

To the Board of Directors of Telefonaktiebolaget LM Ericsson

## **The Nomination Committee's proposal to the Annual General Meeting 2019, including explanations**

The Nomination Committee of Telefonaktiebolaget LM Ericsson presents the following proposals and information to the Board of Directors.

### **1. Description of the Nomination Committee's work before the Annual General Meeting 2019**

The composition of the Nomination Committee was made public by Ericsson on April 26, 2018.

The Nomination Committee consists of the following members:

- Johan Forssell (Investor AB), the Chair of the Nomination Committee
- Christer Gardell (Cevian Capital Partners Limited)
- Bengt Kjell (AB Industrivärden and Svenska Handelsbankens Pensionsstiftelse)
- Anders Oscarsson (AMF Försäkring och Fonder)
- Ronnie Leten, the Chair of the Board of Directors

The Nomination Committee started its work by going through a checklist of its duties under the Swedish Corporate Governance Code (the "Code") and the Instruction for the Nomination Committee resolved by the Annual General Meeting 2012. A time plan was set for the Nomination Committee's work ahead.

A good understanding of Ericsson's business and strategy is important for the members of the Nomination Committee. Therefore, the Chair of the Board of Directors presented to the Nomination Committee his views on the position and strategy of the Ericsson Group. The Committee also met with Ericsson's President and CEO Börje Ekholm who presented his views on the Company's position and strategy. The Committee has analyzed the needs for competencies in the Board of Directors and was informed of the results of the evaluation of the Board work and procedures led by the Chair of the Board of Directors. On this basis, the Nomination Committee has assessed the competence and experience required by Ericsson Board members as well as the need for improvement of the composition of the Board of Directors in terms of diversity in age, gender and cultural/geographic background. The Nomination Committee has in this respect applied section 4.1 of the Code as diversity policy.

The Nomination Committee also met with the Chair of the Audit and Compliance Committee to acquaint itself with the assessments made by the Company and the Audit and Compliance Committee of the quality and efficiency of external auditor work. The Audit and Compliance Committee also provided its recommendation that PricewaterhouseCoopers AB be re-elected external auditor and provided its recommendations on external auditor fees.

As of February 20, 2019, the Nomination Committee has held 4 meetings.

## **2. The Nomination Committee's proposals and explanations**

### **Chair of the Annual General Meeting**

The Nomination Committee proposes that Advokat Sven Unger be elected Chair of the Annual General Meeting of shareholders 2019.

### **Number of Board members and deputies to be elected by the Annual General Meeting**

According to the articles of association, the Board of Directors shall consist of no less than five and no more than twelve Board members, with no more than six deputies. The Nomination Committee proposes that the number of Board members elected by the Annual General Meeting of shareholders shall be ten and that no deputies be elected.

### **Fees payable to members of the Board of Directors elected by the Annual General Meeting and to members of the Committees of the Board of Directors elected by the Annual General Meeting**

The Nomination Committee proposes that fees to non-employee Board members elected by the Annual General Meeting and non-employee members of the Committees of the Board of Directors elected by the Annual General Meeting be paid as follows:

- SEK 4,075,000 to the Chair of the Board of Directors (*unchanged*);
- SEK 1,020,000 each to the other Board members (*previously SEK 990,000*);
- SEK 400,000 to the Chair of the Audit and Compliance Committee (*previously SEK 350,000*);
- SEK 250,000 each to the other members of the Audit and Compliance Committee (*unchanged*);
- SEK 200,000 to each Chair of the Finance, the Remuneration and the Technology and Science Committee (*unchanged*); and
- SEK 175,000 each to the other members of the Finance, the Remuneration and the Technology and Science Committee (*unchanged*).

A basic principle when assessing Board fees is that these shall be competitive and make it possible to recruit and retain individuals with the best possible competence. When assessing the level of fees, a comparison has been made in relation to the Board fees in companies of equal size and complexity and it should be considered that the Ericsson Group has customers in more than 180 countries and that sales in 2018 amounted to approximately SEK 210 billion.

