

Rating Action: Telefonaktiebolaget LM Ericsson

MOODY'S UPGRADES ERICSSON'S DEBT RATINGS TO Baa2/PRIME-2; STABLE OUTLOOK

Approximately EUR1.6 Billion Debt Securities Affected

Frankfurt, June 27, 2006 -- Moody's Investors Service today upgraded to Baa2 from Baa3 the long term debt ratings of Telefonaktiebolaget LM Ericsson ("Ericsson") and to Prime-2 from Prime-3 the company's short term debt ratings. The outlook for the ratings is stable.

Moody's commented that the rating upgrade reflected: (i) an expectation that the strong order growth in the wireless carrier industry -- which is Ericsson's key focus and where it has a global market share of about 30% - will continue in the second half of 2006 and also well into 2007 (order growth in 2005 stood at approximately 11% in USD), benefiting from expansion investments for second generation (2G) networks in developing markets and new installations of third generation (3G) networks in most industrialised countries; and (ii) the fact that Ericsson has sustained its strong performance and credit metrics for the second year, most notably an operating margin in the high teens (calculated by Moody's at 19% for 2005), free cash flow exceeding 30% of gross adjusted debt, and a net cash position after all adjustments to debt. Going forward we would expect the rising share of service contracts among Ericsson's systems revenues (28% in 2005) and improvements in its competitive cost base and operating flexibility to contribute to more stable earnings and cash flows regardless of a potential decrease of equipment orders from their currently high levels.

The extent of rating upgrade is constrained by (i) Ericsson's reliance on one sector, mobile communication networks with a concentrated customer base, (ii) technology risk as evidenced by challenging transition periods between maturing and new technologies (for example the current roll-out of 3rd generation equipment) and the convergence of fixed and mobile networks, (iii) the fact that current returns are a reflection of the very favourable present market environment where capacity investments for 2G networks in developing markets add to the accelerating roll-out of 3G equipment in industrial markets for a high growth rate, and (iv) the consolidation among telcom operators as well as within the equipment providers, which may shift market shares and create price competition.

The stable outlook for the rating incorporates the following considerations: Moody's expects an easing of organic growth for Ericsson, latest in 2007, which however should not depress the company's operating margin materially below 15%, due to the flexibility of its operations. The company will be challenged to maintain its high level of free cash flow (FCF) above the SEK 20 billion of 2005, given rising working capital and capex requirement, the integration needs for Marconi, primarily an optical transmission business with SEK14 billion sales which was acquired for SEK16.8 billion in 2005, and the initiation of dividends (SEK7.2 billion for 2005), but FCF is likely to remain above SEK 10 billion prior to acquisition payments (eg. for Marconi). In addition, there is potential for further consolidation in its industry like the Nokia Siemens venture, which may affect Ericsson either as a participant with additional restructuring and integration needs or indirectly via accelerating price pressure.

Moody's previous rating action on Ericsson was the upgrade of its ratings to Baa3/Prime-3 with positive outlook on 11 April 2005.

Domiciled in Stockholm, Sweden, Ericsson is a leading developer and manufacturer of mobile telecoms and datacom equipment, and recorded revenues of about SEK152 billion (EUR16.9 billion) in the fiscal year 2005.

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