



## **Item 16 Implementation of Long-Term Variable Compensation Program 2021 ("LTV 2021") including transfer of treasury stock, directed share issue and authorization for the Board of Directors to decide on an acquisition offer**

### **Background**

The Remuneration Committee and the Board of Directors evaluate Ericsson's long-term variable compensation programs to the Executive Team on an ongoing basis for effectiveness in serving their purpose to support achieving the Company's strategic business objectives and sustainable long-term interests as well as their facility to secure the long-term focus of the members of the Executive Team and align their interests with the long-term expectations and the interests of the shareholders. As a result of this evaluation, the Board of Directors, upon recommendation from the Remuneration Committee, has concluded to propose an LTV 2021 materially unchanged compared to the Long-Term Variable Compensation Programs 2018, 2019 and 2020.

LTV 2021 is an integral part of the Company's remuneration strategy and the Board of Directors in particular aims to encourage the Company leadership to build significant equity holdings to align the interests and expectations of the LTV Program participants with those of the shareholders.

### **Proposals**

#### **The Long-Term Variable Compensation Program 2021**

The Board of Directors proposes that the Annual General Meeting resolve on the implementation of a Long-Term Variable Compensation Program 2021 in accordance with the proposals set out below.

##### **16.1 Implementation of the LTV 2021**

The Board of Directors proposes that the Annual General Meeting resolve on the LTV 2021 for members of the Executive Team, comprising a maximum of 2.1 million shares of series B in Ericsson as set out below.

##### *Objectives of the LTV Program*

The LTV Program is designed to provide long-term incentives for members of the Executive Team (the "**Participants**") and to incentivize the Company's performance creating long-term value. The aim is to attract, retain and motivate executives in a competitive market through performance-based share related incentives and to encourage the build-up of significant equity holdings to align the interests of the Participants with those of shareholders

##### *The LTV Program in brief*

The LTV Program is proposed to include all members (current and future) of the Executive Team, currently comprising of 15 employees, including the President and CEO. Awards under



LTV 2021 (“**Performance Share Awards**”) will be granted free of charge entitling the Participant, provided that i.a. certain performance conditions set out below are met, to receive a number of shares, free of charge, following expiration of a three year vesting period (the “**Vesting Period**”). Allotment of shares pursuant to Performance Share Awards will be subject to the achievement of performance conditions, 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 2021 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 Annual General Meeting 2021. For 2021, 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 salaries at the time of grant.

The share price used to calculate the number of shares to which the Performance Share Award entitles will be the volume-weighted average of the market price of Ericsson series B shares on Nasdaq Stockholm during the five trading days immediately following the publication of the Company’s interim report for the fourth quarter 2020.

#### *Performance criteria*

The vesting of Performance Share Awards will be subject to the satisfaction of performance criteria related to 2021 Group Operating Income and total shareholder return (“**TSR**”<sup>1</sup>), which will determine what portion (if any) of the Performance Share Awards will vest at the end of the Vesting Period.

The performance criterion based on 2021 Group Operating Income relates to 50% 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, 2021 - December 31, 2023 (the “**TSR Performance Period**”<sup>2</sup>). The TSR performance criteria relate to a total of 50% of the Performance Share Awards and the maximum vesting level for each of the TSR performance criteria is 200%.

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

<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 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 TSR Performance Period.



The following conditions will apply to the performance criteria:

- 2021 Group Operating Income criterion

50% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a performance criterion based on Group Operating Income for the financial year 2021. The 2021 Group Operating Income target established by the Board of Directors will stipulate a minimum level and a maximum level. The 2021 Group Operating Income target is not disclosed due to stock market and competition considerations. The vesting level of Performance Share Awards related to 2021 Group Operating Income will be determined by the Board of Directors when the audited result for the financial year 2021 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 2021 Group 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 2024.

