

Moody's Investors Services

**Global Credit Research**

**Rating Action**

12 SEP 2002

**Rating Action: Telefonaktiebolaget LM Ericsson**

**MOODY'S DOWNGRADES TO Ba2 ERICSSON'S RATINGS FOR SENIOR DEBT; Ba2 SENIOR IMPLIED RATING ASSIGNED, CONCLUDES RATING REVIEW; LEAVING RATING OUTLOOK NEGATIVE**

**Approximately \$5.3 Billion of Debt Securities Affected.**

Frankfurt, September 12, 2002 -- Moody's Investors Service has downgraded to Ba2 from Ba1 the long-term debt ratings of Telefonaktiebolaget LM Ericsson (Ericsson) and assigned a Ba2 senior implied rating. The outlook is negative. The Not-Prime rating for the company's short-term debt was not on review and is confirmed. The previous rating action assumed the successful rights issue, which the company has completed. The rating downgrade reflects first and foremost the announcement by several wireless operators to withdraw from/scale back investment plans in 3rd generation (3G) wireless infrastructure dimming the outlook for a near term stabilization in Ericsson's orders, and to a lesser extent the increased probability of additional capital contributions to SonyEricsson, and the deterioration of Ericsson's receivables portfolio. Combined, these factors may result in additional cash calls on Ericsson's enriched liquidity position and possible write-offs to its equity. The negative outlook for the ratings reflects continued low visibility of the shrinking order patterns by the telecom carriers and execution challenges for Ericsson's cost saving strategy. The rating action concludes a rating review that was initiated on 23 April, 2002.

Moody's has downgraded the following ratings to Ba2 from Ba1:

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

Over the past couple of months, various mobile operators have publicly announced deferrals to their roll-out plans for 3rd generation wireless service. Quam, an Ericsson customer, has fully withdrawn from the German market. While this type of consolidation among the 3G licenceholders was not unexpected, the announcements indicate deteriorating economics for all investments in advanced wireless technology and a deceleration in the transition schedule. The sheer rate of decline in orders and revenues makes it very challenging for Ericsson to devise and implement cost-saving plans sufficient to fully compensate for the projected revenue shortfalls.

Ericsson has renegotiated its undrawn US\$600 million credit line to replace the rating trigger with financial covenants that relate to capital structure and liquidity rather than profit performance and are considered relatively benign as long as cash burn can

be controlled. Also the completed SEK 30 billion rights issue contributes to Ericsson financial resources. After the proceeds from the issue, Ericsson is expected to have about EUR 7.5 billion cash liquidity, an amount that actually exceeds its on-balance sheet debt by roughly EUR 1.5 billion. As such it has a moderately leveraged capital structure. But including guarantee obligations for customer loans, the undrawn vendor financing commitments, the contingent obligations for a take-back of items of the off-balance sheet vendor-financing portfolio and the strategic importance of and capital commitments to the SonyEricsson joint venture, Ericsson's financial flexibility and its ability to absorb cash burn from underperformance is much more limited.

Ericsson's receivables and vendor financing claims are almost exclusively to wireless operators. Given the financial pressures on many of these operators Moody's would expect a significant deterioration in receivable collectability and increase in charge-off rates going forward. Mobilcom and LEAP, the latter exposure amounting to SEK 1.1 billion outstandings and SEK 3.4 billion undrawn commitments, may have been only the first of a series of problem loans.

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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