



Item 18

Long-Term Variable Compensation Program 2016 (LTV 2016) including the Board of Directors' proposal for resolutions on 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 an acquisition offer

The LTV program is an integral part of the Company's remuneration strategy, in particular the Board of Directors wishes to encourage all employees to become and remain shareholders and the leadership to build significant equity holdings. Following the Board of Directors' annual evaluation of total remuneration and ongoing programs, it proposes to make no changes to the structure of Ericsson's Long-Term Variable Compensation Program.

It is anticipated that the LTV 2016 will require up to 26.1 million shares, corresponding to a dilution of up to 0.8 percent of the total number of outstanding shares, at a cost between SEK 1,525 million and SEK 2,262 million unevenly distributed over the years 2016–2020. The number of shares that may be required for ongoing programs as per December 31, 2015, is estimated to approximately 60.7 million shares, corresponding to approximately 1.87 percent of the number of outstanding shares.

Three plans

The LTV 2016 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 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 Remuneration Committee of the Board of Directors monitors the selection process and nominations for bias of factors such as seniority, gender, age and frequency of award.

The Executive Performance Stock Plan is designed to encourage long-term value creation in alignment with shareholders' interests. The plan is offered to a defined group of senior managers, up to 0.5 percent of the total employee population. 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 stakes.

Since 2011 the performance measures have been Net Sales Growth, Operating Income Growth and Cash Conversion in order to reflect the business strategy and long term value creation of the Company. It is proposed that the Executive Performance Stock Plan 2016 shall have the same performance criteria for the period 2016 – 2018.

The three performance criteria for the Executive Performance Stock Plan 2016 are:

- **Net Sales Growth:** Up to one third of the award will vest if the compound annual growth rate of consolidated net sales is between 2 and 6 percent comparing 2018 financial results to 2015, which corresponds to consolidated sales of SEK 262 billion and SEK 294 billion for the financial year 2018.
- **Operating Income Growth:** Up to one third of the award will vest if the compound annual growth rate of consolidated operating income is between 5 and 15 percent comparing 2018 financial results to 2015, which corresponds to operating income of SEK 25 billion and SEK 33 billion for the financial year 2018. Extraordinary restructuring charges from the cost and efficiency program announced in November 2014 shall be excluded.
- **Cash Conversion:** Up to one third of the award will vest if cash conversion is at or above 70 percent during each of the years 2016-2018 and vesting one ninth of the total award for each year the target is achieved. Extraordinary restructuring charges from the cost and efficiency program announced in November 2014 shall be excluded.

Financing

The Board of Directors has considered different financing methods for transfer of shares to employees under the LTV 2016, 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 2016.

The Company's current holding of treasury stock is not sufficient for the carrying out of the LTV 2016. Therefore, the Board of Directors proposes a directed share issue and buy back of shares as further set out below under heading "Proposals". Under the proposed transactions, shares are issued at the share's ratio value and bought back as soon as the shares have been subscribed for and registered. The purchase price paid by the Company to the subscribers equals the subscription price. As compensation to the subscribers for their assistance in the issuance and buy-back of shares, the Company will pay to each of the subscribers an amount totaling SEK 100,000 each, corresponding to less than 0.8 öre (SEK 0.008) 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 and 2012.

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.

Costs

The total effect on the income statement of the LTV 2016, including financing costs, is estimated to range between SEK 1,525 million and SEK 2,262 million unevenly distributed over the years 2016-2020. The costs constitute approximately 3 percent of Ericsson's total remuneration costs 2015, including social security fees, amounting to approximately SEK 80 billion.

The calculations are conservative and based on assumptions of present participation rate in the Stock Purchase Plan and full participation in the Key Contributor Retention Plan and the Executive Performance Stock Plan, at maximum contribution levels and with maximum vesting levels for the latter plan.

Costs affecting the income statement, but not the cash flow

Compensation costs, corresponding to the value of matching shares transferred to employees, are estimated to range between SEK 1,331 million and SEK 1,597 million, depending on the fulfilment of the performance targets of the Executive Performance Stock Plan.¹ The compensation costs are distributed over the LTV 2016 period, i.e. 2016-2020.

Social security charges as a result of transfer of shares to employees depend on the performance against the Executive Performance Stock Plan targets and based on an assumed average share price at matching between SEK 54 and SEK 148, the costs are estimated to range between SEK 194 million and SEK 665 million. The social security costs are expected to occur mainly during 2019-2020.

Costs affecting the income statement and the cash flow

Plan administration costs have been estimated to SEK 10 million, distributed over the LTV 2016 period, i.e. 2016-2020.

¹ 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.



The administration cost for transfer of shares by way of an equity swap agreement is estimated to approximately SEK 55 million, compared to approximately SEK 200,000 for using new issued and acquired shares in treasury.

