ITEM 3D: RISK FACTORS

You should carefully consider all the information in this Annual Report and, in particular, the risks outlined below.

RISKS ASSOCIATED WITH OUR BUSINESS

An extended downturn in the telecommunications industry will continue to negatively impact our business and results of operations.

We operate globally in the telecommunications markets and are subject to conditions particular to the markets for telecommunications infrastructure, equipment and services. As 2001, 2002 was a challenging year for the telecommunications industry. We reported a SEK 19.0 billion net loss in 2002. The beginning of 2003 has shown no signs of improvement and the near term market outlook still remains uncertain. The development in the telecommunications industry effects our ability to achieve our financial goal of returning to profit at some point in 2003. Currently, the timing and strength of recovery of the markets in which we operate is highly unpredictable. If the telecommunications markets continue to show slow or negative growth, our business will continue to be negatively impacted.

We are subject to the impact of economic conditions in areas in which we operate.

Current conditions in many of the large economies in which we operate and the global economy remain very uncertain. As a result, it is difficult to estimate the global and regional economic development. Currently our business is negatively affected by the unfavorable conditions in Latin America. The future direction of the overall local and global economies, including changes in fiscal, monetary and regulatory policies worldwide may have a significant impact on our overall performance.

Many of our customers have reduced and are continuing to reduce capital expenditure and, as a result, demand for our systems and network roll-out services have declined and may continue to decline.

Many of our current and potential customers are network operators with high levels of indebtedness and, in some cases, emerging or weak revenue streams. Adverse economic conditions, network over-capacity due to excess build-out, lack of funding for telecom development and overspending on license fees have forced network operators to undertake restructuring and cost-cutting initiatives. In light of market conditions, many of our customers delayed delivery of orders previously placed and implemented drastic reductions in capital expenditure in 2002 as compared to 2001 and even more so in comparison with 2000, and may continue to further reduce capital expenditure. As a result, demand for our systems and network roll-out services has declined. If the demand for our systems and services weakens further or remains weak on account of the financial condition of our customers, market and industry conditions or otherwise, this is likely to have a material adverse effect on our business, results of operations and financial condition.

We may experience greater variability in our operating results than in the past and may have increased difficulty in accurately predicting future operating results.

Our business is subject to a wide variety of factors that impact our quarterly and annual operating results from period to period. The current economic slowdown in certain regions and uncertainties in the telecommunications market may continue to negatively impact the timing of network capacity build-outs, including the introduction of new technologies such as 3G. As a result, our operating results may fluctuate significantly from period to period and possibly more than they have historically.

In addition, uncertainties arising from these factors, in particular during difficult economic conditions, make preparing estimates of our future operating results even more difficult than usual and may lead us to revise our estimates and/or strategies more frequently than in the past. As a result, any of these factors could have a material adverse impact on our operations such that the results of operations for any period will not necessarily be indicative of results to be expected in future periods.

We may be adversely affected by the significant changes that we expect in the wireless telecommunications industry. In particular, the 3G technologies, WCDMA, EDGE and CDMA2000, may not become commercially successful, which could be detrimental to our competitive and financial position.

The wireless telecommunications industry is undergoing significant changes. These include the continuation of digital upgrades in existing analog wireless systems, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, the integration of wireless and wireline services, shorter development cycles for new services, evolution to 3G standards and changes in end-user needs and preferences. In general, this causes uncertainty over future demand for our systems, products and services and the prices that we will be able to charge for these systems, products and services.

A selected number of service providers have introduced new 3G services and serveral others have announced that they intend to introduce 3G services in the future. We expect that 3G services will combine the attributes of faster speed, greater data capability, better portability and greater functionality. WCDMA is a 3G technology developed by us and others, which enables wideband digital radio communications. WCDMA has been selected for the third generation of mobile telephone systems in Europe, Japan and, to a lesser extent, the United States and other markets. EDGE and CDMA2000 are technologies developed to increase the capacity of and transmission speed of existing 2G networks to 3G standards.

