



Media Release

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Ericsson (Telfonaktiebolaget L.M.) Ratings Lowered to 'BBB/A-3/K-2'; Off Watch; Outlook Negative

Stockholm -- Standard & Poor's said today it lowered its corporate credit ratings on Sweden-based telecommunications equipment manufacturer Ericsson (Telfonaktiebolaget L.M.) to triple-'B'/'A-3' from triple-'B'-plus/'A-2.' This action follows concerns about the group's ongoing operating losses and poor trading conditions. The outlook is negative. K-1 was downgrade to K-2.

At the same time, all ratings were removed from CreditWatch, where they had been placed on April 23, 2002.

"The rating actions reflect Ericsson's ongoing operating losses due to the protracted downturn in demand for telecoms infrastructure and the expectation that there will no near-term improvement in performance because of the continued weakness in demand," said Peter Kernan, head of Standard & Poor's European telecoms group. "The ratings do, however, reflect the positive steps that Ericsson is taking to lower its cost base and also take into account the assumption that the group will successfully close its proposed rights issue. The issue, which is expected to raise about Swedish krona (Skr) 30 billion (\$2.95 billion), will strengthen Ericsson's capital structure, improve liquidity, and enhance strategic flexibility."

Although Ericsson continues to have a strong and sustainable market position in its key wireless infrastructure business, market conditions continue to deteriorate. This has led to a substantial decline in Ericsson's sales, which, given the relatively high break-even point of its business model, has resulted in the group generating ongoing operating losses. Nevertheless, the long-term fundamentals of Ericsson's markets are considered to be favorable, and the group is expected to continue to be one of the world's leading providers of telecoms infrastructure.

In the first quarter of 2002, Ericsson generated sales of SKr37 billion and adjusted operating income of negative SKr4.5 billion. Sales in Ericsson's key Systems business unit, which accounted for about 85% of first quarter sales, declined by 25% year-on-year and 33% sequentially, generating an operating loss of about SKr2.9 billion. As a result, the group's operating margin (adjusted for nonrecurring items) fell to negative 12% (from negative 7% in the fourth quarter of 2001). In addition, operating cash flow before working capital charges was negative SKr6.3 billion. Ericsson's liquidity remains adequate, however. At March 31, 2002, the group had short-term cash investments, and cash and bank of about SKr56 billion. Gross debt was about SKr81 billion.

In light of the deterioration in market conditions, Ericsson recently lowered its profit guidance for 2002 from a target operating margin of more than 5%, and now expects to make a loss this year, excluding restructuring costs and nonoperational items. With ongoing cost-cutting measures, the group plans to return to profit in 2003.

Ericsson will convene an extraordinary General Meeting of shareholders on June 6, 2002, to authorize the Board to launch a rights offering. The group expects to close the offering by the end of the third quarter 2002. Although there is a relatively long lead time before the issue closes--and, as a consequence, a degree of execution risk--Standard & Poor's expects the rights issue to be successful, based on current information. The group is also continuing to lower its break-even point through a restructuring program, and plans to lower its cost base by a further Skr20 billion by year-end 2003. Ericsson will incur restructuring costs of Skr8.5 billion in 2002 and Skr2.0 billion in 2003.

"To maintain the current ratings, Ericsson is expected to raise about Skr30 billion of new equity successfully, execute its restructuring program successfully, and turn round the performance of its infrastructure businesses. This should allow the group to return to profitability in 2003. The ratings also assume that there is no material increase in Ericsson's gross debt and that its liquidity remains reasonable," said Mr. Kernan.

A complete list of rating actions is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. They are also available on Standard & Poor's public Web site at 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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