- TSR performance criteria:

Absolute TSR performance criterion:

30% of the Performance Share Awards granted to a Participant will be subject to fulfilment of an absolute TSR performance criterion over the TSR 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 shall 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 the absolute TSR performance criterion shall apply if the Company's absolute TSR performance is between 6% and 14% per annum compounded.

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 TSR Performance Period, compared to a peer group consisting of 11 peer companies (the "Peer Group"<sup>3</sup>). The vesting of the relative TSR related Performance Share Awards varies depending on the

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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 Swedish Krona (SEK) for all companies in line with best practice.



Company's TSR performance ranking versus the other companies in the Peer Group. If the Company's relative TSR performance is equal to or below the TSR development of the company ranked 6 or lower in the Peer Group, no vesting will occur in respect of the Performance Share Awards related to the relative TSR performance criterion. Vesting of the Performance Share Awards related to the 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 shall apply between the vesting percentage levels for the relevant ranked positions.

Information about the outcome of the performance criteria will be provided no later than in the annual report for the financial year 2023.

#### *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, 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.

#### **Financing**

The Board of Directors has considered different financing methods for transfer of shares under the LTV 2021 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 C shares, followed by buy-back and transfer of treasury stock is the most cost efficient and flexible method to transfer shares under the LTV 2021.



The Company's current holding of treasury stock is not sufficient for the implementation of the LTV 2021. 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 bought back 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, the Company will pay to the subscriber an amount totalling SEK 75,000, corresponding to less than SEK 0.04 per new issued and re-purchased share.

The procedure of issuance and buy-back of shares for the Company's long-term variable compensation programs has previously been decided by the Annual General Meetings of shareholders 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 2021, including financing costs and social security fees, is estimated to range between SEK 70 million and SEK 125 million distributed over the years 2021-2024. The costs will depend on the future development of the stock price. The administration cost for transfer of shares by way of an equity swap agreement is estimated to approximately SEK 10.3 million, compared to the administration cost of approximately SEK 75,000 for using newly issued and acquired shares in treasury.

### **Dilution**

The Company has approximately 3.3 billion shares in issue. As per December 31, 2020 the Company held approximately 6 million shares in treasury. The number of shares that may be required for ongoing long-term variable compensation programs as per December 31, 2020 is estimated to approximately 5.3 million shares, corresponding to approximately 0.2 percent of the number of outstanding shares. In order to implement the LTV 2021, a total of up to 2.1 million shares are required, which corresponds to approximately 0.1 percent of the total number of outstanding shares, hence an issue of new treasury stock is proposed for the implementation of LTV 2021. The effect on important key figures is marginal.

## **16.2 Transfer of treasury stock, directed share issue and acquisition offer for the LTV 2021**



*a) Transfer of treasury stock under the LTV 2021*

Transfer of no more than 1.6 million shares of series B in the Company may occur on the following terms and conditions.

- The right to acquire shares shall be granted to such persons within the Ericsson Group covered by the terms and conditions pursuant to the LTV 2021. 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 2021.
- 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 2021, i.e. in 2024.
- Employees covered by the terms and conditions of the LTV 2021 shall receive shares of series B in the Company free of consideration.

*b) Transfer of treasury stock on an exchange*

The Company shall have the right to, prior to the Annual General Meeting in 2022, transfer no more than 500,000 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) Directed issue of shares of Series C*

Increase of the share capital in the Company with SEK 10,500,000.01 by an issue of 2.1 million shares of series C, 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 right – be subscribed for only by Investor AB or its subsidiaries.
- The new shares shall be subscribed for during the period as from Thursday, April 29, 2021 up to and including Monday, May 3, 2021. 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.



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

Authorization for the Board of Directors to decide that 2.1 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 Annual General Meeting in 2022.
- 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.

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.

### **16.3 Equity Swap Agreement with third party in relation to the LTV 2021**

In the event that the required majority for approval is not reached under item 16.2 above, the financial exposure of the LTV 2021 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 2021.

