

## **Item 16 Implementation of LTV I 2023 including transfer of treasury stock, directed share issue and authorization for the Board of Directors to decide on an acquisition offer of shares of series C**

### **Background**

The Remuneration Committee and the Board of Directors evaluate the long-term variable compensation (“LTV”) programs to the Executive Team (“ET”) on an ongoing basis. The evaluation considers the LTV programs for effectiveness in serving their purpose to support achieving the Ericsson Group’s strategic business objectives and sustainable long-term interests as well as their facility to increase the long-term focus of the members of the ET and align their interests with the long-term expectations and the interests of the shareholders.

Upon evaluation of the currently ongoing LTV programs for 2020, 2021 and 2022, the Remuneration Committee and the Board of Directors concluded that these ongoing LTV programs, which are all in essence the same in terms of plan structure, performance criteria and performance periods, enabled the Company to achieve its long-term objectives. The ongoing LTV programs further enabled the Company to remain committed to the targets for 2023 as well as the long-term target of 15-18% adjusted earnings (loss) before interest, taxes, amortization and write-downs of acquired intangible assets (“EBITA”), in turn creating increased shareholder value. In order to further strengthen both Ericsson’s and the ET’s commitment to long-term sustainability and responsible business, the Board of Directors, upon recommendation from the Remuneration Committee, has concluded to propose to the AGM 2023 an LTV I 2023 for the ET.

LTV I 2023 is an integral part of the Company's remuneration strategy and the Board of Directors in particular expects the members of the ET to build significant equity holdings to align the interests and expectations of the LTV program participants with those of shareholders.

### **Proposals**

#### **16.1 Implementation of the LTV I 2023**

The Board of Directors proposes that the AGM resolve on the LTV I 2023 for ET members comprising a maximum of 4.1 million shares of series B in the Company as set out below.

#### *Objectives of the LTV program*

The LTV program is designed to provide long-term incentives for members of the ET (“Participants”), thereby creating long-term value for the shareholders. The aim is to attract, retain and motivate executives in a competitive market through performance-based share related incentives, to encourage the build-up of significant equity holdings to align the interests

of the Participants with those of shareholders and to further strengthen the ET's commitment to long-term sustainability and responsible business.

### *The LTV Program in brief*

The LTV Program is proposed to include all members (current and future) of the ET, currently comprising of 17 employees, including the President and CEO. Awards under LTV I 2023 ("Performance Share Awards") will be granted free of charge entitling the Participant, provided that i.e. certain performance criteria set out below are met, to receive a number of shares, free of charge, following expiration of a three-year vesting period ("Vesting Period"). Allotment of shares pursuant to Performance Share Awards will be subject to the achievement of performance criteria, as set out below, and will generally require that the Participant retains his or her employment over the Vesting Period. All major decisions relating to LTV I 2023 will be taken by the Remuneration Committee, with approval by the full Board of Directors as required.

### *Granting of Performance Share Awards*

Granting of Performance Share Awards to the Participants will generally take place as soon as practicably possible following the AGM 2023. For 2023, the value of the underlying shares in respect of the Performance Share Awards made to the President and CEO will not exceed 190% of the Annual Base Salary at the time of grant, and for other Participants, the value will not exceed 70% of the Participants' respective Annual Base Salary at the time of grant, unless the Participant is employed in the USA where the value will not exceed 100% of Participants' Annual Base Salary.

The share price used to calculate the number of shares to which the Performance Share Awards entitle will be the volume-weighted average of the market price of shares of series B in Ericsson on Nasdaq Stockholm during the five trading days immediately following the publication of the Company's interim report for the fourth quarter 2022.

### *Performance criteria*

The vesting of the Performance Share Awards will be subject to the satisfaction of performance criteria related to 2023 Group EBITA (earnings (loss) before interest, taxes, amortizations and write-downs of acquired intangible) (operating income) performance criterion, along with three-year total shareholder return ("TSR"<sup>1</sup>), and Group Environmental Social Governance ("ESG") performance criteria, which will determine what portion (if any) of the Performance Share Awards will vest at the end of the Vesting Period.

The 2023 Group EBITA (operating income) performance criterion relates to 45% of the Performance Share Awards and the maximum vesting level is 200%.

