Registered No: 00942215

Ericsson Limited

Report and Financial Statements

Year ended 31 December 2020

Contents

Strategic report

The directors present their strategic report on the Company for the year ended 31 December 2020.

Review of the business

The Company is a major product and service provider to fixed and mobile telecommunications systems operators in the UK. The company continues to provides all-IP, 4G/LTE and 5G networks as the evolution of telecommunications towards data continues. Our portfolio also includes a wide range of OSS/BSS, transmission solutions, Media Delivery Network solution for telecom operators, and Customer Experience Management (CEM). We continue to deliver managed services, consulting and systems integration, customer support and network rollout.

The Company delivered a satisfactory performance in 2020 as it continued to improve delivery of its local services contracts and expand its product sales to its existing customer base. Due to the pandemic there has been a need for increased communication efficiency and reliability as the working environment has changed within the UK economy, which has presented further opportunities to our customers and our business, although we expect mobile operators still to continue to focus on increasing their operational efficiency, consolidation opportunities and reducing their operating expenses in a competitive trading environment.

The gross margin percentage has decreased during the year to 15.2% from 16.4% in the prior year.

Principal risks and uncertainties (Market, Technology and Business Risks)

Challenging macro economic conditions may adversely impact the demand and pricing for our products and services as well as limit our ability to grow. Challenging economic conditions could have adverse, wide-ranging effects on demand for our products and for the products of our customers. Adverse global economic conditions could cause network operators to postpone investments or initiate other cost cutting initiatives to improve their financial position. This could result in significantly reduced expenditures for network infrastructure and services, in which case our operating results would suffer. When deemed necessary, we undertake specific restructuring or cost saving initiatives, however, there are no guarantees that such initiatives will be sufficient, successful or executed in time to deliver any improvements in our earnings.

The UK telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by operators and other customers regarding their deployment of technology and their timing of purchases.
The UK telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. While we expect the network service provider equipment market and telecommunications services market to grow in the coming years, the uncertainty surrounding the global economic recovery may materially harm actual market conditions. Even if macro economic conditions improve, conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected. If capital expenditures by service providers and other customers is weaker than we anticipate, our revenues and profitability may be adversely affected. The level of demand by service providers and other customers who buy our products and services can change quickly and can vary over short periods of time, including from month to month. Due to the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results, and cash flow remains difficult.

Growth of our managed services business is difficult to predict, and requires taking significant contractual risks.
Operators increasingly outsource parts of their operations to reduce cost and focus on new services. To address this opportunity, we offer operators various services in which we manage their networks. The growth rate in the managed services market is difficult to forecast and each new contract carries a risk that transformation and integration of the operations will not be as fast or smooth as planned. Additionally, early contract margins are generally low and the mix of new and old contracts may negatively affect reported results in a given period. Contracts for such services normally cover several years and generate recurring revenues. However, contracts have been, and may in the future be, terminated or reduced in scope, which has negative impacts on sales and earnings. While we believe we have a strong position in the managed services market, competition in this area is increasing, which may have adverse effects on our future growth and profitability.

Financial key performance indicators (KPIs)

The Company's key financial performance indicators during the year were as follows:

	2020 £000	2019 £000	% Change
Revenue	451,340	425,229	6.1%
Gross profit	68,429	69,546	(1.6)%
Gross margin %	15.2%	16.4%	(1.2)%
Profit before taxation	10,559	15,906	(33.6)%
Current assets as % of current liabilities	86.0%	91.1%	(5.0)%
Average number of employees	1,418	1,467	(3.3)%

Strategic report (continued)

Financial key performance indicators (KPIs) (continued)

Revenue for the business increased by 6.1% compared to prior year, the core business has remained vastly unchainged, with an additional radio contract deal with one of the major network providers. The performance was in line with expectations as the telecommunication operators continued to be cautious with their expansion plans and the competition amongst the telecommunication suppliers in the UK market remains intense.

Gross profit margin percentage decreased by 1%, with the gross margin decreasing 0.5% year on year. This is due to changes in sales mix and *the initial up-front costs experienced in new contracts.*

The decrease in the Current assets ratio by 5.0% was primarily due to the cash dividend payment of £16m in 2020. Cash balance was also lower at 2020 year end due to the timing of customer receipts compared to prior year, and repayment of intercompany balances during the year, thereby resulting in a net cash outflow from operating activities (see Statement of cash flows).

Average employees decreased by 3.3% as the company continues to focus on cost improvement measures to improve its overall profitability.

Revenue by region:

	2020 £000	2019 £000	% Change
UK	430,795	407,883	5.6%
Rest of Europe	19,930	17,307	15.2%
Other	615	39	1,476.9%

Revenue for the business by region has increased by 5.6% in the core region of the UK in which it mainly operates, compared to the prior year, this is mainly attributable to the additional radio contract recognised during the period. The remaining regional split is income derived from recharging services and people to the Ericsson Group rather than core services and products.

Financial position

The financial position of the Company is presented in the balance sheet, on page 14, and is summarised as follows:

	2020 £000	2019 £000
Total equity:		
Total assets	459,002	423,385
Total liabilities	360,904	310,200
	98,098	113,185

Brexit

Brexit has changed the UK's relationship with the EU, the EU-UK Trade and Cooperation Agreement, which came into effect on 1 January 2021, provides greater clarity on the trading relationship between the UK and the EU. Ericsson Limited has been planning for Brexit for a number of years through a cross-functional steering committee established early in the Brexit process to identify risks and produce a comprehensive mitigation plan. To date there has been no material impact from the EU-UK Trade and Cooperation Agreement on our operations and service offerings to our customers. We continue to monitor the impact of the agreement, and any legal challenges to elements of the agreement, with further mitigations put in place where necessary to ensure our services operate as normal.

Covid-19

The COVID-19 pandemic has highlighted the vital role telecommunications companies play in society enabling people to work remotely, allowing businesses to remain operational, supporting emergency services and government responses, and providing access to online education. It has accelerated the pace of digital transformation and confirmed that wireless connectivity is critical infrastructure that underpins society, a reversion back to the status quo that existed before the pandemic is less likely, as for example, we will most likely see remote working as part of the new normal.

During the Financial year end 31 December 2020, Ericsson's Limited (and the Ericsson Group as a whole) focus throughout has been on the health and safety of our employees, customers and other stakeholders. At the start of the pandemic, we transitioned the majority of our staff to working from home, with minimal disruption to our customers, we have closely monitored the evolution of COVID-19 as it has continued to affect different countries and adapted our risk profile as required. The UK Government continues to ease restrictions of lockdown during Q2 of 2021 (at the time of signing these financial statements), and are monitoring the reproductive rate closely. While the future effects on the economy and the business cannot be accurately predicted, to date there has been no discernible impact on the Company's financial or operational performance. The UK management has in place a regular meeting of the "Crisis Management Task Force" (CMTF) which continues to monitor the potential impact and take the necessary steps it believes is required in order to minimise the risk to the company's operations, employees and stakeholders alike.