The Nomination Committee has compared the Board fees in Ericsson with Board fees in other international high-tech companies and has concluded that an increase of the Board fee from SEK 990,000 to SEK 1,020,000 and of the fee to the Chair of the Audit and Compliance Committee from SEK 350,000 to SEK 400,000 is reasonable and well-justified.

The Nomination Committee considers that the fees to the Chair of the Board and the other fees for Committee work are reasonable and proposes that these remain unchanged.

The proposal of the Nomination Committee implies all in all an increase of the fees of less than 2% compared with the total fees to the corresponding number of Board and Committee members for Board and Committee work resolved by the Annual General Meeting 2018.

## **Fees in the form of synthetic shares**

### Background

The Nomination Committee believes that it is appropriate that Board members elected by the shareholders hold shares in Ericsson, in order to strengthen the Board members' and the shareholders' mutual interests in the Company. The Nomination Committee recommends Board members elected by the shareholders to, during a five year period, build a holding of shares or synthetic shares in Ericsson at least corresponding to the value of the annual Board fee (excluding fees for Committee work), and that such holding be kept during the time the Board member remain Board member in Ericsson.

To make it possible for Board members to create an economic interest in the Company and considering that it is in many cases difficult for Board members to trade in the Company's share due to applicable insider rules, the Nomination Committee proposes that the Board members should, as previously, be offered the possibility of receiving part of the Board fees in the form of synthetic shares. A synthetic share constitutes a right to receive payment of an amount which corresponds to the market value of a share of series B in the Company on Nasdaq Stockholm at the time of payment.

### Proposal

The Nomination Committee therefore proposes that the Annual General Meeting of shareholders 2019 resolve that part of the fees to the Directors, in respect of their Board assignment (however, not in respect of Committee work), may be paid in the form of synthetic shares, on the following terms and conditions.

- A nominated Director shall be able to choose to receive the fee in respect of his or her Board assignment, according to the following four alternatives:
  - (i) 25 percent in cash – 75 percent in synthetic shares
  - (ii) 50 percent in cash – 50 percent in synthetic shares
  - (iii) 75 percent in cash – 25 percent in synthetic shares
  - (iv) 100 percent in cash.
- The number of synthetic shares to be allocated shall be valued to an average of the market price of shares of series B in the Company on Nasdaq Stockholm during a period of five trading days immediately following the publication of Ericsson's interim report for the first quarter of 2019. The synthetic shares are vested during the term of office, with 25 percent per quarter of the year.
- The synthetic shares give a right to, following the publication of Ericsson's year-end financial statement in 2024, receive payment of a cash amount per synthetic share corresponding to the market price of shares of series B in the Company at the time of payment.

- An amount corresponding to dividend in respect of shares of series B in the Company, resolved by the Annual General Meeting during the holding period, shall be disbursed at the same time as the cash amount.
- Should the Director's assignment to the Board of Directors come to an end no later than during the third calendar year after the year in which the Annual General Meeting resolved on allocation of the synthetic shares, payment may take place the year after the assignment came to an end.
- The number of synthetic shares may be subject to recalculation in the event of bonus issues, split, rights issues and similar measures, under the terms and conditions for the synthetic shares.

The complete terms and conditions for the synthetic shares are described in **Exhibit 1**.

The financial difference for the Company, should all Directors receive part of their fees in the form of synthetic shares compared with the fees being paid in cash only, is assessed to be limited.

### **Election of the Chair of the Board of Directors, other Board members and deputies of the Board of Directors**

The Nomination Committee proposes that the following persons be re-elected Board members:

1. Jon Fredrik Baksaas;
2. Jan Carlson;
3. Nora Denzel;
4. Börje Ekholm;
5. Eric A. Elzvik;
6. Kurt Jofs;
7. Ronnie Leten;
8. Kristin S. Rinne;
9. Helena Stjernholm; and
10. Jacob Wallenberg.

The Nomination Committee proposes that Ronnie Leten be re-elected Chair of the Board of Directors.

