

## Research:

### S&PCORRECT: Ericsson Ratings Lowered to 'BB+/B'; Long-Term Ratings Remain on Watch Neg

Publication date: 01-Aug-2002

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(Editor's note: This media release, issued earlier today, has been republished to clarify misstated rating actions appearing in the first paragraph. A corrected version follows.)

LONDON (Standard & Poor's) Aug. 1, 2002--Standard & Poor's Ratings Services said today it lowered its long-term corporate credit rating on Sweden-based telecommunications equipment manufacturer Ericsson (Telefonaktiebolaget L.M.) to double-'B'-plus from triple-'B'-minus and its short-term corporate credit rating on the group to 'B' from 'A-3' due to the continued deterioration in Ericsson's credit profile. All long-term ratings remain on CreditWatch with negative implications, where they were placed on July 22, 2002, pending the completion of Ericsson's critical Swedish krona (Skr) 30 billion (\$3.13 billion) rights offering. The short-term ratings were removed from CreditWatch, where they were also placed on July 22, 2002.

"The rating actions reflect the continuing deterioration in Ericsson's core mobile systems market and the expectation that market conditions will remain extremely challenging in the near term. This has resulted in the further weakening of Ericsson's credit profile," said Peter Kernan, head of Standard & Poor's European telecoms group. "Given the weakness of market conditions, Ericsson's rights offering is of critical importance, owing to the need for the group to strengthen its liquidity to provide a buffer against substantial ongoing cash needs," he added.

Although Ericsson continues to have a strong market position in its key mobile infrastructure business, market conditions continue to deteriorate as mobile operators globally strive to improve second-generation (2G) capital efficiency and cash flow, and to delay third-generation (3G) network roll-out given the continuing uncertainties of the 3G business model. This has led to a substantial decline in Ericsson's sales, which has resulted in the group generating ongoing operating losses and negative free operating cash flow.

Ericsson announced with its second quarter results that it expects the global mobile systems market will decline by more than 15% in 2002, compared with its previous forecast of a decline of more than 10%. The continued weakness in demand resulted in the group's orders declining by about 16% sequentially in the second quarter of 2002 to Skr35.3 billion. As a consequence, Ericsson announced further restructuring, which, according to the group, will allow it to break even at an annual sales level of about Skr120 billion by the fourth quarter of 2003 (compared with Skr273 million in 2000 and Skr232 million in 2001). Ericsson continues to adhere to its challenging goal of returning to operating profitability at some time in 2003, however.

The ratings continue to assume that the group will complete its proposed Skr30 billion rights offering. The fully underwritten offering is of critical importance given Ericsson's uncertain trading outlook and the need for the group to strengthen its liquidity to provide a funding buffer against continuing cash losses, cash restructuring costs and maturing debt facilities.

Ericsson had cash balances of Skr48 billion at June 30, 2002. Pro forma for the rights offering, the group's cash balances will increase to about Skr77 billion. Ericsson also benefits from access to \$1.6 billion in undrawn backup bank lines, which are subject to standard conditions. This should provide Ericsson with adequate liquidity to fund cash restructuring costs of about Skr17 billion and repay about Skr22 billion of maturing debt over the next 18 months. Ericsson also has undrawn vendor financing commitments of about Skr25.3 billion as at June 30, 2002. Ericsson's cash flow from operating activities was negative Skr8.5 billion in the first half of 2002 and cash flow before financing activities was negative Skr6.0

billion. Standard & Poor's understands that any further ratings downgrades would not result in the elimination of Ericsson's access to the backup bank lines or in the triggering of put options on customer financing facilities. Furthermore, Standard & Poor's has confirmed that this rating action does not violate the terms of the rights offering underwriting agreement, which Ericsson has entered into with certain banks.

"Ericsson's CreditWatch status will be resolved following the expected closing of the rights offering in the first half of September 2002," said Mr. Kernan. "If the offering is successful, and if there has been no further deterioration in the group's credit profile, the long-term ratings on Ericsson are likely to be affirmed at double-'B'-plus," he added.

A complete list of rating actions is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). They are also available on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Rating Actions, select Newly Released Ratings Listings. Alternatively, call the Standard & Poor's Ratings Desk in London at (44) 20-7847-7400.

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