After ensuring that financial, operational and liquidity forecasting updates are maintained and reviewed on an ongoing basis, the positive results for the half year 2021 of both the company and the group with little financial impact being felt from the pandemic and receiving an undertaking from the ultimate parent company, Telefonaktiebolaget LM Ericsson, that it will provide all necessary financial support to the Company for at least 12 months from the date of approval of these financial statements, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing financial statements.

Strategic report (continued)

SECR Report Summary

Company Information

This report for Streamlined Energy and Carbon Reporting (SECR) has been generated on behalf of Ericsson Limited, Incorporated in the UK Reg number 00942215. Registered address is 14Th Floor, Thames Tower, Station Road, Reading, RG1 1LX, by The Consultus International Group.

Reporting Period

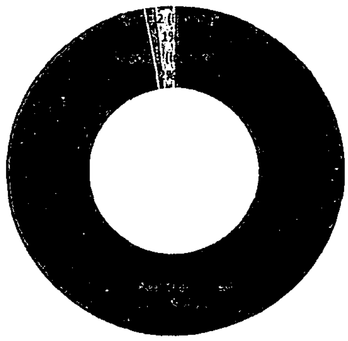
1st January 2020 - 31st December 2020

UK Energy & Carbon

Total Emission Scope Summary

Emission Type	Total Volume (kWh)	Calculated Emissions (Tonnes of CO_2e)
Scope 1 (direct)	9,194,082	2,200
Scope 2 (indirect)	106,236	25
Scope 3 (indirect)	175,881	41
Total	9,476,199	2,266

Percentage Split of Emissions by Scope



Scope 1 Emissions (Direct)

Emissions from activities owned or controlled by Ericsson Limited that release emissions into the atmosphere. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production in owned or controlled process equipment.

Energy Type	Definition	Total Volume (kWh)	Calculated Emissions (Tonnes of CO_2e)
Gas	Emissions from combustion of gas	93,536	12
Transport	Emissions from combustion of fuel for transport purposes	9,100,546	2,188
Total		9,194,082	2,200

Scope 2 Emissions (In-direct)

Emissions released into the atmosphere associated with Ericsson Limited's consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of Ericsson Limited's activities, but which occur at sources that Ericsson Limited do not own or control.

Energy Type	Definition	Total Volume (kWh)	Calculated Emissions (Tonnes of CO_2e)
Electricity	Emissions from purchased electricity	106,236	25
Total		106,236	25

Strategic report (continued)

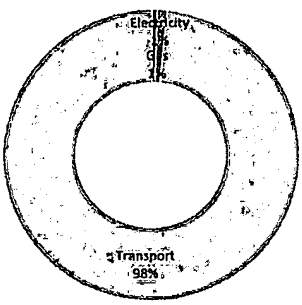
SECR Report Summary (continued)

Scope 3 Emissions (In-direct)

Emissions that are a consequence of Ericsson Limited's actions, which occur at sources which Ericsson Limited do not own or control and which are not classed as Scope 2 emissions. Examples of Scope 3 emissions are business travel by means not owned or controlled by Ericsson Limited (e.g. grey fleet and rental cars).

Energy Type	Definition	Total Volume (kWh)	Calculated Emissions (Tonnes of CO_2e)
Employee Owned Cars	Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel (mandatory)	175,881	41
Total		175,881	41

Percentage Split of Emissions by Energy Use



Out of Scope

All fuels with biogenic content (such as 'Diesel and petrol (average biofuel blend)') should have the 'outside of scopes' emissions reported to ensure a complete picture of an organisation's emissions is created. However, these are not required to be included in Ericsson Limited's emissions total.

Energy Type	Total Volume (kWh)	Calculated Emissions (Tonnes of CO_2e)
Transport (e.g. cars)	-	73
Total	-	73

How does it compare

The company must state the emissions and energy use from previous years reports. This allows the company to track their emissions to encourage monitoring performance. As this is the first year of reporting, there are no comparisons of change from previous years.

Emission	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023
Tonnes of CO2e	2,266	-	-	-

Intensity Ratio

Intensity ratios compare emissions data with an appropriate business metric or financial indicator. Ericsson Limited has chosen to use tonnes of CO_2e per £ Turnover for its Intensity Ratio. As this is the first year of reporting, there are no comparisons of change from previous years.

Intensity Measurement	Turnover (£000)	Intensity Ratio (tCO_2e / Turnover £000)
Tonnes of CO2e per total £m sales revenue	451,340	5.0

Quantification and Reporting Methodology

Ericsson Limited has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions. Energy usage information (gas and electricity) has been obtained directly from the companie's energy suppliers and HH/AMR data, where available, for those supplies with HH/AMR meters. Transport mileage and/or fuel usage data was provided for their company and employee owned vehicles. CO_2e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information and retained within the organisations Data File for reference where required.

Energy Efficiency Action

No energy efficiency actions have been completed within the reporting year.

Strategic report (continued)

Section 172(1) Statement

The revised UK Corporate Governance Code ('2018 Code') was published in July 2018 and applies to accounting periods beginning on or after January 1, 2019. The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (A) to (F) of the Companies Act 2006 ('S172') when performing *their duty to promote the success of the Company under S172.*

The S172 statement focuses on matters of strategic importance to the Company, and the level of information disclosed is consistent with the size and the complexity of the business. When making decisions, each Director ensures that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matter) to:

S172(1) (A) "The likely consequences of any decision in the long term"

The Directors understand the business and the evolving environment in which we operate, including the challenges of navigating through the telecommunication industry. With the evolution of 5G and beyond, we are moving technological boundaries forward to create the biggest innovation platform ever. The number of connected applications and devices will continue to increase exponentially, so too will the economic value which relies on their integrity. Intelligent networks will carry an abundance of industry and consumer data, changing the nature of business competition. Securing those assets will make future network security key to ensuring trustworthiness of society and industry.

S172(1) (B) "The interests of the company's employees"

The Directors recognise that our employees are fundamental to our business and delivery of our strategic ambitions. The success of our business depends on attracting, retaining and motivating employees. See Employee consultation in the Director's Report.

During the past three years Ericsson Group has set the foundation and re-designed our ways of working to create an even more positive employee experience in support of our company transformation. During 2020 we have continued our focus on the following areas: Ethics and compliance; Succession and people planning; Performance management; and Employee engagement.

S172(1) (C) "The need to foster the company's business relationships with suppliers, customers and others"

Our business model is built to manage changing market requirements and to capture new business opportunities. Customer focus and motivated *employees are key to drive our business, create stakeholder value and to build a stronger company long term.* With an agile and efficient business model, we create value for our stakeholders by providing industry leading, high performing, sustainable and cost-efficient solutions to our customers.