The performance criteria based on TSR are absolute TSR development and relative TSR development for the Ericsson series B share over the period January 1, 2023 – December 31,

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<sup>1</sup> Total shareholder return, i.e. share price growth including dividends.

2025 (“**Performance Period**”<sup>2</sup>). The absolute and relative TSR performance criteria relate to 25% and 20%, respectively, of the Performance Share Awards and the maximum vesting level for both TSR performance criteria is 200%.

The Group ESG performance criterion measured over the Performance Period will relate to 10% of the Performance Share Awards, and the maximum vesting level is 200%.

The following conditions will apply to the performance criteria:

- 2023 Group EBITA (operating income) performance criterion

45% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a Group EBITA (operating income) performance criterion for the 2023 financial year. The 2023 Group EBITA (operating income) performance criterion established by the Board of Directors will stipulate a minimum level and a maximum level. The 2023 Group EBITA (operating income) target is not disclosed due to stock market and competition considerations. The vesting level of Performance Share Awards related to 2023 Group EBITA (operating income) performance criterion will be determined by the Board of Directors when the audited result for the financial year 2023 is available.

If the maximum performance level is reached or exceeded, the vesting will amount to (and will not exceed) the maximum level of 200% of the Performance Share Awards related to the 2023 Group EBITA (operating income) performance criterion. If performance is below the maximum level but exceeds the minimum level, a linear pro-rata vesting of shares will occur. No vesting will occur if performance amounts to or is below the minimum level. The allotment of the shares will not occur until the end of the Vesting Period in 2026.

- TSR performance criteria

- Absolute TSR performance criterion

25% of the Performance Share Awards granted to a Participant will be subject to fulfillment of an absolute TSR performance criterion over the Performance Period. If the absolute TSR development reaches or exceeds 14% per annum compounded, the maximum vesting of 200% of the Performance Share Awards related to absolute TSR performance criterion will occur. If the absolute TSR development is below or reaches only 6% per annum compounded, no vesting will occur in respect of the Performance Share Awards related to the absolute TSR performance criterion. A linear pro-rata vesting from 0% to 200% of the Performance Share Awards related to absolute TSR performance criterion will apply if the Company’s absolute TSR performance is between 6% and 14% per annum compounded.

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<sup>2</sup> To provide a stable assessment of performance, the TSR development will be calculated based on the average closing price of the Ericsson series B share on Nasdaq Stockholm (or the corresponding closing share price of the relevant peer group company) for the three-month period immediately prior to the commencement and expiration of the Performance Period.

### Relative TSR performance criterion

20% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a relative TSR performance criterion over the Performance Period, compared to a peer group consisting of 11 peer companies (“Peer Group”<sup>3</sup>). The vesting of the relative TSR related Performance Share Awards varies depending on the Company’s TSR performance ranking versus the other companies in the Peer Group. If the Company’s relative TSR performance is below the TSR development of the company ranked 6<sup>th</sup> in the Peer Group, no vesting will occur in respect of the Performance Share Awards related to relative TSR performance criterion. Vesting of the Performance Share Awards related to relative TSR performance criterion will occur at the following percentage levels, based on which ranking position in the Peer Group the Company’s TSR performance corresponds to:

| <i>Position within the Peer Group</i> | <i>Associated vesting percentage level</i> |
|---------------------------------------|--|
| 6 or lower                            | 0%   |
| 5                                     | 50%  |
| 4                                     | 100%                                       |
| 3                                     | 150%                                       |
| 2 or higher                           | 200%                                       |

If the Company’s TSR performance is between two of the ranked companies, a linear pro-rata vesting will apply between the vesting percentage levels for the relevant ranked positions.

- Group ESG performance criterion

10% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a Group ESG performance criterion comprised of two equally weighted subcomponents covering environmental and social aspects of ESG measured over the Performance Period.

### Reduction of greenhouse gas emissions

5% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a subcomponent of reducing greenhouse gas (“GHG”) emissions<sup>4</sup> from service fleet vehicles, energy consumption at facilities and from business travel<sup>5</sup>.

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<sup>3</sup> The Peer Group consists of the following companies: Cap Gemini, CGI Group, Cisco Systems, Cognizant, Corning, F5 Networks, International Business Machines, Juniper Networks, Motorola Solutions, Nokia, and Qualcomm. TSR will be measured in SEK for all companies in line with best practice.

