

## Item 17

### Implementation of Long-Term Variable Compensation Program 2018 ("LTV 2018")

Following its continuous evaluation of the company's long-term variable compensation, the Board of Directors has concluded to propose LTV 2018. LTV 2018 is an integral part of the Company's remuneration strategy, in particular the Board of Directors wishes to encourage the leadership to build significant equity holdings to align the interests of the LTV Program participants with those of shareholders. While LTV 2017 only included three-year targets relating to total shareholder return (TSR<sup>1</sup>), the targets for LTV 2018 have been developed to also include a one-year Group Operating Income target for 2018 to support achieving the Company's 2020 targets as communicated at the Capital Markets Day on 8 November 2017. All targets have a three-year vesting period.

#### Proposals

##### The Long-Term Variable Compensation Program 2018

The Board of Directors proposes that the Annual General Meeting resolve on the implementation of a Long-Term Variable Compensation Program 2018 in accordance with the proposals set out below.

##### Implementation of the LTV 2018

The Board of Directors proposes that the Annual General Meeting resolves on the LTV 2018 for members of the Executive Team, comprising a maximum of 3 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 incentivise 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 14 employees, including the President and CEO. Awards under LTV 2018 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

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

charge, following expiration of the three-year vesting period (“**Performance Share Awards**”). 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 a period of three years from the date of grant (the “**Vesting Period**”). All major decisions relating to LTV 2018 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 2018. For 2018, the value of the underlying shares in respect of the Performance Share Award made to the President & CEO will not exceed 180% 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.

In 2018, the maximum value of the underlying shares in respect of the Performance Share Award made to Executive Team members other than the President & CEO is proposed to be increased from 22,5% to a maximum of 70% of the participants’ respective annual base salaries at the time of grant. This is proposed to be done by way of transferring some part of the short-term variable compensation opportunity to long-term variable compensation following the principle of total remuneration to remain unchanged. The intention is to increase the long-term focus and alignment with the long-term expectations of the shareholders.

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 B shares on Nasdaq Stockholm during the five trading days immediately following the publication of the Company’s interim report for the first quarter 2018.

#### *Performance criteria*

The vesting of Performance Share Awards will be subject to the satisfaction of challenging performance criteria related to 2018 Group Operating Income target and TSR, which will determine what portion (if any) of the Performance Share Awards will vest at the end of the Vesting Period.

The 2018 Group Operating Income target relates to 50% of the Performance Share Award and the maximum vesting level is 200%.

The performance criteria based on TSR are absolute TSR development and relative TSR development for the Ericsson B share over the period January 1, 2018 - December 31, 2020 (the “**TSR Performance Period**”).<sup>2</sup> The TSR performance criteria relate to a total of 50% of

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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 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.

the Performance Share Award and the maximum vesting level for each of the TSR performance criteria is 200%.

The following conditions will apply to the performance criteria:

- 2018 Group Operating Income target

50% of a Performance Share Award granted to a Participant will be subject to fulfilment of a Group Operating Income target for the 2018 financial year. The 2018 Group Operating Income target established by the Board of Directors will stipulate a minimum level and a maximum level. The vesting level of Performance Share Awards related to 2018 Group Operating Income will be determined by the Board of Directors when the audited result for the financial year 2018 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 Award related to the 2018 Group Operating Income target. 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 2021.

- TSR performance

Absolute TSR performance

30% of a Performance Share Award granted to a Participant will be subject to fulfilment of an absolute TSR performance requirement 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 Award related to absolute TSR 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 Award related to the absolute TSR. A linear pro-rata vesting from 0% to 200% of the Performance Share Award related to absolute TSR shall apply if the Company's absolute TSR performance is between 6% and 14% per annum compounded.

Relative TSR performance

20% of a Performance Share Award granted to a Participant will be subject to fulfilment of a relative TSR performance requirement over the TSR Performance Period, compared to a peer group consisting of 12 peer companies (the "**Peer Group**")<sup>3</sup>. The vesting of the relative TSR related Performance Share Award varies

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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, Harris, 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.

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 7th in the Peer Group, no vesting will occur in respect of the Performance Share Award related to relative TSR performance. Vesting of the Performance Share Award related to relative TSR performance will occur at the following percentage levels, based on which ranking position in the Peer Group the Company's TSR Performance corresponds to:

<b><i>Position within the Peer Group</i></b>	<b><i>Associated vesting percentage level</i></b>
7 or lower	0%
6	40%
5	80%
4	120%
3	160%
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 not later than in the annual report for the financial year 2020.

#### *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 does not currently propose any method for securing the undertakings under the LTV 2018. Delivery of Performance Shares in accordance with the terms of the LTV 2018 will take place in 2021.

**Costs**

The total effect on the income statement of the LTV 2018, including financing costs and social security fees, is estimated to range between SEK 55 million and SEK 131 million distributed over the years 2018-2021.

**Dilution**

The Company has approximately 3.3 billion shares in issue. As per December 31, 2017, the Company held approximately 50.3 million shares in treasury. The number of shares that may be required for ongoing long-term variable compensation programs as per December 31, 2017 is estimated to approximately 45 million shares, corresponding to approximately 1.4 percent of the number of outstanding shares. In order to implement LTV 2018, a total of up to 3 million shares are required, which corresponds to approximately 0.1 percent of the total number of outstanding shares. The effect on important key figures is only marginal.

**Majority rules**

The resolution of the Annual General Meeting on implementation of the program requires that more than half of the votes cast at the Annual General Meeting approve the proposal.

**Description of ongoing variable compensation programs**

The Company's ongoing variable compensation programs are described in detail in the Annual Report 2017 in the note to the Consolidated Financial Statements, Note C28 and on the Company's website. The Remuneration Report published in the Annual Report outlines how the Company implements its guidelines on remuneration to Group management in line with the Swedish Corporate Governance Code.

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**Stockholm, February 2018**  
**The Board of Directors**