Dilution

The Company has approximately 3.3 billion shares in issue. As per December 31, 2015, the Company held approximately 49.5 million shares in treasury. The number of shares that may be required for ongoing programs as per December 31, 2015 is estimated to approximately 60.7 million shares, corresponding to approximately 1.87 percent of the number of outstanding shares. However, it is not likely that all shares allocated for ongoing programs will be required. In order to implement the LTV 2016, a total of up to 26.1 million shares are required, which corresponds to approximately 0.8 percent of the total number of outstanding shares. The effect on important key figures is only marginal.

Proposals

The Long-Term Variable Compensation Program 2016 (LTV 2016)

The Board of Directors proposes that the Annual General Meeting resolve on 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 2016, the Board of Directors proposes that no more than in total 21,600,000 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 4,500,000 shares may be sold on Nasdaq 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 2016. Therefore, the Board of Directors proposes a directed share issue of in total 26,100,000 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 5). Furthermore, it is proposed that the Board be authorized to decide on a directed offer to acquire all shares of series C at a price corresponding to the ratio value of the share (SEK 5). As compensation to the subscribers for their assistance with the issuance and buy-back, the Company will pay to each of AB Industrivärden and Investor AB an amount totaling SEK 100,000 each, corresponding to less than 0.8 öre (SEK 0.008) per new issued and re-purchased share.

Following the acquisition of all shares of series C, these shares will be converted into shares of series B, in accordance with the Articles of Association, thereafter to be transferred according to the proposals.



The Board of Directors proposes that the Annual General Meeting resolve in accordance with the proposals set out below.

Item 18.1 Implementation of the Stock Purchase Plan

All employees within the Ericsson Group, except for what is mentioned in the fourth paragraph below, will be offered to participate in the Stock Purchase Plan.

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 fixed salary in shares of series B in the Company on Nasdaq Stockholm or in ADSs on NASDAQ New York. The CEO shall have the right to invest up to 10 percent of gross fixed salary and 10 percent of short term variable compensation 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.

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.

Item 18.2 Transfer of treasury stock, directed share issue and acquisition offer for the Stock Purchase Plan

a) Transfer of treasury stock to employees

Transfer of no more than 11,950,000 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 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.
- 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 2016 up to and including November 2020.
- Employees covered by the terms and conditions of the Stock Purchase Plan 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 2017, transfer no more than 2,400,000 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.

c) Directed issue of shares of series C

Increase of the share capital in Ericsson with SEK 71,750,000 by an issue of 14,350,000 shares of series C, each share with a ratio value of 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 AB Industrivärden and / or Investor AB or subsidiaries of these companies.
- The new shares shall be subscribed for during the period April 29-May 2, 2016. Over-subscription may not occur.
- The amount that shall be payable for each new share shall be SEK 5.
- Payment for the subscribed shares shall be made at the time of subscription.
- 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 14,350,000 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 2017.
- The acquisition shall be made at a price of SEK 5 per share.
- Payment for acquired shares shall be made in cash.



Item 18.3 Equity Swap Agreement with third party in relation to the Stock Purchase Plan

In the event that the required majority is not reached under item 18.2 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 employees covered by the Stock Purchase Plan.

Item 18.4 Implementation of the Key Contributor Retention Plan

In addition to the regular matching of one share pursuant to the Stock Purchase Plan described above, up to 10 percent of the employees (presently approximately 11,000 persons) are selected as key contributors and will be offered additional matching shares, free of consideration, within the Key Contributor Retention Plan.

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 purchased, in addition to the regular matching of one share.

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 practical correspond to the terms and conditions of the Key Contributor Retention Plan.

Item 18.5 Transfer of treasury stock, directed share issue and acquisition offer for the Key Contributor Retention Plan

a) Transfer of treasury stock to employees

Transfer of no more than 6,050,000 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 of the Key Contributor Retention 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 Key



Contributor Retention Plan.

- 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 Key Contributor Retention Plan, i.e. during the period from November 2016 up to and including November 2020.
- Employees covered by the terms and conditions of the Key Contributor Retention Plan 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 2017, transfer no more than 1,200,000 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.

c) Directed issue of shares of series C

Increase of the share capital in Ericsson with SEK 36,250,000 by an issue of 7,250,000 shares of series C, each share with a ratio value of 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 AB Industrivärden and/or Investor AB or subsidiaries of these companies.
- The new shares shall be subscribed for during the period April 29-May 2, 2016. Over-subscription may not occur.
- The amount that shall be payable for each new share shall be SEK 5.
- Payment for the subscribed shares shall be made at the time of subscription.
- 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 7,250,000 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 2017.
- The acquisition shall be made at a price of SEK 5 per share.
- Payment for acquired shares shall be made in cash.

Item 18.6 Equity Swap Agreement with third party in relation to the Key Contributor Retention Plan

In the event that the required majority is not reached under item 18.5 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 employees covered by the Key Contributor Retention Plan.