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### **Majority rules**

The resolution of the Annual General Meeting on implementation of the program according to item 16.1 above requires that more than half of the votes cast at the Annual General Meeting approve the proposal. The Annual General Meeting's resolution on transfer of treasury stock, directed share issue and authorization to the Board of Directors to decide on an offer to acquire treasury stock according to item 16.2 above requires that shareholders representing at least nine-tenths of the votes cast as well as the shares represented at the Annual General Meeting approve the proposal. A valid resolution in accordance with the proposal for an equity swap agreement under item 16.3 above requires that more than half of the votes cast at the Annual General Meeting approve the proposal.

### **Description of other ongoing long-term variable compensation programs**

In addition to the LTV-programs, which are directed at the members of the Executive Team, the Company also has other ongoing long-term variable compensation programs directed at other employees within the Group. These programs are an integral part of the Company's remuneration strategy as well as a part of the Company's talent management strategy. The Company has decided to implement two other share-related compensation programs for 2021.



### *The Executive Performance Plan 2021 ("EPP 2021")*

EPP 2021 is designed to attract, retain and motivate senior managers in a competitive market through performance based long-term cash incentive supporting the achievement of the Company's long-term strategies and business objectives. Approximately 200 senior managers will be eligible for the EPP 2021. Participants are assigned a potential award defined as a percentage of the participants' annual gross salary, which is converted into a number of synthetic shares based on the same market price of Ericsson series B shares used for the LTV 2021 at the time of grant. There are two award levels called "High" and "Regular" which are differentiated as below between the USA and the rest of the world to bring greater alignment with the local market conditions:

<i>Award level</i>	<i>USA</i>	<i>Rest of the world</i>
High	35%	25%
Regular	25%	15%

The vesting level of the awards, occurring after a three-year vesting period, is subject to the achievement of the same performance criteria as for the LTV 2021, and generally requires that the participant retains his or her employment over the three-year vesting period. At the end of the Vesting Period, the allotted synthetic shares are converted into a cash amount, based on the market price of Ericsson series B shares at Nasdaq Stockholm at the payout date, and this final amount is paid to the Participant in cash gross before tax. It is estimated that approximately one million synthetic shares will be awarded under the EPP 2021. The maximum total cost effect of the EPP 2021 on the income statement, including social security fees, is estimated to be approximately SEK 300 million distributed over the years 2021-2024. The costs will depend on the future development of the stock price.

### *The Key Contribution Plan 2021 ("KC Plan 2021")*

KC Plan 2021 is designed to recognize the best talent, individual performance, potential and critical skills as well as encourage the retention of key employees. Approximately 7,500 employees will be eligible for the KC Plan 2021. There are three award levels at 10%, 25% and 30% of the participants' annual gross salary. Participants are assigned a potential award, which is converted into a number of synthetic shares based on the same market price of Ericsson series B shares used for the LTV 2021 at the time of grant. The program has a three year total service period during which the awards are paid on an annual rolling bases following the below payment schedule:

- 25% of the award at the end of the first year,
- 25% of the award at the end of the second year, and
- 50% of the award at the end of the full vesting period.

The value of each synthetic share is driven by the absolute share price performance of Ericsson series B shares during the service period. At the date of payout for each instalment of the above described annual rolling payment schedule, the synthetic shares are converted into a cash





amount, based on the market price of Ericsson Series B shares at Nasdaq Stockholm at the respective payout date, and this final amount is paid to the Participant in cash gross before tax. It is estimated that approximately 10 million synthetic shares will be awarded under the KC Plan 2021. The maximum total cost effect of the KC Plan 2021 on the income statement, including social security fees, is estimated to be approximately SEK 1.5 billion distributed over the years 2021-2024. The costs will depend on the future development of the stock price.

The Company's ongoing variable compensation programs are described in further detail in the Annual Report 2020 in the Notes to the consolidated financial statements, Note G3: Share-based compensation and on the Company's website.

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**Telefonaktiebolaget LM Ericsson (publ)  
The Board of Directors**