The Company's business partners, including suppliers adhere to Ericsson's Responsible sourcing program, covering four main areas: business ethics and anti-corruption, human and labour rights, occupational health and safety and environmental management. Ericsson offers free online training to ensure compliance.

S172(1) (D) "The impact of the company's operations on the community and the environment"

Sustainability is central to Ericsson's purpose. We are committed to creating positive impacts in society and reducing risks to Ericsson, our customers and society through our technology, our solutions and the expertise of our people. The work is a continuous journey and our Sustainability and Corporate Responsibility strategy covers three focus areas: Responsible business, Environmental sustainability and Digital inclusion.

Ericsson Limited adheres to the Ericsson Group policy on Sustainability and Corporate Responsibility. For more information on this please read our Sustainability and Corporate Responsibility Report 2019 on pages 173-213 within the PDF of the Telefonaktiebolaget LM Ericsson Group 2020 Annual Report (https://www.ericsson.com/494193/assets/local/investors/documents/2020/annual-report-2020-en.pdf).

Proactive management of topics relating to climate action and environment is a core component of Ericsson's Group sustainability strategy. We leverage a circular economy (design, use, re-use, recycle) approach in everything we do; and work to reduce environmental impacts and emissions from our operations, our portfolio and in society.

S172(1) (E) "The desirability of the company maintaining a reputation for high standards of business conduct"

Ericsson Group's purpose is to empower an intelligent, sustainable and connected world in ways which are economically, environmentally and socially responsible. Ericsson Group has clear frameworks, such as Code of Conduct, Code of Business Ethics & Compliance manuals, and its Modern Slavery Statements, to ensure that its high standards are maintained both within Ericsson and the business relationships we maintain.

Please visit the appropriate corporate website addresses for more information on the following subjects:

• Telefonaktiebolaget LM Ericsson Group 2020 Annual Report (please see pages 131-213 within PDF) https://www.ericsson.com/494193/assets/local/investors/documents/2020/annual-report-2020-en.pdf

• Code of business ethics - https://www.ericsson.com/en/about-us/corporate-governance/code-of-ethics

• Code of conduct for suppliers - https://www.ericsson.com/en/about-us/corporate-governance/code-of-ethics

• Occupational Health & Safety policy (please see pages 188-189 within PDF) https://www.ericsson.com/494193/assets/local/investors/documents/2020/annual-report-2020-en.pdf

Strategic report (continued)

Section 172(1) Statement (continued)

S172(1) (F) "The need to act fairly as between members of the company"

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long-term, taking into consideration the impact on all stakeholders (suppliers, customers, employees, society and shareholders).

In discharging its section 172 duties the Company has regard to the factors set out above. The directors also take into account the views and interests of a wider set of stakeholders when making decisions. During the year the Directors received information to enable them to consider the impact of the company's decisions on its key stakeholders. This information was distributed in a range of different formats, including through reports and presentations on our financial and operational performance, non-financial KPIs and risk matters. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders and the Directors have to make difficult decisions based on competing priorities. By considering the company's purpose and values, together with its strategic priorities and having a process in place for decision-making, we do, however, aim to balance those different perspectives.

As is normal for large companies, Directors have delegated authority for day-to-day management of the company to its key management executives and then engage management in setting, approving and overseeing the execution of the strategy and related policies. During the year, we reviewed the company's financial and operational performance; key transactions (if any); matters relating to the commitments which were made as part of the Ericsson's Group DPA with the US Department of Justice; regulatory, funding and pensions matters, mechanisms of stakeholder engagement and diversity and inclusion. The Directors received papers and reports on these matters which were then reviewed, discussed and approved, as necessary.

The impact of the company's activities on our stakeholders, including our colleagues, customers and suppliers is an important consideration when making decisions. The Directors will sometimes engage directly with stakeholders on certain issues, but the size and distribution of our stakeholders and of Telefonaktiebolaget LM Ericsson Group means that stakeholder engagement often takes place at an operational or group level. This is deemed as being a more efficient and effective approach, also helping to achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on how the Ericsson Group engages with its stakeholders and how stakeholder interests and section 172 duties have been considered in reaching certain key strategic decisions, please see pages 182-195 of the Telefonaktiebolaget LM Ericsson Group 2020 Annual Report, which is available from:
https://www.ericsson.com/494193/assets/local/investors/documents/2020/annual-report-2020-en.pdf

As set out above, decisions taken by the Directors consider the interests of our key stakeholders and the impacts of those decisions. The Directors of the Company feel that there has only been a singular example of what they consider is a key decision that has been made in regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duties and the effect of that on decisions taken by it is the payment of the dividend. Throughout the year the Directors assessed the strength of the Company's balance sheet and future prospects relative to uncertainties in the external environment. During the financial year ended 31st December 2020, the Directors recommended an interim dividend of £16 million. In making this decision the Directors considered a range of factors. These included the long-term viability of the Company; its expected cash flow and financing requirements; the financial position of the Ericsson Pension Schemes; the ongoing need for strategic investment in our business and workforce, and the pricing expectations of its customers and suppliers, as well as the expectations of our members.

Approved for issue by the board of directors

DocuSigned by:
Liam O'Brien
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Mr L O'Brien
Director
23/07/2021

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

Principal activities

The Company is a private company, limited by shares and incorporated and domiciled in England, United Kingdom. Its registered office and principal place of business is the 14th Floor, Thames Tower, Station Road, Reading, Berkshire RG1 1LX.

Going concern

The telecommunications and media industries are highly prioritized industries in times of crisis and currently the Ericsson group (NASDAQ: ERIC) delivers under the Business as usual mode. During the COVID-19 pandemic, our teams ensure that critical infrastructure and therefore critical services for customers run uninterrupted 24/7. Our ability to maintain services becomes even more vital in times like we all pass now as we have a responsibility to our customers and wider society to ensure that telecommunication and media networks remain up and running to the highest standard.

Currently we run business at same capacity and the customer contracts continue to be honored according to the plan, without any discontinuance. Of course, the maintenance services are the highest focus in this period but also the other business lines continue as per usual in order to strengthen even more the telecommunication and media infrastructure in the country. At this point we have not received any alarming message from our customers which might have an immediate impact on our business.

While this is still an evolving situation at the time of issuing the financial statements of the Company, we consider that this crisis will not have an immediate impact on our business in the country and as well in the business sector we operate. However the evolution is highly unpredictable and the management will continue to monitor the potential impact and take the necessary steps to minimize any potential effects.

After ensuring that financial, operational and liquidity forecasting updates are maintained and reviewed on an ongoing basis, the positive results for the half year 2021 of both the company and the group with little financial impact being felt from the pandemic and receiving an undertaking from the ultimate parent company, Telefonaktiebolaget LM Ericsson, that it will provide all necessary financial support to the Company for at least 12 months from the date of approval of these financial statements, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing financial statements.