<sup>4</sup> Measured as the carbon dioxide equivalents (“CO2e”) of several greenhouse gases including, but not limited to, carbon dioxide. The so-called high-altitude effect of greenhouse gas emissions from air travel is not to be considered in these calculations.

<sup>5</sup> Corresponding to emissions in Scope 1, Scope 2 (market-based) and Scope 3 category Business Travel, as defined in the Greenhouse Gas Protocol, and reported in the Company’s annual statutory Sustainability and Corporate Governance report.

Subcomponent target- and corresponding achievement levels are defined in the schedule below and broken down for each of the three years<sup>6</sup> covered by the Performance Period. Vesting is determined at the end of each year, with each year corresponding to one third (1/3) of the total subcomponent Performance Share Awards. A linear pro-rata vesting of one third (1/3) of 0% to 200% of the Performance Share Awards related to reducing emissions in the subcomponent will apply if reported emissions in scope are between the minimum and maximum vesting levels for each of the years covered by the Performance Period. An illustrative example is included below.

These target levels are aligned to the emissions reduction trajectory set for achieving Net Zero emissions from the Ericsson Group's own activities by 2030.

**Achievement GHG emissions target levels for emission in scope by fiscal year (ktonne CO<sub>2</sub>e)**

| (%) | 2023 | 2024 | 2025 |
|-----|------|------|------|
| 0   | 142  | 132  | 122  |
| 100 | 135  | 126  | 116  |
| 200 | 121  | 113  | 104  |

*Illustrative example: first, if reported emissions in scope for the year 2023 are 121 ktonne, the maximum vesting of one third of 200% ( $1/3 \times 200\% = 66.67\%$ ) of the Performance Share Awards related to this subcomponent and year will occur. Next, if reported emissions for the year 2024 are 126 ktonne, vesting of one third of 100% ( $1/3 \times 100\% = 33.33\%$ ) of the Performance Share Awards related to this subcomponent and fiscal year will occur. Last, if reported emissions in scope for the year 2025 are 122 ktonne, no vesting ( $1/3 \times 0\% = 0.00\%$ ) of the Performance Share Awards related to this subcomponent will occur. Consequently, in this example total vesting of the Performance Share Award related to this subcomponent over the Performance Period will be ( $66.67\% + 33.33\% + 0.00\%$ ) 100%.*

**Increasing the representation of women leaders in Ericsson**

5% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a subcomponent of increasing the representation of women leaders (i.e. women holding roles with people management responsibility) in the Ericsson Group to 24% by the end of the Performance Period, which is in line with achieving the target trajectory for increasing the representation of women leaders in the Ericsson Group to 30% by 2030.

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<sup>6</sup> GHG emissions are reported on a calendar year basis but for practical and timing reasons, some of the emissions in scope of the subcomponent are measured on the twelve-month period December up to and including November.

If the representation of women leaders in the Ericsson Group amounts to 25% or above by the end of the Performance Period, the maximum vesting of 200% of the Performance Share Awards related to this subcomponent will occur. If the representation of women leaders in the Ericsson Group amounts to 23% or below by the end of the Performance Period, no vesting will occur in respect of the Performance Share Awards related to this subcomponent. A linear pro-rata vesting from 0% to 200% of the Performance Share Awards related to increasing the representation of women leaders in the Ericsson Group subcomponent will apply if the representation of women leaders in the Ericsson Group exceeds 23% but is below 25% by the end of the Performance Period.

The vesting level of Performance Share Awards related to the Group ESG performance criterion will be determined by the Board of Directors when the audited results for both subcomponents at the end of the financial year 2025 are available.

Information about the outcome of the performance criteria will be provided no later than in the annual report for the financial year 2025.

#### *Allotment of shares*

Provided that the performance criteria above have been met and that the Participant has retained his or her employment (unless special circumstances are at hand) during the Vesting Period, allotment of vested shares will take place as soon as practicably possible following the expiration of the Vesting Period.

When determining the final vesting level of Performance Share Awards, the Board of Directors shall examine whether the vesting level is reasonable considering the Company's financial results and position, conditions on the stock market and other circumstances, such as environmental, social, ethics and compliance factors, and if not, as determined by the Board of Directors, reduce the vesting level to the lower level deemed appropriate by the Board of Directors.

