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Ericsson Outlook Revised To Stable On Marconi Purchase; 'BBB-/A-3' Affirmed

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LONDON (Standard & Poor's) Oct. 26, 2005--Standard & Poor's Ratings Serv said today that it revised its outlook on Sweden-based telecommunication equipment supplier Ericsson (Telefonaktiebolaget L.M.) to stable from positive, following the company's agreement to buy 75% of the assets of Marconi PLC. At the same time, the 'BBB-/A-3' ratings on Ericsson were affirmed.

"Although Standard & Poor's acknowledges the strategic rationale for Marconi transaction in the context of the medium-to-long-term expected developments in the industry, we note that the assets to be acquired will initially weaken Ericsson's earnings and cash flow generation and significantly increase its exposure to the weak wireline telecoms equipment sector," said Standard & Poor's credit analyst Leandro De Torres.

This sector continues to experience significant pressures given its dramatically decreased size, the increased competitiveness of traditional Asian producers, continued weakness in certain fixed communication technologies, and ongoing major technological transitions.

"The stable outlook reflects our expectation that the wireless equipment trading environment will remain supportive in the medium term and that Ericsson will restructure and integrate the assets to be acquired from Marconi so as to bring their margins and cash flow generation into line with the level within the next two years," said Mr. De Torres. "In addition, it is critical that Ericsson maintain a very liquid balance sheet and strong credit ratios, and that it show restraint in undertaking any major credit-dilutive acquisition."

Ericsson will pay €1.2 billion (\$2.13 billion) in cash for 75% of Marconi's assets, including its German radio transmission operations, Italian optics and access operations, and U.S. datacom businesses. The assets include €1.1 billion of intangibles that will be tax deductible.

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