

Rating Action: Telefonaktiebolaget LM Ericsson

Moody's upgrades Ericsson's debt ratings to Baa1/Prime-2 with stable outlook

Approximately SEK 11 Billion debt securities affected

Frankfurt, May 14, 2007 -- Moody's Investors Service today upgraded to Baa1 from Baa2 the long term debt ratings of Telefonaktiebolaget LM Ericsson ("Ericsson") and affirmed the company's Prime-2 short term debt ratings. The outlook for the ratings is stable.

Wolfgang Draack, Senior Vice President and Moody's lead analyst for European technology companies, said that "The rating upgrade is based on Ericsson's growing track record of robust profitability and very conservative financial structure balancing its exposure to the cyclical telecommunications equipment industry with moderate growth expectations and a consolidating customer and supplier base."

In particular, the rating agency cited as drivers for the rating action: (i) the expectation that Ericsson's market leadership in wireless infrastructure (above 30% global market share for GSM and WCDMA wireless systems) as well as in the next generation network systems will prove defensible, (ii) the fact that Ericsson has sustained its strong operating performance of growth and profitability, most remarkable a 15% CAGR for revenues and a solid double-digit operating margin for the last three years as calculated by Moody's, and (iii) the maintenance of significant financial flexibility with gross cash and short term investments of around SEK52 billion (EUR5.8 billion) exceeding debt by SEK 24 billion (EUR2.7 billion), and (iv) a strong free cash flow exceeding 15% of gross debt, which is also supported by flexible working capital management and lean capital expenditure over the cycle. Going forward we would expect the rising share of service contracts among Ericsson's systems revenues (32% of systems revenues in 2006) and improvements in its competitive cost base and operating flexibility to contribute to more stable earnings and cash flows regardless of a potential correction of equipment orders from their currently high levels.

The extent of the rating upgrade is constrained by (i) Ericsson's reliance on one sector, mobile communication networks with a concentrated customer base, (ii) the expected moderate growth of the telecom equipment industry at mid single-digit rate given the maturing GSM technologies that still represent the majority of systems market, despite the accelerating rollout of 3G- and IP-networks, (iii) the consolidation among both telecom operators and equipment providers, which may shift market shares and intensify price competition, and (iv) technology risk as evidenced by challenging transition periods between maturing and new technologies (for example the current roll-out of 3rd generation equipment) and the convergence of fixed and mobile networks.

The stable outlook for the rating incorporates the consideration that the slowing organic growth in the near term should not depress the company's operating margin below the mid-teens due to its operating flexibility reflected in short R&D lead time and manufacturing scale in the mobile infrastructure segment. The company will be challenged to maintain its high level of free cash flow (SEK 6 billion in 2006), given increasing working capital consumption (SEK 10 billion) from growing turnkey projects with longer cash conversion periods. We anticipate the company would maintain a substantial amount of cash reserves going forward and cautiously use it for bolt-on acquisitions to provide complementary technologies in network convergence and multimedia applications. In addition, consolidations in its industry like the Nokia-Siemens and Alcatel-Lucent mergers may affect Ericsson either as a participant with additional restructuring and integration needs or indirectly via accelerating price pressure.

Upgrades:

..Issuer: Telefonaktiebolaget LM Ericsson

....Senior Unsecured Bank Credit Facility, Upgraded to Baa1 from Baa2

....Senior Unsecured Medium-Term Note Program, Upgraded to Baa1 from Baa2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

Moody's previous rating action on Ericsson was the upgrade of its ratings to Baa2/Prime-2 with stable outlook on 27 June 2006.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of telecom equipments, and recorded revenues of about SEK178 billion (EUR19.3 billion) in the fiscal year 2006.

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