STANDARD &POOR'S

Press Release

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S&P Lowers Ericsson Long-Term CCR to 'BB'; Outlook Negative

LONDON Nov. 7, 2002--Standard & Poor's Ratings Services said today it lowered its long-term corporate credit rating on Sweden-based telecommunications equipment manufacturer Ericsson Telefonaktiebolaget L.M. (Ericsson) to double-'B' from double-'B'-plus.

At the same time, Standard & Poor's affirmed its 'B' short-term corporate credit rating on the group. In addition, the long-term ratings were removed from CreditWatch, where they were placed on July 22, 2002. The outlook is negative.

"The downgrade reflects continued weak and volatile market conditions, as reflected in the 42% sequential decline in Ericsson's order bookings in the third quarter of 2002," said Peter Kernan, head of Standard & Poor's European telecoms group. "Although the recent Swedish krona (Skr) 29 billion ($3.2 billion) rights issue has strengthened Ericsson's liquidity, given the difficult market conditions, the group must continue to cut costs to reduce cash losses."

Market conditions remain extremely challenging. Ericsson's book-to-bill ratio, which compares the group's quarterly orders and sales, fell sharply to 0.61 times (x) in the third quarter of financial 2002--excluding cancelled orders, the ratio declined to 0.78x--from 0.92x in the second quarter of 2002. In this market environment, Ericsson's restructuring program assumes critical importance.

Ericsson's restructuring program is on track although challenges remain. The group lowered its operating expense annual run rate, excluding restructuring costs, in the third quarter of 2002 by Skr2.4 billion to Skr52.0 billion and achieved a gross margin of about 32.6%. Ericsson plans to lower annualized operating costs by a further Skr14 billion, or 27%, to Skr38 billion by year-end 2003 and expects to incur a further Skr10 billion to Skr12 billion of restructuring costs. This would enable the group to break even at an operating level, at an annualized sales level of about Skr120 billion, assuming Ericsson achieves its gross margin target of between 34%-36%. Standard & Poor's considers it unlikely that Ericsson's financial 2003 sales could drop below Skr120 billion.

Ericsson's free operating cash flow (FOCF; operating cash flow minus capital expenditures) was negative Skr15.4 billion for the first nine months of 2002, or negative Skr20.5 billion on an annualized basis, excluding any seasonal effects. Cash flow before financing was negative Skr8.7 billion for the same period, or negative Skr11.6 billion on an annualized basis. At Sept. 30, 2002, the group had cash of Skr74.4 billion. Ericsson's gross debt is considerable, however, given the group's ongoing large cash losses. Gross interest bearing provisions and liabilities were Skr69.2 billion at Sept. 30, 2002.

"The negative outlook reflects that if the group is unable to sharply reduce its negative FOCF, the ratings could be lowered further," said Mr. Kernan. "The ratings also assume there will be no increase in gross debt and that Ericsson's liquidity will remain reasonable."

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 Fixed Income in the left navigation bar, select Credit Ratings Actions. Alternatively, call one of the Standard & Poor's Ratings Desks: London (44) 20-7847-7400; Paris (33) 1-4420-6705; Frankfurt (49) 69-33-999-221; Stockholm (46) 8-440-5916.

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