

## Item 17

### Implementation of Long-Term Variable Compensation Program 2019 (“LTV 2019”) including transfer of treasury stock

Following its continuous evaluation of the Company’s long-term variable compensation, the Board of Directors has concluded to propose an unchanged LTV 2019 from LTV 2018. LTV 2019 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.

#### Proposals

##### The Long-Term Variable Compensation Program 2019

The Board of Directors proposes that the Annual General Meeting resolve on the implementation of a Long-Term Variable Compensation Program 2019 in accordance with the proposals set out below.

##### 17.1 Implementation of the LTV 2019

The Board of Directors proposes that the Annual General Meeting resolves on the LTV 2019 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 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 2019 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 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 2019 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 2019. For 2019, the value of the underlying shares in respect of the Performance Share Awards 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.

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 first quarter 2019

#### *Performance criteria*

The vesting of Performance Share Awards will be subject to the satisfaction of challenging performance criteria related to 2019 Group Operating Income target 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 2019 Group Operating Income target 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, 2019 - December 31, 2021 (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 Performance Period.

The following conditions will apply to the performance criteria:

- 2019 Group Operating Income target:

50% of the Performance Share Awards granted to a Participant will be subject to fulfilment of a Group Operating Income target for the 2019 financial year. The 2019 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 2019 Group Operating Income will be determined by the Board of Directors when the audited result for the financial year 2019 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 2019 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 2022.

- TSR performance

Absolute TSR performance

30% of the Performance Share Awards 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 Awards 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 Awards related to the absolute TSR. A linear pro-rata vesting from 0% to 200% of the Performance Share Awards 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 the Performance Share Awards 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 Awards 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 Awards related to relative TSR performance. Vesting of the Performance Share Awards 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 level</i></b>	<b><i>Associated vesting percentage</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 2021.

#### ***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 2019. After evaluating the different options, the Board of Directors considers that transfer of treasury stock is the most cost efficient and flexible method to transfer shares under the LTV 2019.

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 2019, including financing costs and social security fees, is estimated to range between SEK 71 million and SEK 130 million distributed over the years 2019-2022.

The administration cost for transfer of shares by way of an equity swap agreement is estimated to approximately SEK 10.5 million.

## Dilution

The Company has approximately 3.3 billion shares in issue. As per December 31, 2018, the Company held approximately 37 million shares in treasury. The number of shares that may be required for ongoing long-term variable compensation programs as per December 31, 2018 is estimated to approximately 34.6 million shares, corresponding to approximately 1.0 percent of the number of outstanding shares. In order to implement the LTV 2019, 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.

### 17.2 Transfer of treasury stock for the LTV 2019

#### a) *Transfer of treasury stock under the LTV 2019*

Transfer of no more than 2.2 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 2019. 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 2019.

- 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 2019, i.e. in 2022.
- Employees covered by the terms and conditions of the LTV 2019 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 2020, transfer no more than 800,000 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.

### **17.3 Equity Swap Agreement with third party in relation to the LTV 2019**

In the event that the required majority for approval is not reached under item 17.2 above, the financial exposure of the LTV 2019 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 2019.

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### **Majority rules**

The resolution of the Annual General Meeting on implementation of the program according to item 17.1 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 according to item 17.2 a) 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 and the Annual General Meeting's resolution on transfer of treasury stock according to item 17.2 b) above requires that shareholders representing at least two-thirds 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 17.3 above requires that more than half of the votes cast at the Annual General Meeting approve the proposal.

### **Information on shareholding guidelines for Group Management**

The Board of Directors have adopted the following shareholding guidelines to be applied to the current and future members of the Executive Team effective from January 1, 2019, in order to encourage acquiring and maintaining a level of ownership of shares that more closely aligns the interests of the members of the Executive Team with those of the Company's shareholders:

- The President and CEO is required to build up and maintain a shareholding equivalent to at least 200% of his annual base salary,
- The other members of the Executive Team are required to build up and maintain a shareholding equivalent to at least 75% of their annual base salaries.

The current members of the Executive Team will have five years to build up the required share ownership starting from January 1, 2019. In case of new appointments to the Executive Team, the new members will be expected to fulfill the share ownership requirement at the fifth anniversary of the receipt of their first grant of Performance Share Awards under the LTV program.

The Board of Directors will consider as counting towards the applicable shareholding objective;

- any interests in Ericsson series B shares held or acquired directly by the member of the Executive Team,
- any vested but unexercised options (on a post-tax, post-exercise cost value), and
- any equity awards held by the member of the Executive Team where performance and/or employment conditions have been met but which are subject to a holding period (on a post-tax basis).

Any unvested share, synthetic share or share option awards subject to performance conditions or continued employment shall not count towards the shareholding guideline. The Remuneration Committee shall monitor adherence to the shareholding guidelines and report periodically to the Board of Directors, and inform the members of the Executive Team, of the extent to which the shareholding guidelines have been met.

### **Description of ongoing variable compensation programs**

In addition to the LTV-programs, which are directed at the members of the Executive Team, the Company also has 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 the following share-related compensation programs for 2019. The Executive Performance Plan 2019 ("**EPP 2019**") 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 2019. There are two award levels at 15% and 22.5% 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 2019 at the time of grant. 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 2019, 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 2019. The maximum total cost effect of the EPP 2019 on the income statement, including social security fees, is estimated to be approximately SEK 320 million distributed over the years 2019-2022.

The Key Contribution Plan 2019 ("**KC Plan 2019**") is designed to recognize the best talent, individual performance, potential and critical skills as well as encourage the retention of key employees. Approximately 7,200 employees will be eligible for the KC Plan 2019. 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 2019 at the time of grant. The program has a three year total vesting 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 vesting period. At the date of payout for each installment 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 2019. The maximum total cost effect of the KC Plan 2019 on the income statement, including social security fees, is estimated to be approximately SEK 1.6 billion distributed over the years 2019-2022.

The Company's ongoing variable compensation programs are described in further detail in the Annual Report 2018 in the Notes to the consolidated financial statements, Note G3: Share-based compensation 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 2019**  
**The Board of Directors**