

Remuneration

Remuneration at Ericsson is based on the principles of performance, competitiveness and fairness and our remuneration policy together with the mix of several remuneration elements are designed to reflect these remuneration principles in a balanced way by creating an integral remuneration package. For our senior management, total remuneration consists of fixed salary, short-term and long-term variable remuneration, pension and other benefits. If the size of any of these elements should be increased or decreased, at least one other element has to change where the competitive position should remain unchanged.

This chapter outlines with specific references to senior management how we implement our remuneration policy throughout Ericsson in line with corporate governance best practice. Details of Board Directors' fees and remuneration of senior management comprising the Group Management Team, including the CEO, hereafter referred to as "Group Management" can be found in Notes to the Consolidated Financial Statements – Note C29, "Information regarding Employees, Members of the Board of Directors and Management". The Company is required to submit the formal remuneration policy for senior management for shareholder approval at the Annual General Meeting. The proposed resolution for 2009, which remains materially the same as the 2008 policy, together with resolutions relating to the Company's long-term variable remuneration plans are set out in the Notice of Annual General Meeting on Ericsson's website (www.ericsson.com). The auditors' opinion on how we have followed our policy during 2008 is also posted on the website.

The Remuneration Committee

Remuneration processes by the nature of their sensitivity require clear controls. Within Ericsson these controls are built on three foundations: Audit controls, our internal system that requires two levels of managers to approve any remuneration decision and Board of Directors and Remuneration Committee authorization.

The Remuneration Committee advises the Board of Directors on an ongoing basis on the remuneration of Group Management, including fixed salaries, pensions, other benefits and short-term and long-term variable remuneration. The Remuneration Committee also approves variable remuneration outcomes, prepares remuneration related proposals for Board and shareholder approval and develops and monitors the remuneration policy, strategies and general guidelines for

employee remuneration. The Committee considers pay and employment conditions throughout the Company when dealing with Group Management remuneration.

The Remuneration Committee is chaired by Michael Treschow and its other members are Nancy McKinstry, Börje Ekholm and Monica Bergström, all of whom are non-executive directors and independent as required by the Swedish Code of Corporate Governance. The Chairman continues to ensure that the Company maintains contact, as necessary, with its principal shareholders on the subject of remuneration.

The Company's General Counsel acts as secretary to the Committee and the CEO, the Senior Vice President Human Resources & Organization and the Vice President Compensation & Benefits attend the Remuneration Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are being discussed or decided.

The Remuneration Committee has appointed an independent expert advisor, Gerrit Aronson, to assist and advise the Committee. Gerrit Aronson provided no other services to the Company during 2008. The Remuneration Committee is also provided with national and international pay data collected from external survey providers and can call on other independent expertise should it so require.

The purpose and function of the Remuneration Committee will continue going forward and its terms of reference can be found on our website. These terms of reference, together with the remuneration policy, are reviewed annually in light of matters such as changes to corporate governance best practice or changes to accounting, legislation, political opinion or business practices among peers. This helps to ensure that the policy continues to provide Ericsson with a competitive remuneration strategy and, in accordance with Swedish law, the policy for senior management is brought to shareholders annually for approval.

Fixed Salary

Fixed salaries are set to be competitive within an individual's home market, taking into account global remuneration practices. The absolute levels are determined by the size and complexity of the position and the year-to-year performance of the individual. Group Management salaries are, together with other elements of remuneration, subject to an annual review by the Remuneration Committee, which considers external pay data to ensure that levels of pay remain competitive and appropriate in light of the Company's remuneration policy. When setting fixed salaries the

Remuneration Committee considers the impact on total remuneration, including pension contributions and associated costs.

Variable Remuneration and Performance

At Ericsson we strongly believe that, where possible, we should encourage variable remuneration throughout the Company to first and foremost align employees with clear and relevant targets and also to enable more flexible payroll costs whilst emphasizing the link between performance and pay.

Performance is specifically reflected in the variable remuneration – both in an annual variable component and in a long-term variable part. Although this may vary over time to take account of pay trends, currently the target level of the short-term variable remuneration for Group Management is between 30 and 40 percent of the fixed salary, but outcomes can vary between zero and twice the target opportunity. The long-term variable remuneration is set to achieve a target of around 30 percent of the fixed salary. In both cases the variable pay is measured against the achievement of specific business objectives, reflecting the judgment of the Board of Directors as to the right balance between fixed and variable pay and the market practice for remuneration of executives. All variable remuneration plans have maximum award and vesting limits.

Short-Term Variable Remuneration

The annual variable remuneration is through cash-based programs, with specific business targets derived from the annual business plan approved by the Board of Directors. The exact nature of the targets will vary depending on the specific position but the aim is for them to support united goals and for individuals to be able to affect outcomes. For Group Management targets are predominantly financial targets at either Group level or at a specific business unit level and may also include operational targets and employee motivation targets.