In the event delivery of shares to Participants cannot take place under applicable law or at a reasonable cost and employing reasonable administrative measures, the Board of Directors will be entitled to decide that Participants may, instead, be offered a cash settlement.

The Company has the right to, before delivering vested shares to the Participants, retain and sell the number of shares required to cover the cost for withholding and paying tax and social security liabilities on behalf of the Participants in relation to the Performance Share Awards for remittance to revenue authorities. In such an event, net amount of vested shares will thus be delivered to the Participants after the vested Performance Share Awards are reduced by the number of shares retained by the Company for such purposes.

## Financing

The Board of Directors has considered different financing methods for transfer of shares under the LTV I 2023 such as transfer of treasury stock and an equity swap agreement with a third party. The Board of Directors considers that a directed issue of shares of series C in the Company, followed by buy-back and transfer of treasury stock is the most cost efficient and flexible method to transfer shares under the LTV I 2023.

The Company's current holding of treasury stock is not sufficient for the implementation of the LTV I 2023. Therefore, the Board of Directors proposes a directed share issue and buy back of shares as further set out below under item 16.2. Under the proposed transactions, shares are issued at the share's quota value and repurchased as soon as the shares have been subscribed for and registered. The purchase price paid by the Company to the subscriber equals the subscription price. As compensation to the subscriber for its assistance in the issuance and buy-back of shares under items 16, 17, 18 and 19 the Company will pay to the subscriber an amount totaling SEK 100,000.

The procedure of issuance and buy-back of shares for the Company's LTV programs has previously been decided by the AGMs in 2001, 2003, 2008, 2009, 2012, 2016, and 2017.

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 treasury stock, the main alternative is that the financial exposure is secured by transfer of treasury stock and that an equity swap agreement with a third party is an alternative in the event that the required majority for approval is not reached.

## Costs

The total effect on the income statement of the LTV I 2023, including financing costs and social security fees, is estimated to range between SEK 100 million and SEK 230 million distributed over the years 2023-2026. The costs will depend on the future development of the price of Ericsson series B share.

The administration cost for transfer of shares by way of an equity swap agreement is currently estimated to approximately SEK 30 million, compared to the cost of approximately SEK 100,000 for using newly issued and acquired shares in treasury (SEK 100,000 is the total cost paid to the subscriber in relation to items 16, 17, 18 and 19, regardless of the number of share issuances).

## Dilution

The Company has approximately 3.3 billion registered shares. As per December 31, 2022, the Company held approximately 4 million shares in treasury. The number of shares that may be required for ongoing LTV programs (2019, 2020, 2021 and 2022) as per December 31, 2022, is estimated to approximately 4.9 million shares, corresponding to approximately 0.15 percent of the number of registered shares of the Company. In order to implement the LTV I 2023, a total

of up to 4.1 million shares are required, which corresponds to approximately 0.12 percent of the total number of registered shares of the Company, hence an issue of new shares is proposed for the implementation of LTV I 2023. The effect on important key figures is only marginal.

## **16.2 Transfer of treasury stock to employees and on an exchange, directed share issue and acquisition offer for the LTV I 2023**

### *a) Transfer of treasury stock under the LTV I 2023*

Transfer of no more than 3.4 million shares of series B in the Company less any shares retained by the Company as per item 16.2 c) 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 pursuant to the LTV I 2023. 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 employees covered by the terms and conditions of the LTV I 2023.
- 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 LTV I 2023, i.e. in 2026.
- Employees covered by the terms and conditions of the LTV I 2023 shall receive shares of series B in the Company free of consideration.
- The number of shares of series B in the Company that may be transferred under the LTV I 2023 may be subject to recalculation in the event of bonus issues, splits, rights issues and/or similar measures, under the terms and conditions of the LTV I 2023.

### *b) Transfer of treasury stock on an exchange to cover expenses*

The Company may, prior to the AGM in 2024, transfer no more than 700,000 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 Stockholm at a price within the, at each time, prevailing price interval for the share as disseminated by Nasdaq Stockholm.

