 600 000 shares of series B in the Company on an exchange may take place on the same terms and conditions as those set out under item 1.2.2 above.

### **3.2.3 Directed issue of shares of series C**

Increase of the share capital in Ericsson with SEK 18 200 000 by an issue of 18 200 000 shares of series C, each share with a ratio value of SEK 1, on the same terms and conditions as those set out under item 1.2.3 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.

### 3.2.4 Authorization for the Board of Directors to decide on a directed acquisition offer

Authorization for the Board of Directors to decide that 18 200 000 shares of series C in Ericsson may be acquired on the same terms and conditions as those set out under item 1.2.4 above.

### **3.3 Equity Swap Agreement with third party**

In the event that the required majority is not reached under item 3.2 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 such 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 authorised 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 1.1, 2.1 and 3.1 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 a directed offer to acquire own shares according to items 1.2, 2.2 and 3.2 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 proposal. A valid resolution in accordance with the proposals for an equity swap agreement under items 1.3, 2.3 and 3.3 above requires that more than half of the votes cast at the General Meeting approve the proposal.

### **Description of Ongoing Variable Remuneration Programs**

The Company's ongoing variable remuneration plans are described in detail in the Annual Report 2007 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 a directed acquisition offer form a part of the implementation of the LTV 2008. The Board considers it to be an advantage for Ericsson and the shareholders if the employees are induced to become shareholders in Ericsson. In order to minimise Ericsson's costs for the LTV 2008 the subscription price has been determined to the ratio 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 2008.

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

### **Recalculation following reverse split of shares**

The Board of Directors has also proposed that the Annual General Meeting resolve on a reverse split of shares 1:5. The Board intends to carry out the directed issues of shares of series C, the directed acquisition offer and the transfers of own shares, as set out in the proposals above, once the reverse split has been executed, which is proposed to take place on 4 June 2008.

In connection with the execution of the reverse split 1:5, the number of shares as well as the subscription price and acquisition price set out in the proposals above will be recalculated, resulting in the number of shares being reduced to a fifth of the stated number and the subscription price and acquisition price being five times higher than that stated in the proposals.

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Stockholm, February 2008  
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 authorisation for the Board of Directors to decide on a directed 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. The Group reports an equity ratio of 55.1 percent and net cash amounts to SEK 24.3 billion according to the annual report for 2007.

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 authorisation for the Board of Directors to decide on a directed 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, February 2008  
BOARD OF DIRECTORS

Michael Treschow

Marcus Wallenberg

Sverker Martin-Löf

Peter L. Bonfield

Börje Ekholm

Katherine M. Hudson

Ulf J. Johansson

Nancy McKinstry

Jan Hedlund

Monica Bergström

Torbjörn Nyman