MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Ericsson's senior debt rating to A3; stable outlook

Global Credit Research - 10 Jun 2011

Approximately SEK36 billion (EUR3.4 billion) worth of senior debt securities affected

Frankfurt am Main, June 10, 2011 -- Moody's Investors Service has today upgraded the senior debt rating of Telefonaktiebolaget LM Ericsson (Ericsson) to A3 from Baa1 and the provisional rating on the group's US$5 billion euro medium-term notes programme to (P)A3 from (P)Baa1. Concurrently, Moody's has affirmed the Prime-2 rating on the group's short-term debt. The outlook on the ratings is stable.

RATINGS RATIONALE

"The rating upgrade recognises Ericsson's lengthening track record in terms of revenue and earnings stability, despite a volatile end-market and increasing competitive threats," says Wolfgang Draack, a Moody's Senior Vice President and lead analyst for Ericsson. Over the past five years, Ericsson has generated strong and increasing free cash flow (FCF) and accumulated cash, notwithstanding a number of medium-sized acquisitions. Moody's expects these stable operating trends to continue in a gradually improving market, and that management will preserve the group's strong liquidity position and limit support for its two underperforming joint ventures to the economically feasible.

The A3 rating reflects: (i) Moody's view that Ericsson should be able to defend its market leadership in wireless infrastructure and next-generation network systems, with the group's revenue stability supported by its increasing activity in the service business; (ii) the rating agency's expectation that Ericsson will maintain an operating margin of no less than 10%, even in periods of modest growth and in which a high proportion of orders are for low-margin roll-overs; all among fierce price competition and (iii) the group's maintenance of substantial financial flexibility, with gross cash and short-term investments (SEK87.2 billion at FYE 2010) exceeding its adjusted debt (SEK53.1 billion); and (iv) strong FCF -- exceeding 10% of the group's gross debt (28% for FY 2010) -- supported by flexible working capital management and lean capital expenditures (capex) over the cycle.

However, more negatively, the rating also incorporates: (i) Ericsson's reliance on a single sector, mobile communication networks, and its concentrated customer base; (ii) the expectation of slow growth in the wireless networks industry in the short term due to the already high penetration of mobile telephony and cautious investment strategies of operators, partially offset by increasing data transmission volumes related to both smartphones and mobile computers; (iii) aggressive pricing strategies and market penetration by Asian vendors, which challenge Ericsson's market position and operating margin; (iv) continuing technology risk, as evidenced by the transition from the maturing 2G to 3G and Long Term Evolution (LTE) technologies, including the convergence of fixed and mobile networks in the long term; and (v) Ericsson's exposure to two joint ventures with weak profitability and uncertain long-term potential.

The stable rating outlook reflects Moody's expectation that: (i) the wireless networks market is recovering from its trough due to increasing installation rates of mobile broadband; (ii) Ericsson's lean operating structure should allow it to maintain operating margins above 10%, even with increasing price completion; (iii) the group will maintain its strong cash generation; and (iv) that the two weak joint ventures -- SonyEricsson and ST Ericsson -- will not require substantial financial support beyond economic investments.

Given the narrow business portfolio, a further rating upgrade is rather unlikely. Assuming that Ericsson does not broaden its business portfolio, Moody's considers the group's best opportunity to achieve a rating upgrade through benefitting from wider market consolidation and taking decisive action to reduce or cap its loss exposure to its two joint ventures. In the rating agency's view, this would lead to: (i) Ericsson demonstrating better pricing discipline and achieving operating margins that approach the mid-teens in percentage terms; and (ii) a long track record of cash flow discipline, with tightly controlled working capital and lean capex enabling the group to generate FCF that continues to cover more than 10% of its gross debt.

Downward rating pressure could arise if there were structural shifts in Ericsson's business profile, as indicated by: (i) a material loss in its market share; (ii) a deterioration in its earnings, with the group unable to sustain an operating margin in the double digits in percentage terms or a positive free cash flow generation; and/or (iii) the group raising adjusted debt to finance its investment programmes that exceeds its balances of cash and marketable securities.

Issuer: Telefonaktiebolaget LM Ericsson ,

..Upgrades:

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

PRINCIPAL METHODOLOGY

The principal methodology used in rating Telefonaktiebolaget LM Ericsson was the Global Communications Equipment Industry Methodology, published in June 2008.

Telefonaktiebolaget LM Ericsson (Ericsson) is a world-leading provider of telecommunications equipment and related services to mobile and fixed network operators globally. More than 1,000 mobile communication networks in 140 countries utilise Ericsson's network equipment and 40% of all mobile calls are made through its systems. Headquartered in Stockholm, Sweden, Ericsson generated net sales of SEK203 billion (EUR22.8 billion) in 2010.

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