We operate global short-term variable plans for management and for sales professionals and these plans are adapted to local requirements. The Board of Directors and the Remuneration Committee decide on all Ericsson Group targets, which are cascaded to unit-related targets, all subject to the two level management approval process. The Remuneration Committee monitors the appropriateness and fairness of the target levels throughout the year and has the authority to revise them should they not remain relevant, stretching and/or enhance shareholder value. Employees not covered by global short-term variable plans may be eligible for local plans, which vary in design according to local competitive practice.

Long-Term Variable Remuneration

Share based long-term variable remuneration plans are submitted each year for approval by shareholders at the Annual

General Meeting. For Group Management the payout is determined by three specific variables: The individual's own investment in shares, a long-term financial target at Group level and the share price development.

All long-term variable remuneration plans are designed to form part of a well-balanced total remuneration and their central role in Ericsson's remuneration system was positively confirmed in our extensive review during 2007, reported in last year's annual report. Ericsson has no formal guidelines for equity ownership but the long-term variable remuneration facilitates that Group Management and a large proportion of Ericsson's employees build up a significant personal ownership in the Company's stock over time. This is achieved through a combination of personal investment and share-based remuneration made up of three different but linked plans: The all employee Stock Purchase Plan, the Key Contributor Retention Plan and the Executive Performance Stock Plan.

The Stock Purchase Plan

The all employee Stock Purchase Plan is designed to offer, where practicable, an incentive for all employees to participate in the Company, reinforcing a "One Ericsson" aligned with shareholder interests. Employees can save up to 7.5 percent (CEO 9 percent) of gross fixed salary for purchase of Class B shares at market price on the OMX NASDAQ Stockholm or ADSs at NASDAQ (contribution shares) during a twelve-month period. If the contribution shares are retained by the employee for three years after the investment and employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of class B shares or ADSs free of consideration. The plan was introduced 2002 and employees in 94 countries participate. In December 2008 the number of participants was 19,000 or approximately 25 percent of employees.

Participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment and hence the matching spans over two financial years and two tax years.

The Key Contributor Retention Plan

The Key Contributor Retention Plan is part of Ericsson's talent management strategy and is designed to give individuals recognition for performance, critical skills and potential as well as encourage retention of key employees. Under the program, operating units around the world are given quotas that total no more than 10 percent of employees world-wide. Each unit then draws up a nominations list of individuals that have been identified according to performance, critical skills and potential. The nominations are moderated in management teams locally and reviewed by both local and corporate Human Resources to

ensure that there is a minimum of bias and a strong belief in the system. Participants selected obtain one extra matching share in addition to the one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve month program period. The plan was introduced in 2004.

The Executive Performance Stock Plan

The Executive Performance Stock Plan was also first introduced in 2004. The plan is designed to focus management on driving earnings and provide competitive remuneration. Senior executives, including Group Management, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the one matching share for each contribution share purchased under the all employee Stock Purchase Plan. For the programs since 2006, the CEO is allowed to invest up to 9 percent of fixed salary in contribution shares and may obtain up to eight performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching is subject to the fulfillment of an Earnings per Share (EPS) performance target.

The past and continued use of average annual EPS growth relative to challenging and stretching targets as a performance measure reflects the Company's ongoing strategy of adding shareholder value through the long-term improvement of profitability. Furthermore, the use of a constant and key financial performance measure alongside the inherent share price focus of the co-investment principle ensures close alignment with the long-term interests of shareholders whilst providing clear, transparent and continuous line-of-sight for participants. The Remuneration Committee has been satisfied that the present approach remains preferable to other measures, including those that reflect relative performance, but alternative measures are considered on an ongoing basis.

The performance targets are not capable of being retested after the end of the three-year performance period. If the minimum required performance is not achieved, all matching shares subject to performance will lapse. The Board may also reduce the number of performance matching shares, if deemed appropriate, considering the Company's financial results and position, conditions on the stock market and other relevant circumstances at the time of matching.

Pensions and other benefits

Pension benefits follow the competitive practice in the employee's home country and in addition to any national system for social security, pension benefits may contain various supplementary company plans. The basic principle is that other benefits, such as company car and medical insurance, shall also be competitive in the local market.

To summarize, remuneration at Ericsson is based on the principles of performance, competitiveness and fairness, and the remuneration policy together with the mix of several remuneration elements are designed to reflect these remuneration principles in a balanced way by creating an integral remuneration package. For our senior management, total remuneration consists of fixed salary, short-term and long-term variable remuneration, pension and other benefits. If the size of any of these elements should be increased or decreased, at least one other element has to change where the competitive position should remain unchanged.