Future developments

Ericsson's vision is of a Networked Society where everything that benefits from being connected will be connected. During the transformation to the Networked Society clear customer segmentation is taking place as operators assume different roles in the transforming information and communications technology (ICT) market. Ericsson supports its customers in the new ICT landscape by using the advantages of technology leadership, a position which has resulted in a competitive portfolio of radio networks, core networks and backhaul solutions. Since network performance has become the prime driver of consumer loyalty, and increasing customer loyalty has significant benefits in terms of generating long-term value, there is also a demand for network design and optimization expertise to maintain high-quality of service, including accessibility, speed, reliability and high-quality user experience.

Ericsson has identified three emerging and strategic operator segments where connectivity is, and will continue to be, the foundation of business: Network developer; Service enabler; and Service creator.

Network developer: Ericsson addresses the demands with solutions for high-performance network architecture including mobile infrastructure, software-defined networking (SDN) technologies, network functions virtualization (NFV) and indoor connectivity.

Service enabler: Ericsson addresses demands for a high-performing network, billing, customer care and service assurance with its OSS and BSS platforms and professional services offering. These offerings cater to needs for control and management of operations and the identification of new revenue streams. Included in Ericsson's offerings are also the Network-enabled Cloud, network functions virtualization (NFV) and software-defined networking technologies that enable common management and orchestration across network resources and cloud applications.

Service creator: Ericsson offers intelligent nodes and platforms, and tools to transform the platforms, including service capabilities that fit the demands of service creators and enable them to expand their business. Ericsson also addresses service creator needs by providing technology that brings cloud capabilities into the network, with the flexibility and elasticity needed to deploy software applications wherever and whenever they are needed. Offerings include Smart Meter Managers and IoT Security.

Employee engagement and business relationships

Please see the Strategic Report S172(1) (B) and S172(1) (C) on page 6.

Directors' report (continued)

Dividends

An interim dividend payment of £16.0m (2019: £12.5m) was made during the year and the directors have not declared a final dividend in respect of 2020 (2019: £nil).

Post balance sheet event

There were no material or significant events that occurred in the period from 31 December 2020 to the date of reporting that would require adjustment to or disclosure in the financial statements

Directors and their interests

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Mr L O'Brien
Ms M Lindgren (resigned on 1 October 2020)
Mr R Peacock
Mr J Griffin (appointed on 1 October 2020)
Ms K Ainley (appointed on 3 February 2021)

None of the directors held any interest in the share capital of the Company or that of its UK parent company, Ericsson (Holdings) Limited, at any time during the year. During the year and at the date of approval of the financial statements, the Company held third party indemnity cover in respect of directors.

The directors are the only key management personnel of the Company and their remuneration is included in the disclosure in note 19 of the financial statements.

Financial risk management

The Company's financial risk management policy is primarily driven by Ericsson Group Treasury. The principal role is to ensure that appropriate financing is in place to manage the Company's liquidity as well as financial assets and liabilities, and to control financial risks exposures in a manner consistent with underlying business risks and financial policies. The Company does not undertake any local hedging activities.

See Note 17 for further details on foreign exchange, interest rate and liquidity risks.

Disabled employees

Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Employees are engaged with on a group wide basis via Voice Surveys, where by the engagement is delegeated via departmental heads. Those surveys serve as a multi directional tool to feedback to the Ericsson group on subjects that matter and affect the staff and their interests and discussions are implemented on improvements and actions needed.

Policy and practice on payment of creditors

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are informed of payment and that the Company abides by the terms of payment.

Trade creditors (including intercompany) of the Company at 31 December 2020 were equivalent to 99 days purchases (2019: 57 days), based on the average daily amount invoiced by suppliers during the year.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards as issued by the IASB. . Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as issued by the IASB and as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Disclosure of information to the auditors

In accordance with Section 418 of the Companies Act 2006 in the case of each director in office at the date the directors' report, it has been approved that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

Following a decision by the company's ultimate parent entity to appoint a new audit firm for the year ending 31 December 2020, and the approval of Deloitte as the new auditor at the ultimate parent company's AGM on 31 March 2020, Deloitte LLP will be appointed as auditors of the entity for the financial year ending 31 December 2020.

Approved for issue by the board of directors

DocuSigned by:

Liam O'Brien

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Mr L O'Brien
Director
23/07/2021

Independent auditors' report to the members of Ericsson Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Ericsson Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement cashflows
- the statements of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report , other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditors' report to the members of Ericsson Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included Employment rights, Equality Act, Health and Safety at work, Trade Union and Labour relations and Environmental Protection Act.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and pensions specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

The risk that the entity does not account for its material revenue contracts in accordance with the applicable financial reporting framework in particular where they contain measurement elements that could result in a material misstatement. In response to the risk, we have identified controls to ensure accurate contract assessment and accounting treatment of identified performance obligations are accurately set up. We have tested design, implementation and operating effectiveness of relevant controls that are in place to ensure that the accounting treatment of contracts are correctly assessed according to the contract and IFRS 15. Our substantive testing procedures include assessment of the accounting treatment with IFRS15 and concluding if it is in compliance with IFRS 15 .

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance; and reviewing internal audit reports, and reviewing any correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Hunter

James Hunter (Statutory Auditor)
for and on behalf of Deloitte, Statutory Auditor

4th Floor, Abbots House,
Abbey St,
Reading,
RG1 3BD
Date: 23/07/2021

Income statement
Year ended 31 December 2020

	Notes	2020 £000	2019 £000
Revenue	2	451,340	425,229
Cost of sales		(382,911)	(355,683)
Gross profit		68,429	69,546
Administration and selling expenses		(54,889)	(52,537)
Operating profit	3	13,540	17,009
Finance expense	7	(6,374)	(6,897)
Finance income	7	84	139
Net pension scheme finance income	18	3,309	5,655
Profit before taxation		10,559	15,906
Tax	5(a)	(5,572)	3,430
Profit for the financial year		4,987	19,336

All of the above results relate to continuing activities.

Statement of comprehensive income
Year ended 31 December 2020

	Notes	2020 £000	2019 £000
Profit for the financial year		4,987	19,336
Other comprehensive income / (expense)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plan	18	(4,246)	(50,834)
Tax on item that will not be reclassified to profit or loss	5(c)	172	9,028
Total comprehensive income / (expense)		913	(22,470)

The total comprehensive income above is attributable to the owners of the company.