### *c) Authorization to decide on transfer of treasury stock on an exchange to cover costs for tax and social security liabilities for the Participants*

Authorization for the Board of Directors to decide to, in conjunction with the delivery of vested shares under LTV I 2023, prior to the AGM in 2024, retain and sell no more than 60% of the vested shares of series B in the Company in order to cover for the costs for withholding and paying tax and social security liabilities on behalf of the Participants in relation to the Performance Share Awards for remittance to revenue authorities. Transfer of the shares shall be effected on Nasdaq Stockholm at a price within the, at each time, prevailing price interval for the share as disseminated by Nasdaq Stockholm. These shares form a part of the final number

of vested shares to the employees under LTV I 2023 and do not incur additional costs to the LTV I 2023 for the Company.

d) *Directed issue of shares of series C in the Company*

Increase of the share capital in the Company with SEK 20,500,000.01 by an issue of 4.1 million shares of series C in the Company, each share with a quota value of approximately SEK 5. The terms and conditions of the share issue are the following:

- The new shares shall – with deviation from the shareholders' preferential rights – be subscribed for only by Investor AB or its subsidiaries.
- The new shares shall be subscribed for during the period as from Thursday, April 27, 2023, up to and including Tuesday, May 2, 2023. Over-subscription may not occur.
- The amount that shall be paid for each new share shall be the quota value (approximately SEK 5).
- Payment for the subscribed shares shall be made at the time of subscription.
- The Board of Directors shall be entitled to extend the period for subscription and payment.
- The new shares shall not entitle the holders to dividend payment.
- 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.

The Board of Directors proposes that the President and CEO shall be authorized to make the minor adjustments to the above resolutions that may prove to be necessary in connection with the registration with the Swedish Companies Registration Office.

*Reasons for deviation from the shareholders' preferential rights and principles on which the subscription price is based*

The Board of Directors considers that a directed issue of shares of series C in the Company, followed by buy-back and transfer of treasury stock is the most cost efficient and flexible method to transfer shares under the LTV I 2023. Shares are issued at the share's quota value and repurchased as soon as the shares have been subscribed for and registered. The purchase price paid by the Company to the subscriber equals the subscription price.

e) *Authorization for the Board of Directors to decide on a directed acquisition offer*

Authorization for the Board of Directors to decide that 4.1 million 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 AGM in 2024.
- The acquisition shall be made at a price corresponding to the quota value of the share (approximately SEK 5 per share).
- Payment for acquired shares shall be made in cash.

### **16.3 Equity Swap Agreement with third party in relation to the LTV I 2023**

In the event that the required majority for approval is not reached under item 16.2 above, the financial exposure of the LTV I 2023 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 of series B in the Company to employees covered by the LTV I 2023.

#### **Majority rules**

The resolution of the AGM on implementation of the LTV I 2023 according to item 16.1 requires that more than half of the votes cast at the AGM approve the proposal. The resolution of the AGM on transfer of treasury stock to employees and on an exchange, directed share issue and acquisition offer for the LTV I 2023 according to item 16.2 requires that shareholders representing at least nine-tenths of the votes cast as well as the shares represented at the AGM approve the proposal. The resolution of the AGM on an Equity Swap Agreement with third party according to item 16.3 requires that more than half of the votes cast at the AGM approve the proposal.

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

Due to the Board of Director's proposals to authorize the Board of Directors to decide on four directed offers 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.

The scope and nature of the Company's and the Group's business and the risks associated thereto are set out in the articles of association and in the Company's financial reports.

The financial position of the Company and the Group as of December 31, 2022 is presented in the Annual Report for the financial year 2022. Furthermore, the principles applied for valuation of assets, provisions and liabilities are presented in the Annual Report. The Company's equity would have been SEK 4.4 billion lower if assets and liabilities had not been valued at fair value pursuant to Chapter 4, Section 14a of the Swedish Annual Accounts Act.

As a basis for its proposals, the Board of Directors has made assessment of the Company's and the Group's need for financial resources as well as the Company's and the Group's liquidity, financial position in other respects and long-term ability to meet their commitments.

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 the proposed dividend and other known commitments that may have an impact on the financial positions of the Company and other companies in the Group.

With reference to the above, it is the Board of Directors' assessment that the proposed authorizations for the Board of Directors to decide on four directed offers to acquire the Company's own shares are justified considering the requirements that the nature, scope and risks of the business impose on the Company's and the Group's equity as well as the Company's and the Group's consolidation level, liquidity and financial position in general.

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**Stockholm, February 2023**

**Telefonaktiebolaget LM Ericsson**

**The Board of Directors**