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NASDAQ STOCKHOLM'S

DECISION

20 September 2019

DISCIPLINARY COMMITTEE

2019:05

Nasdaq Stockholm

Telefonaktiebolaget LM Ericsson (publ)

DECISION

In its deliberations, the Disciplinary Committee has not found any cause to order sanctions against Telefonaktiebolaget LM Ericsson.

Motion

The shares in Telefonaktiebolaget LM Ericsson (publ) ("Ericsson" or the "Company") are admitted for trading on Nasdaq Stockholm AB ("Exchange"). The Company has signed an undertaking to comply with the Exchange's rules for issuers applicable from time to time ("Rule Book").

The Exchange has alleged that Ericsson, by failing to comply with the Exchange's request for a correction of the company's reporting of pension commitments in financial reports, has acted in contravention of generally accepted behavior on the Swedish securities market.

Ericsson has denied that it is guilty of the alleged violation of the Rule Book.

A meeting of the Disciplinary Committee took place in the matter on 9 September 2019 at which the Exchange was represented by Karin Ydén (Head of Issuer Surveillance), Jimmy Kvarnström (Head of European Surveillance) and Andreas Blomquist (Senior Legal Counsel). Ericsson was represented by Maria Larsson (Head of Corporate Governance and Dispute Resolution), Carl Mellander (CFO), Jonas Stringberg (Group Controller), Gunnar Nyman (Senior Accounting Specialist) and *Advokat* Eva Hägg.

Reasons for the decision

The Rule Book

Section 5 of the Rule Book states, *inter alia*, the following:

In the event of a failure by the Issuer to comply with law, other regulations, that part of the current information rules which the Issuer has undertaken to comply with, or generally acceptable behavior in the securities market, the Exchange may, where such violation is serious, resolve to delist the Issuer's traded financial instruments or, in other cases, impose on the Issuer a fine corresponding to not more than 15 times the annual fee paid by the Issuer to the Exchange. Where the non-compliance is of a less serious nature or is excusable, the Exchange may issue a reprimand to the Issuer instead of imposing a fine.

The Issuer shall upon request by the Exchange supply the Exchange with the information it requires for the supervision of the Issuer's compliance with law, other regulations, that part of the current information rules which the Issuer has undertaken to comply with, or generally acceptable behavior in the securities market.

Considerations

Background

Up until 1 January 2019, the Exchange was obligated to carry out surveillance of regular financial information prepared by issuers whose negotiable securities were admitted for trading on Nasdaq Stockholm. As a part of the surveillance, the Exchange reviewed Ericsson's annual accounts for 2016 in relation to the provisions set forth in the IAS regulation and the Swedish Annual Accounts Act. In the review, the Exchange was of the opinion that the Company had calculated Swedish pension commitments in contravention of IAS by calculating the discount interest rate for its Swedish pension commitments based on Swedish government bonds instead of mortgage bonds and therefore the Exchange criticized the Company's accounting of pension commitments and requested, in its final correspondence dated 14 May 2018, a correction in future reports. The Company was requested to adjust its calculations from the third quarter of 2015 going forward. Correction would take place retroactively in the next interim report and in subsequent annual reports. The matter was thereby concluded in this respect as far as the Exchange was concerned. However, the Company was of the opinion that its reporting of pension commitments was correct and that, in light of this, the Company was prevented from effecting any correction in line with what the Exchange had requested. The instant matter involves the Company's failure to take corrective measures according to the Exchange's final correspondence of 14 May 2018.