Balance sheet

At 31 December 2020

	Notes	2020 £000	2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	8	4,570	5,503
Right-of-use assets	16	10,471	15,281
Trade and other receivables	10	200	-
Pension asset	18	187,420	174,761
		202,661	195,545
Current assets			
Inventories	9	23,322	22,989
Contract assets	2	13,480	14,861
Trade and other receivables	10	155,945	162,741
Cash and cash equivalents	11	63,594	27,249
		256,341	227,840
TOTAL ASSETS		459,002	423,385
EQUITY AND LIABILITIES			
Total equity			
Share capital	14	52,600	52,600
Retained earnings	15	45,498	60,585
		98,098	113,185
Non-current liabilities			
Lease liabilities	16	10,376	13,780
Pension liabilities	18	26,745	23,232
Deferred tax	5	24,222	21,099
Provisions	13	1,608	1,941
		62,951	60,052
Current liabilities			
Provisions	13	4,451	5,395
Contract liabilities	2	49,762	34,018
Lease liabilities	16	3,309	5,623
Trade and other payables	12	240,431	205,112
		297,953	250,148
TOTAL EQUITY AND LIABILITIES		459,002	423,385

The financial statements on pages 13 to 38 were approved and authorised for issue by the board and were signed on their behalf by Mr L O'Brien on 23/07/2021. Amendments to the financial statements are not permitted after approval.

DocuSigned by:
Liam OBrien
517A88328BAE4D6...

Mr L O'Brien (Director)
Registered No: 00942215

Statement of cash flows

For the year ended 31 December 2020

	Note(s)	2020 £000	2019 £000
Operating activities			
Profit before taxation		10,559	15,906
Adjustments for:			
Depreciation - Property, plant and machinery	8	460	1,278
Depreciation - Right of use assets		3,280	5,330
Impairment - Right of use assets		-	2,742
Asset write-off as scrap		142	-
(Gain) / loss on disposal of property, plant and equipment		(79)	(53)
Finance income		(84)	(139)
Finance costs		6,374	6,897
R&D credit		(1,260)	-
Changes in operating net assets			
Inventories	9	(333)	19,792
Contract assets		1,381	3,713
Trade and other receivables		6,796	857
Contract liabilities		15,744	891
Trade and other payables		34,353	12,191
Provisions	13	(1,277)	(27,811)
R&D tax refund		-	936
Pensions		(13,405)	(15,403)
Cash generated / (used in) from operations		62,651	27,127
Cash inflow / (outflow) from operating activities		62,651	27,127
Investing activities			
Purchase of property, plant and equipment	8	(69)	(341)
Disposal of fixed assets		480	-
Cash outflow from investing activities		411	(341)
Financing activities			
Interest paid	7	(5,606)	(5,865)
Interest on lease liabilities		(768)	(1,032)
Principal elements of lease payments		(4,427)	(3,839)
Interest received	7	84	139
Dividends paid	6	(16,000)	(12,500)
Cash outflow from financing activities		(26,717)	(23,097)
Net change in cash		36,345	3,689
Cash and cash equivalents, beginning of year		27,249	23,560
Cash and cash equivalents, end of year	11, 12	63,594	27,249

For the purpose of the statement of cash flows, the cash and cash equivalents at the end of the year include amounts held in foreign currencies of £63.6m (see note 11), and an overdraft balance of £nil (see note 12).

Statement of changes in equity

For the year ended 31 December 2020

	Notes	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2020	15	52,600	60,585	113,185
Transactions with owners	6	-	(16,000)	(16,000)
Profit for the financial year	15	-	4,987	4,987
Other comprehensive expense		-	(4,074)	(4,074)
At 31 December 2020		52,600	45,498	98,098
At 1 January 2019	15	52,600	95,555	148,155
Transactions with owners	6	-	(12,500)	(12,500)
Profit for the financial year	15	-	19,336	19,336
Other comprehensive expense		-	(41,806)	(41,806)
At 31 December 2019		52,600	60,585	113,185

Notes to the financial statements
For the year ended 31 December 2020

1 Accounting policies

Basis of preparation

The Company is a private company, limited by shares and incorporated and domiciled in England, United Kingdom. Its registered office and principal place of business is the 14th Floor, Thames Tower, Station Road, Reading, Berkshire RG1 1LX.

The principal activities of the Company are the design, supply, installation and service of telecommunications equipment and network services. The Company provides complete solutions for operators, and consumers from fixed and mobile networking, intelligent network platforms, telecom management solutions, through to end-user applications and service delivery.

The financial statements of the Company have been prepared in accordance with EU (European Union) adopted International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to limited companies reporting under IFRS.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy on financial instruments and plan assets related to defined benefit pension plans.

The financial statements have been prepared on the going concern basis as the ultimate parent company, Telefonaktiebolaget L M Ericsson, has stated it will provide all necessary financial support to the Company for at least 12 months from the date of approval of these financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

Going concern

After ensuring that financial, operational and liquidity forecasting updates are maintained and reviewed on an ongoing basis, the positive results for the half year 2021 of both the company and the group with little financial impact being felt from the pandemic and receiving an undertaking from the ultimate parent company, Telefonaktiebolaget LM Ericsson, that it will provide all necessary financial support to the Company for at least 12 months from the date of approval of these financial statements, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing financial statements.

Standards, amendments and interpretations effective in 2020

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Interest Rate Benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The Phase 2 Amendments are effective for annual periods beginning on or after 1 January 2021 although early application is permitted. The practical expedient and reliefs available regarding changes to effective interest rates and hedge relationships do not apply to the Company.

The Group is currently assessing the need to implement operational and system changes to ensure that valuation and settlement of instruments affected by new benchmark rates can be handled within the internal reporting process. This exercise is not expected to have a significant impact on the financial reporting process.

IFRS 3 - "Business Combinations"
ISAB issued an amendments to IFRS 3 Business Combinations, with reference to the Conceptual Framework, with an effective date 1 January 2022

IAS 16 - "Property, Plant and Equipment"
Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. Amendment has an effective date 1 January 2022

IAS 37 - "Provisions, Contingent Liabilities and Contingent Assets"
Requirement to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Amendment has an effective date 1 January 2022.

IFRS 17 - "Insurance contracts"
The new standard seeks to establish principles for the recognition, measurements, presentation and disclosure of insurance contracts. The new standard has effective date 1 January 2023.

The Company has not yet finalized the evaluation of any impact on financial result or position from the above amendments.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1 Accounting policies (continued)

Statement of cash flows

The statement of cash flow is prepared in accordance with the indirect method. Cash and cash equivalents consist of cash, bank, and short-term investments that are highly liquid monetary financial instruments with a remaining maturity of three months or less at the date of acquisition.

Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue recognition

Revenue primarily represents the value of goods and services supplied to customers during the period inclusive of trade discounts and rebates, and excluding VAT. Revenue also includes transactions with group companies ranging from supply of goods, services and cost recharges. Revenue is recognised with reference to all significant contractual terms when the product or service has been delivered, when the revenue amount is fixed or determinable and when collection is reasonably assured. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognised.

Intangible assets

Intangible assets comprise acquired intangible assets related to business combinations, such as patents, customer relations, trademarks and software. At initial recognition, acquired intangible assets are stated at fair value and subsequent to initial recognition these assets are stated at initially recognised amounts less accumulated amortization and any impairment.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight-line method over their estimated useful lives of ten years.