However, there are competing technological standards and several options within each standard, and there could be vendor-proprietary variations and rapid technological innovation in connection with 3G roll-outs in various locations around the world. Moreover, other technologies, such as wireless local area networks, could provide additional competition for some services. If any or all of these alternative 3G technologies were to become commercially successful, we may not be able to shift our technology focus quickly or efficiently enough to successfully compete. Technological changes can also affect the price we are able to obtain for systems and services. Accordingly, there can be no assurances that technological changes will not materially adversely affect us.

We engage in customer finance, which exposes us to certain credit and other risks regarding our customers. Some of these customers do not yet have established revenue streams.

For a discussion of our customer finance arrangements, see Item 11 “Quantitative and Qualitative Disclosures about Market Risk”.

As reflected in that section, our customer finance arrangements make us vulnerable to adverse changes in our customers’ businesses and expose us to credit risks. The risks may be significant, particularly in relation to network operators with limited experience or no proven track record. While we evaluate our customer credits on a regular basis, defaults on our customer financing could occur for reasons beyond our control and could result in restructuring of the financing arrangements or credit losses. Such an event could have a material adverse effect on our business, results of operations or financial condition.

Failure to successfully implement our cost reduction measures may adversely affect our financial results.

During 2002, we announced the implementation of significant further cost reduction measures in connection with our first quarter results. Together with the savings under the “Efficiency Program”, adopted in 2001, we expect all these measures to have the effect of decreasing our annual level of operating expenses by approximately SEK 50 billion, as compared to the beginning of 2001, when fully implemented by the end of 2003. These anticipated cost savings are based on our estimates, however, and may not materialize. In addition, our cost reduction measures are based on current conditions and do not take into effect future cost increases that may result from changes in our industry or operations, including new business developments, wage and price increases or other factors. Our failure to successfully implement these planned cost-reduction measures or the potential that these efforts may not generate the level of cost savings we expect going forward, could negatively impact our financial results as well as our ongoing operations.

Our financial instruments contain rating triggers, financial ratios and other covenants that may affect our access to and cost of funds.

For a discussion of debt facilities that are impacted by changes in our credit rating or our compliance with financial ratios or other covenants see Item 11 “Quantitative and Qualitative Disclosures about Market Risk”.

As reflected in that section, our long-term credit rating was downgraded several times during 2002, thereby limiting our access to funding and increasing our funding costs. Our current long-term credit rating, February 2003, is B1 (Moody’s) and BB (Standard & Poor’s). If we are unable to avoid further downgrading or comply with these financial ratio or other covenants, we may need to repay or refinance the related debt and/or other debt which contains cross-default provisions. We cannot assure you that we in such a situation would be able to refinance our indebtedness or obtain additional funding.

Our access to short term funding has decreased and may continue to decrease or become more expensive as a result of or operational and financial conditions and market conditions.

For a discussion of our access to short term funding see Item 11 “Quantitative and Qualitative Disclosures about Market Risk”.

Our commercial paper and other short term debt is currently rated B (Standard & Poor’s) and Not Prime (Moody’s). Our credit rating and the number of large commercial paper issuers whose recent credit downgrades have placed them in this market may restrict our access to short-term credit. At the end of 2002, we had no outstanding commercial paper and we cannot assure you that we will have access to the commercial paper market in the future.

Our business has substantial cash requirements and we may require additional sources of funds if our current sources are unavailable or insufficient to satisfy these requirements, and we cannot assure you that these additional sources of funds will be available or available on reasonable terms.

We have substantial cash requirements in connection with our operations, research and development, capital expenditure, cost reduction measures, customer financing programs and debt service obligations. If the cash we generate from our operations or that we can access under our credit facilities or from other sources is not available when needed or is insufficient to satisfy our requirements, we may require additional sources of funds. We cannot assure you that any required additional sources of funds would be available or available on reasonable terms, particularly in light of our existing debt levels and credit ratings. If we do not generate sufficient amounts of capital to support our operations, service our debt, continue our research and development and customer financing programs or we do not generate sufficient amounts of capital at the times and on the terms required by us, our business will likely be adversely affected.

