STANDARD & POOR'S

CORPORATES

Swedish Ericsson Raised To 'BBB+/A-2' On Performance/Trading Review; Outlook Stable; Off Watch

***Primary Credit Analysts*:**
Leandro De Torres Zabala
Madrid
(34) 91-389-6965
leandro_detorreszabala@
standardandpoors.com

***Secondary Credit Analyst*:**
Patrice Cochelin
Paris
(33) 1-4420-7325
patrice_cochelin@
standardandpoors.com

Additional Contact: Industrial Ratings Europe
CorporateFinanceEurope@
standardandpoors.com

Publication Date
June 15, 2007

Rationale

On June 15, 2007, following a review of the operating performance and medium-term trading prospects of Ericsson (Telefonaktiebolaget L.M.), Standard & Poor's Ratings Services raised its long- and short-term corporate credit ratings on the Swedish telecommunications equipment supplier to 'BBB+/A-2' from 'BBB-/A-3', and removed them from CreditWatch, where they had been placed with positive implications on June 1, 2007. The outlook is stable.

The upgrade is predicated on our expectations that Ericsson will continue to benefit significantly from the expansion of the global mobile-systems market, thanks to its leading market positions in key second- and third-generation mobile-network systems technologies and its low cost break-even point. It also reflects Ericsson's remarkably strong capital structure and liquidity position, which mitigate the cyclicality of the telecommunications equipment industry.

Ericsson remains a leader in wireless technology, with about 40% global market share in GSM and WCDMA (wideband code division multiple access) mobile systems. The group has also improved its operational flexibility through cost cutting, outsourcing, and the delocalization of its production plants. As we expect the mobile-networks industry to grow at mid-single-digit rates in dollar terms over 2007, Ericsson should continue generating operating margins in the high teens and solid free operating cash flow. We also expect the group to benefit, through dividends, from its 50% ownership of the strongly performing mobile-handset producer Sony Ericsson Mobile Communications and from its increasing role in the growing services businesses (32% of 2006 revenues), which provide a more recurrent earnings base for the group. Ericsson's improved positions in key Internet protocol (IP)-related technologies, after the integration of a series of recent acquisitions, should also bear fruit over the medium term.

Ericsson performed strongly in 2006, with a robust 20.2% operating margin on sales of Swedish krona (SEK) 178 billion (€18.9 billion), and free operating cash flow of about €1.3 billion. In addition, Ericsson's financial profile was very conservative at year-end, with lease- and pension-adjusted gross financial debt to EBITDA of 0.8x and funds from operations to fully adjusted gross debt of 92%. At March 31, 2007, Ericsson had gross financial debt, including postemployment benefits, of about SEK22.6 billion.

The current ratings reflect the mobile-systems industry's expected mid-single-digit growth trajectory, as well as Ericsson's leading share of the global systems market, relatively low cost break-even point, well-established and generally creditworthy customer base, and very strong liquidity and capital structure. The ratings remain constrained, however, by a fiercely competitive industry that is resulting in strong price pressure, consolidation among carriers and vendors on both sides of the Atlantic, ongoing major changes in the industry's technology direction, and relatively weak trading visibility beyond one year.

Short-term credit factors

The short-term rating is 'A-2'. At March 31, 2007, Ericsson's liquidity was robust, supported by cash of SEK26.2 billion and short-term investments of SEK25.5 billion. At the same date, Ericsson had a $1 billion undrawn committed unsecured credit facility with a five-year maturity. Future near-term cash calls, other than operational, include short-term borrowings of SEK2.3 billion, the SEK7.1 billion payment for the acquisition of Tandberg TV, and dividends of about SEK7.9 billion.

Given the cyclicality, competitiveness, excess supply capacity, and rapid technological changes that characterize the global telecoms equipment industry, Standard & Poor's expects Ericsson to maintain a solid net cash position at all times and sufficient gross liquidity to generally cover gross debt maturities for three years.

Outlook

The stable outlook reflects our expectation that the wireless systems industry will continue to grow moderately over the medium term, and that Ericsson will maintain its leading positions in key wireless technologies and markets as well as sustain operating margins in the high teens. We also expect the group to continue generating solid, sustainable free cash flow, despite increasing working-capital requirements resulting from a greater proportion of turnkey projects with longer cash conversion periods. In addition, we expect Ericsson to maintain strong credit ratios and a very liquid balance sheet, which we expect it to use with caution for bolt-on acquisitions in complementary IP-related technologies, network convergence, and multimedia.

Given the industry's risk profile, we do not currently see any further rating upside. Although unexpected at this stage, potential downside could crystallize in the event of a significant deterioration in industry conditions or trading levels, a material weakening of the group's competitive position within the industry, or a more aggressive financial policy than expected.

Ratings List

	To	From
Ericsson (Telefonaktiebolaget L.M.)		
Corporate credit rating	BBB+/Stable/A-2	BBB-/Watch Pos/A-3
Ericsson Treasury Ireland Ltd./ Ericsson Treasury Services AB / Ericsson Treasury Services U.S. Inc.		
CP*	A-2	A-3/Watch Pos

*Guaranteed by Ericsson (Telefonaktiebolaget L.M.).

NB: This list does not include all ratings affected.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.