

Moody's Investors Services

Global Credit Research

Rating Action

17 FEB 2003

**Rating Action: Telefonaktiebolaget LM Ericsson**

**MOODY'S DOWNGRADES ERICSSON'S SENIOR UNSECURED RATINGS TO B1; CONCLUDES RATING REVIEW; OUTLOOK NEGATIVE**

**Approximately € 5.0 Billion Debt Securities Affected**

Frankfurt, February 17, 2003 -- Moody's Investors Service has downgraded to B1 from Ba2 the long-term debt ratings of Telefonaktiebolaget LM Ericsson (Ericsson), the issuer and the senior implied ratings. The outlook for these ratings is negative. The Not-Prime rating for the company's short-term debt was not on review and is confirmed. The rating action concludes a rating review that was initiated on 6 February, 2003.

The rating downgrade reflects: (i) the severe contraction in Ericsson's revenue flow during the fourth quarter with no material indications of a near-term stabilisation, (ii) the resulting large cash burn during 2002, which in Moody's view, will increase once cash releases from working capital are exhausted, and (iii) the need for additional downsizing should the current rate of business decline of above 30% extend well into 2003. The negative outlook for the ratings reflects the low visibility of telecom operator spending and the potential for a persistent high rate of decline for Ericsson's revenues that could cause erosion of the company's high cash reserves. The rating action is based primarily on our review of Ericsson's public fourth quarter earnings release and various presentations to analysts and reflects Moody's expectations for market and company development.

In its B1 rating, Moody's is concerned that Ericsson's revenues may continue declining by more than 30% through the most part of 2003. A stabilisation may not set in before next year. This scenario would result in a need for additional restructuring measures for Ericsson, which because of their severity, carry material execution risk. It would also cause a high net cash burn from operations, restructuring, and repayment of maturing debt since the potential for further cuts in working capital is limited.

SonyEricsson, the mobile phone joint venture, is considered core by Ericsson and has required additional cash support of EUR 150 million as capital injection. The business is well capitalised today, but faces a challenging path to cash flow break-even.

At fiscal year end 2002, Ericsson had cash and marketable securities of SEK 66 billion (EUR 7.15 billion) and net cash of SEK 5.6 billion (EUR 600 million) after deduction of financial debt and pension obligations. At Moody's currently estimated cash consumption rate from operations and financial obligations, the company's free liquidity should last well beyond calendar year 2003.

Moody's has downgraded the following ratings to B1 from Ba2:

- Telefonaktiebolaget LM Ericsson: Euro Medium-Term Notes, the US\$600 million revolving credit, the issuer rating, and the senior implied rating.

Moody's has confirmed the following Not-Prime ratings:

- Ericsson Treasury Services AB: guaranteed US and Euro commercial paper.
- Ericsson Treasury Services U.S. Inc.: guaranteed US commercial paper.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of mobile telecoms and datacom equipment, and recorded revenues of about SEK146 billion (EUR 15.8 billion) in fiscal year 2002.

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