

**Rating Action: Telefonaktiebolaget LM Ericsson****MOODY'S DOWNGRADES ERICSSON'S SENIOR DEBT TO Ba1/NOT-PRIME AND CONTINUES TO REVIEW ALL RATINGS FOR POSSIBLE FURTHER DOWNGRADE SUBJECT TO PENDING UNDERWRITTEN RIGHTS ISSUE****Approximately \$5.2 Billion of Debt Securities Affected.**

Frankfurt, July 26, 2002 -- Moody's Investors Service has downgraded to Ba1 from Baa3 the long-term debt ratings of Telefonaktiebolaget LM Ericsson (Ericsson) and lowered to Not-Prime from Prime-3 the company's short-term debt rating. The rating downgrade is based on the accelerated decline for operator's investments in current generation wireless equipment as evidenced by Ericsson's weak order inflow in Q2 2002 and the challenges faced by management in quickly implementing additional downsizing measures and further reducing working capital. At the same time, the Ba1 rating also factors the successful renegotiation of Ericsson's undrawn US\$600 million revolving credit facility and the additional liquidity expected from the pending SEK30 billion rights issue. Both are critical elements that will provide the time needed by Ericsson to adjust its cost base to rapidly declining demand. The ratings will remain under review until the completion of the rights issue, whereupon Moody's expects to confirm the Ba1 ratings with a negative outlook - unless due diligence during the period up until 3 September 2002 leads to indications of a severe further contraction in the business beyond current assumptions or to concerns about the company's ability to achieve its cost-saving and working capital reduction plans. Failure to complete the rights issue is likely to lead to a rating downgrade of more than one notch. Moody's understands that the downgrade to Ba1 will not in itself release the underwriters from their commitment to purchase the shares.

Moody's has downgraded the following ratings to Ba1 from Baa3:

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

Moody's has downgraded the following ratings to Not-Prime from Prime-3:

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

All ratings remain on review for possible further downgrade.

According to Moody's, Ericsson's current low order inflow and the recent downward revision to its market outlook emphasise the extremely low visibility and sustainability of demand in the telecoms equipment industry. Moody's is now concerned that Ericsson's 2002 revenues may fall materially below the SEK 170 billion revenues assumed in the previous rating scenario. Even though the company has been able to maintain market share and gross margins, the sheer rate of decline

in revenues makes it more challenging for Ericsson to devise and implement cost-saving plans sufficient to fully compensate for this projected difference in revenue.

Ericsson has just announced the third level of its cost reduction programmes designed to raise total annual benefits of SEK10 billion in operating expenses and further savings through cost of sales reductions. These are in addition to the SEK20 billion already realised from the first programme and the SEK20 billion second stage currently being implemented. The goal is to achieve a cost base by Q4 2003 that allows for break-even earnings before tax, even at annual revenues as low as SEK120 billion. In acknowledgement of the increased challenges associated with implementing these programmes, Moody's has accepted this target as a core assumption for the Ba1 rating and will monitor the progress of these programmes.

Ericsson currently reports cash liquidity of about EUR4.8 billion and maintains a moderately leveraged balance sheet, despite the contingent obligations for the off-balance sheet vendor-financing portfolio and the strategic importance of the SonyEricsson joint venture. However, Moody's retains concerns about drawdowns and write-downs in the vendor financing portfolio and about the possibility of further capital needs by the SonyEricsson venture.

Given the rising gap between revenues and costs and the resulting cash burn, Ericsson relies heavily on cash releases from working capital and the pending rights issue to maintain its financial flexibility. In its Ba1 rating scenario, the rating agency expects gradually reducing cash flow deficits and clearly positive free cash flows (before working capital changes) from early 2004 onwards. In this scenario, the liquid reserves, including the critical rights issue, considerably exceed the projected cash deficits and the refinancing needs for rating-sensitive funding arrangements.

Moody's notes that Ericsson's core banks and key shareholders have confirmed their ongoing support by underwriting the pending equity offering. Moody's Ba1 rating is based on the expectation of continued support by the banks and key shareholders. The end of the subscription period is scheduled for 3 September 2002, after which Moody's would expect to conclude its rating review.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of mobile telecoms and datacom equipment, and recorded revenues of about SEK75 billion (EUR7.5 billion) in the first six months of fiscal year 2002.

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