

November 27, 2007

Research Update:

Outlook On Ericsson Revised To Negative On Operating Pressures; 'BBB+/A-2' Ratings Affirmed

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Rationale

On Nov. 27, 2007, Standard & Poor's Ratings Services revised to negative from stable its outlook on Swedish telecommunications equipment supplier Ericsson (Telefonaktiebolaget L.M.).

The 'BBB+' long-term and 'A-2' short-term corporate credit ratings were affirmed.

The outlook revision follows Ericsson's announcement that fourth-quarter 2007 revenues will likely be in the low end of its very broad expectation range of SEK53 billion-SEK60 billion. This follows significantly weaker-than-expected profits and cash flows for third-quarter 2007, the announcement of low fourth-quarter profits in October, and the ensuing departure of the company's chief financial officer.

Ericsson's revenues and profit expectations attest to very strong competition among telecom equipment suppliers, in spite of recent large-scale consolidation. In addition, visibility on demand is likely to remain poor, as telecom operators in developed markets continue to postpone or delay investment decisions amid regulatory and competitive pressures, leading to overcapacity in the telecom equipment sector. Growing subscriber numbers in emerging markets have failed to offset this overcapacity, in revenue terms, because of strong pricing pressure. Although Ericsson's profit margins are significantly higher than those of competitors, third-quarter margins and revised forecasts are below our previous expectations of operating margins in the high teens.

Ericsson's ratings remain supported by the company's leading market position in key second-generation (2G) and third-generation (3G) mobile network technologies, where it claims more than 40% global market share. Ericsson also benefits, through dividends, from its 50% ownership of the strongly performing mobile handset producer Sony Ericsson Mobile Communications AB (SEMC) and from its increasing role in the growing and more recurring professional services business. The ratings are also supported by expectations that Ericsson will continue to post high operating efficiency and returns--thereby coping with price pressure--and maintain robust liquidity and low gross leverage. At Sept. 30, 2007, Ericsson's gross lease- and pension-adjusted debt represented about 1.0x EBITDA, and was more than covered by cash and short-term investments.

The ratings remain constrained by the high competitiveness and cyclicity of the industry, ongoing major changes in the direction of technology--including the convergence of fixed and mobile technologies--and the limited visibility on capital-spending levels of telecoms service providers beyond one year.

Short-term credit factors

The short-term rating is 'A-2'. At Sept. 30, 2007, Ericsson's liquidity was robust, supported by cash and equivalents of SEK20.6 billion and short-term investments of SEK23.3 billion. Near-term nonoperational cash calls at the same date included short-term borrowing repayments of SEK5.4 billion.

Given the cyclical nature, competitiveness, excess supply capacity, and rapid technological changes that characterize the global telecoms equipment industry, we expect Ericsson to maintain a solid net cash position at all times and sufficient gross liquidity to generally cover gross debt maturities for about two years.

Outlook

Although we expect Ericsson's performance to pick up by second-half 2008, the negative outlook reflects the possibility of a one-notch downgrade if this does not occur or if performance deteriorates further in the coming quarters. Notably, we will closely monitor the company's margins and cash flow. We will also monitor developments on the proposed shareholder lawsuit which has followed the company's recent share price drop.

An improved operating performance, coupled with the maintenance of conservative debt measures, could lead to the outlook returning to stable. In the current trading environment, however, we would not expect this to occur before year-end 2008.

Ratings List

	To	From
Corporate credit rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Senior unsecured rating	BBB+	BBB+

NB: This list does not include all ratings affected

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