Item 18.7 Implementation of the Executive Performance Stock Plan

In addition to the regular matching of shares pursuant to the Stock Purchase Plan described above, senior managers, up to 0.5 percent of the employees (presently approximately 550 persons, although it is anticipated that the number of participants will be lower) will be offered an additional matching of shares, free of consideration, within the Executive Performance Stock Plan.

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:

- The President may be entitled to an additional performance match of up to nine shares for each one purchased.
- Other senior managers may be entitled to an additional performance match of up to either four or six shares for each one purchased.

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.



The terms and conditions of the additional performance match under the Executive Performance Stock Plan will be based on the outcome of three targets, which are independent of each other and have equal weighting. The three targets are:

- Up to one third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated net sales between year 0 (2015 financial year) and year 3 (2018 financial year) is between 2 and 6 percent, which corresponds to consolidated sales of SEK 262 billion and SEK 294 billion for the financial year 2018. Matching will begin at a threshold level of 2 percent CAGR and increase on a linear scale to full vesting of this third of the award at 6 percent CAGR.
- Up to one third of the award shall vest provided the compound annual growth rate (CAGR) of consolidated operating income between year 0 (2015 financial year) and year 3 (2018 financial year) is between 5 and 15 percent, which corresponds to consolidated operating income of SEK 25 billion and SEK 33 billion for the financial year 2018. Extraordinary restructuring charges from the cost and efficiency program announced in November 2014 shall be excluded. Matching will begin at a threshold level of 5 percent CAGR and increase on a linear scale to full vesting of this third of the award at 15 percent CAGR.
- Up to one third of the award will be based on the cash conversion during each of the years during the performance period, calculated as cash flow from operating activities divided by net income reconciled to cash. Extraordinary restructuring charges from the cost and efficiency program announced in November 2014 shall be excluded. One ninth of the total award will vest for any year, i.e. financial years 2016, 2017 and 2018, if cash conversion is at or above 70 percent.

The Board of Directors considers that long-term value creation will be reflected in the success of these targets, aligning executives with long-term shareholder interests. There will be no allocation of shares if none of the threshold levels have been achieved, i.e. CAGR is less than 2 percent for net sales and less than 5 percent for operating income, and a 70 percent cash conversion has not been achieved during the performance period. The minimum matching at the threshold levels is 0. The maximum number of performance matching shares – 4 shares, 6 shares and 9 shares respectively – will be allocated if the maximum performance levels of CAGR of 6 percent for net sales and 15 percent for operating income have been achieved, or exceeded, and a cash conversion of 70 percent or more has been achieved each year during the period.

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. When undertaking its evaluation of performance outcomes the Board of Directors will consider, in particular, the impact of larger acquisitions, divestitures, the creation of joint ventures and any other significant capital event on the three targets on a case by case basis.



Item 18.8 Transfer of treasury stock, directed share issue and acquisition offer for the Executive Performance Stock Plan

a) Transfer of treasury stock to employees

Transfer of no more than 3,600,000 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 of the Executive Performance Stock 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 Executive Performance Stock Plan.
- 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 Executive Performance Stock Plan, i.e. during the period from November 2016 up to and including November 2020.
- Employees covered by the terms and conditions of the Executive Performance Stock Plan 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 2017, transfer no more than 900,000 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.

c) Directed issue of shares of Series C

Increase of the share capital in Ericsson with SEK 22,500,000 by an issue of 4,500,000 shares of series C, each share with a ratio value of 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 AB Industrivärden and/or Investor AB or subsidiaries of these companies.
- The new shares shall be subscribed for during the period April 29- May 2, 2016. Over-subscription may not occur.
- The amount that shall be payable for each new share shall be SEK 5.
- Payment for the subscribed shares shall be made at the time of subscription.



- 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 4,500,000 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 2017.
- The acquisition shall be made at a price of SEK 5 per share.
- Payment for acquired shares shall be made in cash.

Item 18.9 Equity Swap Agreement with third party in relation to the Executive Performance Stock Plan

In the event that the required majority is not reached under item 18.8 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 employees covered by the Executive Performance Stock Plan.

Special authorization for the President

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

Majority rules

The resolutions of the Annual General Meeting on implementation of the three plans according to items 18.1, 18.4 and 18.7 above require that more than half of the votes cast at the Annual General Meeting approve the proposals. The Annual General Meeting's resolutions on transfers of treasury



stock, directed share issues and authorizations for the Board of Directors to decide on an offer to acquire treasury stock according to items 18.2, 18.5 and 18.8 above, shall be adopted as one resolution for each of the three items, and require that shareholders representing at least nine-tenths of the votes cast as well as the shares represented at the Annual General Meeting approve the proposals. A valid resolution in accordance with the proposals for an equity swap agreement under items 18.3, 18.6 and 18.9 above requires that more than half of the votes cast at the Annual General Meeting approve the proposals.

Description of ongoing variable compensation programs

The Company's ongoing variable compensation programs are described in detail in the Annual Report 2015 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.

Stockholm, March 2016
THE BOARD OF DIRECTORS