Our A shareholders have voting control over the company.

Under our current capital structure, each A share has a thousand times the voting power of each B share. Accordingly, as of December 31, 2002, our A shareholders held 4.1 percent of our capital stock and 97.7 percent of our voting rights. Of our two largest shareholders, based on voting rights, Investor AB held 5.3 percent of our capital stock and 38.3 percent of our voting rights and AB Industrivärden held 2.5 percent of our capital stock and 27.7 percent of our voting rights as of December 31, 2002. As a result, our A shareholders, and in particular Investor AB and AB Industrivärden have the ability to exert significant influence over certain actions requiring shareholder approval, including the election of directors and appointment of officers, and may have the ability to influence our policy. As such, decisions made by Investor AB or AB Industrivärden may influence our business, results of operations and financial condition.

The telecommunications market is undergoing consolidation, which increases our dependence on key customers.

Many significant participants in the telecommunications market are merging and consolidating as a result of competitive pressures, and we expect this trend to continue. This consolidation process will likely decrease the number of potential significant customers for our systems and services. For the year ended December 2002, our ten largest customers accounted for almost 50 percent of our net sales and our 20 largest customers accounted for approximately 75 percent of our net sales. Fewer significant customers will increase our reliance on key customers and, due to the increased size of these companies, may negatively impact our bargaining position and profit margins. The loss of, or a reduced role with, a key customer due to industry consolidation could negatively impact our business, results of operations and financial condition.

We are dependent on developing new products, which are complex and may not be successful in the market.

Product life cycles in our industry can be short andtherefore we expend considerable resources in product development and are actively engaged in designing new products and solutions and updating our existing products and solutions. Introducing new products requires significant management time and a high level of financial and other commitments to research and development and may not always result in success. Many of our products incorporate advanced technologies, such as 3G technologies, that are untested or are undergoing testing. Our development of new products may also require us to license third-party technologies and successfully integrate such technologies with our products, which may add to the already large cost of bringing a new product to market. We are also actively engaged in the development of technology standards, such as WCDMA, EDGE, CDMA2000 and Bluetooth, which we are incorporating into our products and systems. In order to be successful, those standards must be accepted by relevant standardization bodies and by the industry as a whole. Our sales and earnings may suffer if we invest in developing and marketing technologies and technology standards that do not function as expected, are not adopted in the industry or are not accepted in the marketplace within the timeframe we expect, or at all.

We operate in the highly competitive telecommunications markets and our profitability will be affected if we are not able to compete effectively.

The markets for our products are highly competitive in terms of pricing, product and service quality, the timing of development and introduction of new products, customer service and terms of financing. We face intense competition from significant competitors. Our competitors may implement new technologies before we do, allowing them to offer more attractively priced or enhanced products, services or solutions than we provide. Some of our competitors may have greater resources in certain business segments or geographic markets. We may also encounter increased competition from new market entrants, alternative technologies or alternative telecommunications platforms. Our operating results depend to a significant extent on our ability to compete in this market environment, in particular on our ability to adapt to changes in the markets to introduce new products to the market and to reduce the cost of new and existing products.

We have certain long-term contracts, which expose us to risks of cost overruns and extended payment terms.

We currently have certain long-term contracts under which the prices are reduced during the life of the contract, according to a pre-negotiated schedule. These long-term contracts are typically awarded on a competitive bidding basis and the profit margins on these contracts may vary from the original estimates as a result of changes in estimated costs, productivity, specifications or timing. In addition, these contracts frequently include extended payment terms, which will require us to recover costs incurred in performing these contracts over the term of the contract. These contracts generally also provide for penalties and termination rights in the event of our failure to deliver on time or if our products do not perform. Should any of these contracts become unprofitable or be terminated due to any or several of these reasons, our operating results will be negatively impacted.