The Company has not recognised any intangible assets with indefinite useful life.

Impairment tests are performed whenever there is an indication of possible impairment. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Application of after tax amounts in calculation, both in relation to cash flows and discount rate is applied for calculating discount rate include a tax component. The after tax discounting, applied by the Company is not materially different from a discounting based on before-tax future cash flows and before-tax discount rates, as required by IFRS.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts and if the recoverable amount is higher than the carrying value. An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount, net of amortization, which would have been reported if no impairment loss had been recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation and any impairment charges are included in Administration and selling expenses. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, at the following annual rate:

Leasehold buildings	- Term of lease
Plant and machinery	- 2 to 10 years
Software development costs	- 3 to 4 years

Assets under construction - All directly attributable costs necessary to bring the asset to its required working condition are capitalised. These may include both internal and external costs. When the constructed asset is completed and put into use, accumulated 'asset under construction' costs are capitalised and depreciated within their respective categories.

The assets residual values and useful lives are reviewed and adjusted as appropriate at the end of each reporting period. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains and losses on disposals are determined by comparing the proceeds less cost to sell with the carrying amount and are recognised within Administration and selling expenses in the income statement.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1 Accounting policies (continued)

Leasing

Prior to 1 January 2019 , Rentals under operating leases are recognised in the income statement on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

From 1 January 2019 onwards

The assets leased by the Company are real estate related.

Leasing when the Company is the lessee

The Company recognizes right-of-use assets and lease liabilities arising from all leases in the balance sheet, with some exceptions. This model reflects that, at the start of a lease, the lessee always obtains the right to use an asset for a period of time and has an obligation to pay for that right.

In the assessment of a lease contract the lease components are separated from non-lease components and the lease term is defined based on the contract lease term and when reasonably certain estimated extension or termination options are included.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted normally using the Company's incremental borrowing rate. The incremental borrowing rate is calculated considering interest swap rates, the credit spread on bonds issued by real estate companies and the creditworthiness of the entity that signs the lease. Lease payments included in the liability are fixed payments, variable payments depending on an index or rate, residual values and penalties for termination of contracts.

The right-of-use asset is initially measured at cost, which equals the amount of the initial measurement of lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received plus any initial direct costs, and restoration costs.

The Company applies the recognition exemption for short-term leases and leases for which the underlying asset is of low-value recognizing the lease payments for those leases as an expense on a straight-line basis over the lease term. The interest expense on lease liabilities is presented as a component of finance costs separate from the depreciation charges for right-of-use assets. In the statement of cash flows, cash payments for the principal portion of the lease liability is reported within financing activities while payments for short-term leases, low-value assets and variable lease expenses not included in the measurement of the lease liability are classified within operating activities. For more information regarding leasing, see note 18, "Leases."

Leasing when the Company is the lessor

Leasing contracts with the Company as lessor are classified as finance leases when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases. Under a finance lease, a receivable is recognized at an amount equal to the net investment in the lease and revenue is recognized in accordance with the revenue recognition principles. Under operating leases the equipment is recorded as property, plant and equipment and revenue as well as depreciation is recognized on a straight-line basis over the lease term.

Financial assets

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the settlement date.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognised if any rights and obligations are created or retained in the transfer.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates.

Financial assets at fair value through profit and loss

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Derivatives are presented in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent with the transaction.

Loans and receivables

Receivables are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer as well as amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectability of the receivables is assessed for purposes of initial revenue recognition.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1 *Accounting policies (continued)*

Financial assets (continued)
Impairment

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to selling expenses in the income statement.

Financial liabilities

Financial liabilities are recognised when the Company becomes bound to the contractual obligations of the instrument. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivatives at fair value through profit and loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement either as cost of sales, other operating income, financial income or financial expense, depending on the intent of the transaction.

Inventories

Inventories are measured at the lower of cost and net realisable value, the cost is determined under a weighted average basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

Contract work in progress includes amounts related to delivery type contracts and service contracts with ongoing work in progress.

Income taxes

Income taxes in the financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity or OCI. For those items, the related income tax is also reported directly in equity or OCI. A current tax liability or asset is recognised for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognised for temporary differences between the book values of assets and liabilities and their tax values and for tax loss carry forwards. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carry forwards can be utilised. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or when it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognised in the income statement, unless it relates to a temporary difference earlier recognised directly in equity or OCI, in which case the adjustment is also recognised in equity or OCI.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1 Accounting policies (continued)

Provisions

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to restructuring, customer projects and other obligations and claims or obligations as a result of patent infringement and other litigations.

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Certain present obligations are not recognised as provisions as it is not probable that an economic outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Such obligations are reported as contingent liabilities.

Pensions

Pensions are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company's only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognised as expenses during the period when the employee provides service. Under a defined benefit plan, it is the Company's obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The Company operates two defined benefit pension schemes and a defined contribution pension scheme for its employees. The assets of the schemes are held separately from those of the Company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

The pension scheme asset is recognised in full on the balance sheet. The deferred tax liability relating to a benefit asset is recorded separately in provisions, as a deferred tax liability.

Increases in the present value of the scheme liabilities expected to arise from employee service in the period are charged to operating profit. The expected return on scheme assets less the increase in the present value of scheme liabilities arising from the passage of time are included within net finance charges. Actuarial gains and losses are recognised in OCI in the period in which they occur.

Critical accounting estimates and judgements

The preparation of financial statements and application of accounting standards often involve management's judgement and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgements or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. The following are the accounting policies subject to such judgements and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

Revenue recognition

Key sources of estimation uncertainty

The Company uses estimates and judgments in determining the amount and timing of revenue under IFRS 15, particularly when determining the transaction price and its allocation to performance obligations identified under the contract. Transaction price may consist of variable elements such as discounts, performance related price and contract penalties. Transaction price, including variable considerations, is estimated at the commencement of the contract (and periodically thereafter). Judgment is used in the estimation process based on historical experience with the type of business and customer.

IFRS 15 also requires revenue to be allocated to each performance obligations by reference to their standalone selling prices. The Company considers that an adjusted market assessment approach should be used to estimate stand-alone selling prices for its products and services for the purposes of allocating transaction price. These estimates are comprised of prices set for similar customer and circumstances, adjusted to reflect appropriate profit margins for the market. Discounts relating to specific performance obligations are included in their respective standalone selling prices. The method of allocating transaction price to each performance obligations based on their respective standalone selling prices means that discounts that do not relate to specific performance obligations will be allocated proportionately to each performance obligations.

Judgments made in relation to accounting policies applied

Management applies judgment when assessing the customer's ability and intention to pay in a contract. The assessment is based on the latest customer credit standing and the customer's past payment history. This assessment may change during the contract execution, and if there is evidence of deterioration in the customer's ability or intention to pay, then under IFRS 15 no further revenue shall be recognized until the collectability criteria is met. Conversely, this assessment may also change favourably over time, upon which revenue shall now be recognized on a contract that did not initially meet the collectability criteria.

