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Press Release

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Ericsson (Telefonaktiebolaget L.M.) Ratings Cut to 'BBB+/A-2'; Outlook Negative

Stockholm-- Following ongoing weak operational performance by Sweden-based telecommunications equipment manufacturer Ericsson (Telefonaktiebolaget L.M.), Standard & Poor's today lowered its long-term corporate credit and senior unsecured debt ratings on Ericsson to triple-'B'-plus from single-'A'-minus. In addition, Standard & Poor's assigned its triple-'B'-plus rating to Ericsson's $600 million senior unsecured bank loan, maturing in 2006. At the same time, the 'A-2' short-term ratings on Ericsson's guaranteed related entities were affirmed. The equivalency of Ericsson's bank loan and senior unsecured ratings reflect the facility's structure and payout priorities under a default scenario. The outlook is negative. (See list below for all ratings affected.)

The ongoing deterioration in Ericsson's credit profile reflects the impact of structural change in global infrastructure markets and cyclical weakness in some of Ericsson's key markets. Specifically, there was rapid growth in infrastructure demand in 1999 and 2000 due to telecommunications deregulation, the dot.com boom, the enormous growth in mobile subscriber numbers, and favorable capital market sentiment, which allowed operators easy access to capital. Market sentiment has soured, however, and capital is now less freely available. This has reduced **wireline infrastructure** demand from new entrants and incumbent operators. In the wireless infrastructure market, conditions have also weakened. Following enormous investment in third-generation (3G) licenses, European operators are cutting capital expenditures to conserve cash, while operators worldwide are cutting second-generation (2G) capital expenditures in expectation of 3G network rollouts.

These trends have resulted in a substantial and ongoing contraction of demand in the global infrastructure market, overcapacity, and, as a consequence, large declines in sales volumes and prices. Ericsson's cash flow credit protection measures continue to be very weak for the rating category, reflecting these trends. The company's sales and gross margins continue to decline, and Ericsson is unable to generate positive operating cash flow before working capital changes. Ericsson's leverage is also high relative to its (negative) cash flow.

Ericsson is the global leader in digital mobile network infrastructure and has a 50% stake in the recently formed Sony-Ericsson joint venture, the world's third-largest manufacturer of mobile handsets. Standard & Poor's considers Ericsson's joint venture investment to be of strategic importance to the company and will, as a consequence, proportionately consolidate the results of this venture.

For the third quarter of 2001, Ericsson generated sales of Swedish krona (Skr) 54.6 billion ($5.1 billion), a 13% sequential decline. Sales were split between mobile infrastructure (65%), wireline infrastructure (14%), handsets (15%), and other operations (6%). The company's gross margins fell to 26.6% (down from 29%, prerestructuring charges, in the second quarter, and 34% in 2000) and its operating margin (adjusted for nonrecurring items) fell to negative 10%. Ericsson generated operating cash flow before working capital changes of negative Skr5.4 billion. Ericsson's liquidity has, however, improved during 2001, while the company's net debt declined during the third quarter of 2001 as a result of a large working capital cash inflow. Ericsson's gross debt at Sept. 30, 2001, was Skr70.9 billion, while cash and near-cash balances were Skr40.0 billion.

OUTLOOK: NEGATIVE

Ericsson's ratings remain under pressure given the company's weak credit protection measures. If Ericsson is unable to effect a material and sustainable improvement in its credit protection measures in the near term, its ratings may be lowered again. Specifically, the ratings assume that the company will successfully execute its restructuring program, and turn around the performance of its infrastructure and handsets businesses, allowing the company to achieve its target of an operating margin greater than 5% in 2002. Ratings also assume that there is no material increase in Ericsson's gross debt and that its liquidity remains reasonable.

RATINGS LOWERED

Ratings	To	From
Ericsson (Telefonaktiebolaget L.M.)		
Corporate credit rating	BBB+	A-
Senior unsecured debt	BBB+	A-

RATINGS ASSIGNED

Ericsson (Telefonaktiebolaget L.M.)	
Bank loan rating	BBB+

RATINGS AFFIRMED

Ericsson Treasury Ireland Ltd.	
Commercial paper*	A-2
Ericsson Treasury Services AB	
Commercial paper*	A-2
Ericsson Treasury Services U.S. Inc.	
Commercial paper*	A-2

*Guaranteed by Ericsson (Telefonaktiebolaget L.M.)

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