In the composition of the Board of Directors, the Nomination Committee considers, among other things, experience and competence needed in the Board of Directors and its Committees, and also the value of diversity in age, gender and cultural/geographic background as well as the need for renewal. The Nomination Committee has applied the Swedish Corporate Governance Code, Section 4.1, as diversity policy. The Nomination Committee also assesses the appropriateness of the number of members of the Board of Directors and whether the Board members can devote the necessary time required to fulfill their tasks as Board members in Ericsson. The Nomination Committee primarily searches for potential Board member candidates for the upcoming mandate period but also considers future competence needs.

In its appraisal of qualifications and performance of the individual Board members, the Nomination Committee takes into account the competence and experience of each

individual member along with the individual member's contribution to the Board work as a whole and to the Committee work. The Nomination Committee has familiarized itself with the results of the Board work evaluation that was led by the Chair of the Board of Directors. The Nomination Committee believes that it is very important that the composition of Board members proposed includes complementing experiences and competencies to make it possible for the Board of Directors to contribute to a positive development of Ericsson. The Nomination Committee aims to propose a Board of Directors that constitutes a good team to lead Ericsson.

The Nomination Committee is of the opinion that the current Board of Directors and Board work is well functioning. Further it is the Nomination Committee's view that the Board fulfils high expectations in terms of composition and that the Board of Directors as well as the individual Board members fulfil high expectations in terms of expertise. The Nomination Committee believes that the proposed Board composition provides the Company with the right conditions for realizing its long-term potential. Out of the proposed Board members to be elected by the Annual General Meeting of shareholders (excluding the President and CEO) 33% are women. The Nomination Committee strives to improve the gender balance on the Board of Directors over time. Since the Nomination Committee believes that stability and continuity on the Board of Directors is in the interest of Ericsson to secure continuity in the execution and follow up of Ericsson's focused strategy, the Nomination Committee does not propose any changes to the composition of the Board of Directors this year.

### **Information regarding proposed Board members**

Information regarding the proposed Board members is presented in **Exhibit 2**.

### **Independence of Board members**

The Nomination Committee has made the following assessments in terms of applicable Swedish independence requirements:

- (i) The Nomination Committee considers that at least the following Board members are independent of the Company and its senior management:
  - a. Jon Fredrik Baksaas
  - b. Jan Carlson
  - c. Nora Denzel
  - d. Eric A. Elzvik
  - e. Kurt Jofs
  - f. Ronnie Leten
  - g. Kristin S. Rinne
  - h. Helena Stjernholm
  - i. Jacob Wallenberg
  
- (ii) From among the Board members reported in (i) above, the Nomination Committee considers that at least the following are independent of the Company's major shareholders:
  - a. Jon Fredrik Baksaas
  - b. Jan Carlson
  - c. Nora Denzel
  - d. Eric A. Elzvik
  - e. Kurt Jofs
  - f. Kristin S. Rinne

Moreover, the Nomination Committee considers that at least the following Board members are independent in respect of all applicable independence requirements:

- a. Jon Fredrik Baksaas
- b. Jan Carlson
- c. Nora Denzel
- d. Eric A. Elzvik
- e. Kurt Jofs
- f. Kristin S. Rinne

The Nomination Committee concludes that the proposed composition of the Board of Directors meets the independence requirements applicable to Ericsson.

### **Number of auditors**

According to the articles of association, the Company shall have no less than one and no more than three registered public accounting firms as auditor. The Nomination Committee proposes that the Company should have one registered public accounting firm as auditor.

### **Fees payable to the auditor**

The Nomination Committee proposes, like previous years, that the auditor fees be paid against approved account.

### **Election of auditor**

In accordance with the recommendation of the Audit and Compliance Committee, the Nomination Committee proposes that PricewaterhouseCoopers AB be appointed auditor for the period as of the end of the Annual General Meeting 2019 until the end of the Annual General Meeting 2020 (re-election).

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**Stockholm, February 2019**

**The Nomination Committee**