The Exchange has argued: Despite the fact that the surveillance duties which the Exchange previously performed regarding issuers' financial reporting was based on legislation, this surveillance falls instead under the self-governance area rather than that of the exercise of public authority. The Exchange was not obligated to consider administrative law regulations within the scope of the surveillance responsibility and also did not have any coercive measures at its disposal to compel compliance with any measures against an issuer who it had been determined had applied the accounting rules in an insufficient or erroneous manner. Consequently, the surveillance structure has been based on issuers, as a part of generally accepted behavior, being obligated to observe and comply with the Exchange's decisions and measures. In light of this, it must be deemed to constitute generally accepted behavior on the

securities market that issuers must comply with decisions taken by the Exchange on which the issuer's shares are admitted for trading. An issuer's failure to comply with the Exchange's decision must therefore be regarded as non-compliance with generally accepted behavior on the securities market according to section 5 of the Rule Book. Ericsson has elected not to comply with the Exchange's decision of 14 May 2018 through which the Exchange criticized the Company with a request for corrective measures. The Exchange is of the opinion that the Company, by not complying with the Exchange's request of 14 May 2018 for corrective measures, has acted in contravention of generally accepted behavior on the securities market which risks damaging public confidence in the Exchange and the securities market generally.

Ericsson has argued: The Exchange has criticized the Company's reporting of the Swedish pension commitments and requested corrective measures according to what the Exchange believes to be a correct interpretation of the applicable accounting rules. The Exchange's interpretation would entail that the Company's pension liabilities would be reported at an amount which is more than SEK 10 billion lower as per 30 June 2019 than is the case with the rate of interest applied by the Company, at the same time as the Company's shareholders' equity would increase by SEK 8 billion. For its part, Ericsson is of the opinion that its reporting is in accordance with the applicable accounting rules. The Company has obtained an opinion from PWC's international accounting experts whose opinion is that the Company's calculation of the discount interest rate for its Swedish pension commitments based upon Swedish bonds is in compliance with generally accepted accounting principles and that the Company may not change to a calculation based on mortgage bonds unless the Company can provide very good reasons for such a change. Since, in the opinion of the Company, good reasons for changing accounting principles do not exist and the Exchange has also not stated any such reasons, the Company believes that it is prevented from effecting the correction requested by the Exchange since the Company would otherwise risk a qualified auditor's report. In addition, the Company would risk criticism by the US Securities and Exchange Commission (SEC) since the Company's shares are also listed in New York. However, in all of its financial reports published after the Exchange's decision, the Company has provided information regarding what the size of the Swedish pension commitments would be if they were calculated as requested by the Exchange in order to satisfy the demands by the Exchange to the extent possible. The Company is also currently carrying out a renewed analysis regarding the discount interest rate for calculation of pension liabilities.

The Disciplinary Committee notes that this is not the proper forum for determining a question regarding how listed companies must report in various respects. The Disciplinary Committee therefore only addresses the question of whether it would contravene generally accepted behavior on the securities market if the Company has not complied with the Exchange's request for corrective measures regarding the reporting of which the Company was informed in the final correspondence on 14 May 2018.

In the opinion of the Disciplinary Committee, as a rule, generally accepted behavior on the securities market requires that issuers comply with the instructions of the Exchange. The Exchange's request for corrective measures was, in the instant case, part of the surveillance of the regular financial information which must be prepared by issuers whose securities have been admitted for trading on Nasdaq Stockholm – a

duty which the Exchange had until 1 January 2019. The facts are in several respects special and the committee attaches particular importance to what the Company has argued to the effect that the Company did not have the possibility of complying with the Exchange's instructions without risking a qualified auditor's report as well as criticism from the SEC, and that the Company did not have the possibility to have the Exchange's decision on the accounting question heard on appeal which under the new system now applicable to reporting supervision would have been possible.

Considering the statements set forth above and in light of the fact that the Company provided supplemental information in its financial reporting after the Company had received the Exchange's request for corrective measures and that the error alleged by the Exchange, in the opinion of the Exchange, was not of a serious nature, the Disciplinary Committee is of the opinion that the omitted corrective measures were not so serious that the Company can be deemed to have violated generally accepted behavior on the securities market.

The Disciplinary Committee thus finds that, taking into consideration the special circumstances, Ericsson's actions should not give rise to any sanctions.

On behalf of the Disciplinary Committee,

Marianne Lundius

Former Justice Marianne Lundius, company director Carl-Johan Högbom, company director Jack Junel, MBA Ragnar Boman and former authorized public accountant Svante Forsberg participated in the committee's decision.

Secretary: *Jur. kand.* Erik Lidman