If our outside suppliers fail to deliver satisfactory components and manufacturing services on time, our financial results could be negatively impacted.

We are dependent on our suppliers to obtain timely and adequate delivery of components and manufacturing services. As part of our current business strategy, we have outsourced substantially all of our mass production manufacturing. If we are unable to identify manufacturers who are willing to contract with us on competitive terms and devote adequate resources to fulfill their obligations to us, or if we do not properly manage these relationships, our customer relationships, reputation or competitiveness may suffer.

We have experienced component shortages in the past that have adversely affected our operations. Although we work closely with our suppliers to avoid shortages and to arrange for alternative sources of supply, we cannot assure you that we will not experience component shortages in the future. We also rely on a limited number of suppliers for a number of our components, as well as a core group of electronics manufacturing services (EMS) companies for the manufacture of our products, which increases our dependence on these suppliers. A reduction or interruption in component supply, a significant increase in the price of one or more components or manufacturing services or constraints on our suppliers' capacity during periods of significant demand could have a material adverse effect on our business, results of operations or financial condition.

Liability claims related to and public perception of the potential health risks associated with electromagnetic fields may negatively impact our business.

We are subject to claims that mobile handsets and other telecommunications devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effect to human health. However, any perceived risk or new scientific findings of adverse health effects of mobile communication devices and equipment could adversely affect us through a reduction in sales. Although we comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot assure you that we will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business.

Our business and results of operations will be harmed if we are found to have infringed intellectual property rights of third parties, or if we are unable to protect our intellectual property rights from challenges or unauthorized third party use.

Like other companies operating in the telecommunications industry, because our products comprise complex technology, we experience litigation regarding patent and other intellectual property rights. Third parties have asserted, and in the future may assert, claims against us alleging that we infringe their intellectual property rights. If we do not succeed in any such litigation, we could be required to expend significant resources to pay damages, develop non-infringing products/technology or to obtain licenses to the products/technology, which is the subject of such litigation. However, we cannot be certain that any such licenses, if available at all, will be available to us on commercially reasonable terms. Also, defending these claims may be expensive and divert the efforts of our management and technical personnel. In particular, we are currently party to a lawsuit in which plaintiff alleges that we have infringed one of its U.S. patents through our sales of certain GSM and TDMA products in the United States. The jury found on October 30, 2002, that we had willfully infringed the one patent-in-suit and that the patent is valid. We believe that the jury's decision is wrong. The Court has not yet ruled. Should the Court render a final judgement against us, we will appeal. If we do not prevail, we may have to expend significant resources to pay damages.

In addition, third parties may attempt to appropriate our confidential information and proprietary technologies and processes used in our business, which we may be unable to prevent. Existing laws of some countries in which we conduct business may offer only limited protection of our intellectual property rights, if at all. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights; however, the steps we take in this regard may not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights.

If our mobile handset joint venture arrangement with Sony or other arrangements with strategic partners do not progress as planned, our business could be negatively impacted.

In 2001, we formed Sony Ericsson Mobile Communications, a joint venture with Sony Corporation for the development, design, sales and distribution of mobile handsets, to which we transferred substantially all of our handset business. If this joint venture is unsuccessful on account of unsuccessful or delayed product development, limited market acceptance of new products or for any other reason, we may not be able to compete successfully or at all in the mobile handset market. For example, the delayed launch of the joint venture’s R600 handset had a negative impact on its second quarter 2002 results. We have also entered into other strategic development arrangements with third parties, typically involving the contribution by each party of various resources including technology, research and personnel, and we may continue to do so in the future. If these arrangements do not develop as expected, whether as a result of having incorrectly assessed our needs or the capabilities of our strategic partners, our ability to work with joint venture partners or otherwise, our ability to develop new products and solutions may be constrained and this may harm our competitive position in the market. Additionally, charges relating to our portion of any losses from, or commitments to contribute additional capital to, joint ventures may adversely affect our financial condition or results of operations.

