Moody's Investors Service

Global Credit Research
Rating Action
11 APR 2005

Rating Action: **Telefonaktiebolaget LM Ericsson**

MOODY'S UPGRADES ERICSSON'S DEBT RATINGS TO Baa3/PRIME-3; CROSSOVER TO INVESTMENT GRADE

Approximately EUR2.6 Billion Debt Securities Affected

Frankfurt, April 11, 2005 -- Moody's Investors Service today upgraded to Baa3 from Ba1 the ratings for long term debt of Telefonaktiebolaget LM Ericsson ("Ericsson") and to Prime-3 from Not-Prime the ratings of the company for short term debt. The senior implied and issuer ratings of Ericsson have been withdrawn upon reaching investment grade levels. The outlook for the ratings is positive given the momentum of the current trend improvements. This rating action concludes a rating review that was initiated on 1 March 2005.

The rating upgrade reflects: (i) Moody's view that Ericsson has achieved a very competitive cost base and operating flexibility that should keep it solidly profitable and cash generative even within the typically volatile market for wireless infrastructure systems and services, (ii)

an expectation that the adjustment process in the wireless carrier industry following expenditures for excessive licence fees and financial shake-out is largely completed, although consolidation among the operators will likely continue, leading to more predictable order patterns for Ericsson, (iii) the commercial roll-out of 3rd generation (3G) equipment firmly establishing the transition path to the new technology, (vi) the company's recent strong improvements in key metrics, notably a return to revenue growth of 12% (after a 19% decline in 2003) versus 2003 sales, a strengthening in operating-margin to 22% (up from 3.4%, pre restructuring, but including capitalized development cost) and generation of free cash flow of about one third of gross adjusted debt), (iv) management's practice of retaining generated cash flows and maintaining a highly liquid balance sheet in order to absorb possible cash flow volatility.

Ericsson's performance improvements and credit metrics are on a trajectory that would imply possibly another rating upgrade over the next 18 months. This view is based, however, on the assumption of a basically stable market environment, continued strict cost and investment discipline by management, including maintenance of a substantial net cash balance.

During the years of revenue pressure, Ericsson management has implemented many measures to protect operating performance and financial flexibility in the face of a generally volatile industry. The actions include a downsizing of owned capacity and employment to less than half the 2000 level, the arrangement of outsourcing contracts to gain flexibility and limit capacity investments, the spin-off of mobile phones into the SonyEricsson joint venture, a SEK30 bn equity issue, and the building and maintenance of comfortable cash balances. Ericsson is now very well positioned to benefit from even the slightest growth in its revenues and to sustain the usual order seasonality and volatility of its industry segment.

Ericsson's market place, driven by the investment and service needs of the operators of mobile communication equipment, has stabilized. Operators of GSM networks in many emerging markets including those in Asia and Latin America are experiencing strong subscriber growth leading to network expansion needs, and rising data and video traffic in Europe and North America drives new installations of 3G equipment. While double-digit growth in equipment sales last year will probably not repeat, mid-single digit sales increases can be reasonably expected. We do not expect another double-digit market decline as experienced during 2001-2003. Even slight levels of growth in 2005 would support solid profitability and cash flow for Ericsson.

The company's leading technology and market position, with a global market share in excess of 30%, its lean production base and high operating flexibility, provide the basis for sustainable profit margin in the double-digit range. With strict control of working capital, extensive leasing and outsourcing arrangements, re-investment needs are limited, so that most of the profits can be retained as free cash flow. The cash flow adds to the financial flexibility as demonstrated by cash balances currently amounting to SEK77 billion (€8.6 billion or SEK53 billion under IFRS) exceeding balance sheet debt by SEK53 million (€5.9 billion). Adding back in leasing commitments and pension obligations, Ericsson's free cash flow covers gross adjusted debt to a comfortable one third.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of mobile telecoms and datacom equipment, and recorded revenues of about SEK132 billion (EUR14.7 billion) in the fiscal year 2004.

Frankfurt
Michael West
Managing Director
Coporate Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt
Wolfgang Draack
Senior Vice President
Corporate Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454