Revenue for standard products shall be recognised when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Judgment may be applied in determining whether risk and rewards have been transferred to the customer and whether the customer has accepted the products. In a sale of software licence, judgment may also be applied to determine when the software is made available to the customer by considering when they can direct the use of, and obtain substantially all the benefits of, the licence. Often all indicators of transfer of control are assessed together and an overall judgment formed as to when transfer of control has occurred in a customer contract.

Revenue for customised solutions shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. Judgment are applied when determining the appropriate revenue milestones that best reflect the progress of completion and are aligned with key acceptance stages within the contract.

Trade and customer finance receivables

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual receivables will be paid. Credit risks for outstanding customer finance credits are regularly assessed as well, and allowances are recorded for estimated losses.

Deferred taxes

Deferred tax assets are recognised for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes. The valuation of deferred tax assets is based upon management's estimates of future taxable income in different tax jurisdictions.

Accounting for income, value added and other taxes

Accounting for these items is based upon evaluation of income, value added and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgements regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

Provisions

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. When the effect of the time value of money is material, discounting is made of estimated outflows. However, the actual outflows as a result of the obligations may differ from such estimates.

The provisions are mainly related to restructuring,customer projects and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer finance guarantees

A restructuring obligation is considered to have arisen when the Company has a detailed formal plan for the restructuring (approved by management), which has been communicated in such a way that a valid expectation has been raised among those affected.

Project related provisions include estimated losses on onerous contracts, contractual penalties and undertakings. For losses on customer contracts, a provision equal to the total estimated loss is recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract loss estimates include any probable penalties to a customer under a loss contract.

Pensions

Accounting for the costs of defined benefit pension plans is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, employee turnover rates and mortality tables. The discount rate assumptions are based on rates for high-quality fixed-income investments with durations as close as possible to the Company's pension plans.

Notes to the financial statements (continued)
For the year ended 31 December 2020

2 Revenue

All revenue is derived from the main activity of the company. An analysis of revenue by geographical market is given below, based on the region in which the order is received:

	2020 £000	2019 £000
UK	430,795	407,883
Rest of Europe	19,930	17,307
Other	615	39
	451,340	425,229

During the year three customers, from the UK geographical market, individually contributed to more than 10% of the company's total revenue. The total value of revenue derived from these three customers amounted to £324.1m (2019: four customers; £368m).

All revenue is derived from the main activity of the company. An analysis of revenue by category is given below, based on the commodity in which the order is received:

	2020 £000	2019 £000
Internal cost recovery	20,968	24,104
External sales:		
Customer support	312,532	304,423
Hardware	65,194	44,647
Software	52,646	52,055
	451,340	425,229

Assets and liabilities related to contracts with customers

	2020 £000	2019 £000
Contract assets	13,480	14,861
Contract liabilities	49,762	34,018

The following table shows how much of the revenue recognised in the current reporting year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

Revenue recognised in the year	2020 £000	2019 £000
Revenue recognised in the year related to the opening contract liability balance	26,154	26,515

Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from contracts:

	2020 £000	2019 £000
Unsatisfied long-term contracts	233,927	174,613

Management expects that 90% of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue during the next reporting period. The remaining 10% will be recognised in the 2021 financial year or later.

Notes to the financial statements (continued)
For the year ended 31 December 2020

3 Operating profit

This is stated after charging:

	2020 £000	2019 £000
Depreciation of owned fixed assets	460	1,278
Depreciation of Right to use Assets	3,280	5,330
Impairment of Right to use Asset	-	2,742
Auditors' remuneration - for audit of the Company's and parent financial statements	135	194

For 2020, The Ericsson Group has changed to a centralised audit approach, the centralised fees are paid by Ericsson Limited for itself and other subsidiary company's in the group, including the companies immediate parent undertaking Ericsson (Holdings) Limited. The Company does not recharge these fees.

4 Staff costs

	2020 £000	2019 £000
Wages and salaries	111,191	109,155
Social security costs	13,240	13,302
Other pension costs:		
Defined benefit pension costs	1,183	1,364
Defined contribution pension costs	8,173	7,919
	133,787	131,740

The monthly average number of employees during the year was as follows:

	2020 No.	2019 No.
Services	1,204	1,246
Research & development	10	10
Sales and marketing	77	80
General & administration	127	131
	1,418	1,467

See note 19 for disclosure on directors' emoluments and the number of directors who are accruing benefits under the defined benefit scheme.

5 Taxation

a. Tax expense

	2020 £000	2019 £000
Current tax:		
UK current income tax	-	-
Adjustments in respect of prior years	2,276	(3,779)
Total current tax	2,276	(3,779)
Deferred tax:		
Origination and reversal of temporary differences	2,958	(152)
Effect of rate change	(105)	(1,174)
Adjustments in respect of prior years	442	1,675
Total deferred tax	3,296	349
Tax on profit	5,572	(3,430)

The year end balance for current income tax is as follows:

	2020 £000	2019 £000
Current income tax receivable/(payable)	1,140	4,855

Notes to the financial statements (continued)
For the year ended 31 December 2020

5 Tax expense (continued)
b. Factors affecting tax charge for year

The UK standard rate of tax was 19% in 2019 and 2020. As the 17% CIT rate was legislated to take effect from 1 April 2020, the 17% rate was used for the calculation of the deferred tax in FY 2019. It has been reversed in FY 2020, as the CIT rate remained 19%.

	2020 £000	2019 £000
Profit before taxation	10,559	15,906
Profit at standard rate 19.00% (2019: 19.00%)	2,006	3,022
Effects of:		
Expenses not deductible for tax purposes	951	28
Pension timing differences recognised through OCI	-	(3,202)
Adjustments in respect of prior years	2,718	(2,104)
Effect of rate change	(105)	(1,174)
Total tax (credit) / expense for the year	5,572	(3,430)

c. Deferred tax liability

A deferred tax liability of £24.2m (2019: £21.1m), was recognised in the books at 31 December 2020. It is payable in more than one year.

	2020 £000	2019 £000
Depreciation in excess of capital allowances	5,232	3,696
Pensions	(30,528)	(26,524)
Other temporary differences	1,074	1,729
Total deferred tax liability	(24,222)	(21,099)

	2,020 £000	2,019 £000
Amounts recognised in the financial statements		
At 1 January	(21,099)	(29,778)
Adjustments	-	-
Charge to income statement	(3,296)	(349)
Recognised in OCI	172	9,028
At 31 December	(24,222)	(21,099)

d. Factors affecting current and future tax charges

At Spring Budget 2021, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 25% for the year starting 1 April 2023. If the deferred tax all reverses at 25% the impact would be approximately £7.6m.

