Moody's Investors Service

Global Credit Research
Rating Action
18 FEB 2002

Rating Action: Ericsson Treasury Services Aktiebolag

MOODY'S DOWNGRADES TO Baa2 ERICSSON'S SENIOR DEBT RATING; CONFIRMS ITS RATING FOR SHORT-TERM DEBT AT PRIME-2; OUTLOOK REMAINS NEGATIVE

Approximately $4.9 Billion of Debt Securities Affected.

Frankfurt, February 18, 2002 -- Moody's Investors Service downgraded to Baa2 from Baa1 the long-term debt ratings of Telefonaktiebolaget LM Ericsson (Ericsson) and confirmed at Prime-2 the company's rating for short-term debt. The rating downgrade is based on the expectation of a continuing erosion of orders for 2nd generation wireless systems and additional deferrals of installation plans for 3rd generation equipment in the market. As that transition gap lengthens, Ericsson, who is heavily reliant on wireless infrastructure sales, is likely to experience severe earnings pressure and cash flow erosion from working capital build and customer financing, on- and off-balance sheet.

Management has prepared the company well financially, by shoring up cash liquidity and reducing overall debt, but that position is likely to erode, if revenues continue to decline at the current pace. The negative outlook for the ratings reflects continued low visibility of order patterns and transition paths for the wireless operators.

Ratings lowered to Baa2 from Baa1 are:

Telefonaktiebolaget LM Ericsson - for Euro Medium Tem Notes, the $600 million revolving credit, and the issuer rating.

Ratings confirmed at Prime-2 are for:

Ericsson Treasury Services AB -- for guaranteed US-commercial paper,

Ericsson Treasury Services U.S. Inc. -- for guaranteed US-commercial paper, and

Ericsson Treasury Ireland Ltd.-- for guaranteed Euro-commercial paper.

The build-out of 3rd generation mobile networks is proceeding slowly compared to initial expectations. The wireless operators are very carefully considering their complicated technology migration strategies before moving forward on considerable capital investment plans. At the same time, however, they are cutting back on upgrades for their existing legacy networks and the subscribers only gradually accept GPRS services. New orders for GSM from Asia/Pacific and US customers currently do not compensate for the Western European weakness in this segment. With its business focus on wireless infrastructure, Ericsson is suffering from these order declines and a return to reasonable margins is critically dependent on a significant order stabilization.

With its high market shares in the 3 key technologies: GSM, GPRS and UMTS (3rd generation), Ericsson is well positioned for the expected mass installation of new systems. However, the timing is very unclear at this stage. The longer the build-out by the major carriers is delayed, the faster Ericsson's technology advantage and financial strength would erode.

Management has substantially restructured the company's business profile, by spinning-off the handset operations into a joint venture with Sony, by outsourcing mass production activities, by licensing out technology know-how, and by streamlining production processes. In 2001 it also achieved its primary strategic goal of a positive cash flow mostly from working capital reductions and assets disposals. As a result the company is very liquid with almost EUR 7.4 billion in cash and cash equivalents and moderately leveraged, when considering the contingent obligations for the securitized vendor financing portfolio and the strategic importance of the Sony joint venture. The rating factors a significant build-up in working capital at least during the first half 2002 for seasonal reasons as well as for the current trend of orders. A further extension of the technology transition with the resulting restructuring needs would likely lead to a gradual erosion of Ericsson financial strength.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of mobile telecom and datacom equipment, and recorded revenues of about SEK232 billion (EUR 25 billion) in fiscal year 2001.

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