Changes to the regulatory environment for telecommunications systems and services could negatively impact our business.

Our industry is heavily regulated, and both our customers and we may be affected by changes in regulation of telecommunications systems and services. For example, changes in regulation that impose more stringent, time-consuming or costly planning, zoning or building approval requirements regarding the construction of base stations and other network infrastructure could adversely affect the timing and costs of new network construction or expansion and the commercial launch and ultimate commercial success of these networks. Expensive government license fees can cause network operators to incur substantial indebtedness and fundamentally affect operators’ businesses, profitability and financial condition, as well as the orders and services network operators place with or require from suppliers of network systems and services such as us. Similarly, tariff regulation that adversely affects the pricing of new services could affect the sales of our systems and services. Environmental, health and safety and privacy regulations may increase costs and restrict operations of telecommunications companies and network operators. The indirect impact of these changes in regulation could affect our business adversely even though the specific regulations do not directly apply to us or our products.

We are subject to regulatory, foreign exchange and other risks associated with international operations.

We conduct business in over 140 countries around the world with the majority of our sales originating from countries in Western Europe and the Asia Pacific region. Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls or other governmental policies in the countries in which we conduct business could limit operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. Our results could also be materially adversely affected by weak economic conditions in countries in which we do significant business as well as by changes in foreign currency exchange rates, which can introduce significant volatility to our rates of growth. We also have extensive operations in emerging markets such as China, Latin America, the Middle East and Africa which involves certain risks, including volatility in gross domestic product, civil disturbances, economic and governmental instability, nationalization of private assets and the imposition of exchange controls. Please see Item 11 “Quantitative and Qualitative Disclosures about Market Risk”.

We are dependent upon hiring and retaining highly qualified management and other employees.

Our future success depends in part on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. There can be no assurance that we will continue to be successful in attracting and retaining highly qualified employees in the future, especially in light of our prior and planned headcount reductions.

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RISKS ASSOCIATED WITH OUR SHARES

Our share price has been and may continue to be volatile.

Our share price has been volatile due in part to the high volatility in the securities markets generally, and in telecommunications and technology companies' shares in particular, as well as developments from quarter to quarter which impact our financial results. Factors other than our financial results that may affect our share price include but are not limited to:

- market expectations of the performance and capital spending plans of network operators;
- the level of business activity or perceived growth in the market for telecommunications services in general;
- investor perception of, as well as the actual performance of, other telecommunications and technology companies;
- a downgrade or rumored downgrade of our credit ratings;
- announcements by our key customers or announcements concerning financial difficulties for customers for whom we have provided financing or with whom we have entered into material contracts;
- announcements by our key competitors concerning the award of large supply agreements or contracts for network roll-out;
- potential litigation involving ourselves or the industries in which we operate;
- announcements concerning the bankruptcy or other similar reorganization proceedings involving, or any investigations into the accounting practices of, other telecommunications companies;
- technical problems, in particular those relating to the introduction and viability of 3G;
- a change in end-user sentiment or their adverse view of newly introduced technology or services;
- announcements concerning the relative success of or timetables for 3G mobile networks, systems and services; and
- general market volatility.

Currency fluctuations may adversely affect the trading prices of our B shares and ADSs and the value of any distributions we make thereon.

Because our B shares are quoted in domestic currencies on local exchanges and the ADSs are quoted in USD, fluctuations in exchange rates between the SEK and currencies in which the B shares or ADSs are quoted may affect the value of your investment. In addition, because we pay cash dividends in Swedish kronor, fluctuations in exchange rates may affect the value of distributions if your arrangements with your bank, broker or depositary, in the case of ADSs, call for distributions to you in local currencies.

Please see Item 11 "Quantitative and Qualitative Disclosures about Market Risk".