Notes to the financial statements (continued)
For the year ended 31 December 2020

6 Dividends

Finance income:	2020 £000	2019 £000
Interim paid : £0.30418 (2019:£0.23764) per share: £16.0m (2019: £12.5m)	16,000	12,500

Interim dividend payment of £16.0m (2019: £12.5m) was made during the year. The directors do not propose a final dividend in respect of 2020 (2019: £Nil).

7 Finance income / (expense)

Finance income:	2020 £000	2019 £000
Interest receivable and similar income:	-	6
Foreign exchange gains	84	133
	84	139

Finance expense:	2020 £000	2019 £000
Interest due to group companies	(5,606)	(5,865)
Interest and finance charges paid/payable for lease liabilities	(768)	(1,032)
	(6,374)	(6,897)

On 16 June 2016 a long term loan agreement from the ultimate parent undertaking and controlling party Telefonaktiebolaget LM Ericsson was signed by the company. The loan is repayable in full (including any accrued interests) in 5 years time from the date of disbursement, with interest being charged quarterly calculated at LIBOR plus agreed markup, and payable on the last day of the quarter.

8 Property, plant and equipment

	Leasehold buildings £000	Plant & machinery £000	Assets under construction £000	Total £000
Cost:				
At 31 December 2019	4,141	13,816	169	18,126
Additions	1	64	4	69
Transfers	169	-	(169)	-
Disposals	-	(2,687)	-	(2,687)
At 31 December 2020	4,311	11,193	4	15,508
Accumulated depreciation:				
At 31 December 2019	481	12,142	-	12,623
Provided during the year	430	30	-	460
Disposals	-	(2,145)	-	(2,145)
At 31 December 2020	911	10,027	-	10,938
Net book value:				
At 31 December 2020	3,400	1,166	4	4,570
At 31 December 2019	3,660	1,674	169	5,503

Assets under construction relate to the capitalised costs of establishing a secure areas within existing premises occupied by Ericsson Limited.

Notes to the financial statements (continued)
For the year ended 31 December 2020

9 Inventories

	2020	2019
	£000	£000
Work in process and goods in transit	20,712	19,364
Finished goods and goods for resale	2,610	3,625
	23,322	22,989

In 2020, a total of £49.04m (2019: £50.5m) of inventories was included in cost of sales as an expense. This includes an amount of £0.19m (2019: £0.09m) which represents the allowances for obsolescence.

10 Trade and other receivables

	2020	2019
	£000	£000
Trade receivables	109,262	73,277
Allowances for impairment	(34)	(31)
Net trade receivables	109,228	73,246
Amounts owed by group undertakings	45,339	84,401
Prepayments	1,378	5,094
	155,945	162,741

Included within the amounts owed by group undertakings are loan balances amounting to £4.7m (2019: £4.7m) which are unsecured, have no fixed repayment date, and on which no interest is earned. All other inter-company balances are due to normal trade and are receivable on group standard payment terms (30 days net) with no extended credit.

Trade receivables are primarily denominated in sterling, with £0.3m being denominated in US dollars/US dollar linked currencies (2019: £0.48m) and £13.74 being denominated in Euros (2019: £4.27). The book value of trade and other receivables is consistent with fair value in the current and prior year.

A balance of £0.2m, due to sale of equipment with extended terms and due dates, previously owned by the company is included in non current assets.

Movement in allowances for impairment

	2020	2019
	£000	£000
Balance at 1 January	(31)	(209)
Additions	(318)	(1,233)
Utilisation	315	1,411
Balance at 31 December	(34)	(31)

Aging analysis as at 31 December 2020

				Of which past due in the following time intervals		Of which past due and impaired in the following time intervals	
	Amount	Of which neither impaired nor past due	Of which impaired, not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	109,262	107,668	-	1,291	269	-	34
Allowances for impairment	(34)	-	-	-	-	-	(34)
Net trade receivables	109,228	107,668	-	1,291	269	-	-

Notes to the financial statements (continued)
For the year ended 31 December 2020

10 Trade and other receivables (continued)

Aging analysis as at 31 December 2019

				Of which past due in the following time intervals		Of which past due and impaired in the following time intervals	
	Amount	Of which neither impaired nor past due	Of which impaired, not past due	less than 90 days	90 days or more	less than 90 days	90 days or more
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	73,277	69,377	-	3,797	72	-	31
Allowances for impairment	(31)	-	-	-	-	-	(31)
Net trade receivables	73,246	69,377	-	3,797	72	-	-

Credit risk in trade receivables
Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk.

Credit risk in trade receivables is governed by a policy applicable for all legal entities in Ericsson. The purpose of the policy is to:
- Avoid credit losses through establishing internal standard credit approval routines in all Ericsson legal entities
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non-payment and/or delayed payments from customers
- Ensure efficient credit management within the Company and thereby improve Days Sales Outstanding and Cash Flow
- Ensure payment terms are commercially justifiable
- Define escalation path and approval process for payment terms and customer credit limits.

The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system. This is based on the credit risk set on the customer. Credit blocks appear if the credit limit set on customer is exceeded or if past due receivables are higher than permitted levels. Release of a credit block requires authorization.

Letters of credits are used as a method for securing payments from customers operating in emerging markets, in particular in markets with unstable political and/or economic environment. By having banks confirming the letters of credit, the political and commercial credit risk exposures to Ericsson are mitigated.

Trade receivables amounted to £109.2m (2019: £73.2m). Provisions for expected losses are regularly assessed and amounted to £0.0m (2019: £0.0m). Ericsson's nominal credit losses have, however, historically been low. The five largest customers are the main telecom operators in the UK and represent 93.7% (2019: 91.8%) of the total trade receivables.

11 Cash and cash equivalents

	2020	2019
	£000	£000
Cash in hand and at bank	63,594	27,249
	63,594	27,249

12 Trade and other payables

	2020	2019
	£000	£000
Trade creditors	32,393	30,775
Amounts owed to group undertakings	141,184	101,273
Taxation and social security	22,221	19,255
Accruals and deferred income	44,633	53,810
	240,431	205,113

On 16 June 2016 a long term loan agreement from the ultimate parent undertaking and controlling party Telefonaktiebolaget LM Ericsson was signed by the company. This loan amounted to £70m and was used to clear the outstanding overdraft within the cash pooling facility at that time. The loan is repayable in full (including any accrued interests) in 5 years time from the date of disbursement, with interest being charged quarterly calculated at LIBOR plus agreed markup, and payable on the last day of the quarter.

See Note 21 for Post Balance Sheet Events on the restructuring of this loan on the 22nd June 2021.

All other inter-company balances are payable on group standard repayment terms (30 days net) with no extended credit.

Notes to the financial statements (continued)
For the year ended 31 December 2020

13 Provisions

	Onerous customer contracts	LTV scheme	Restructuring	Total
	£000	£000	£000	£000
At 1 January 2020	372	5,411	1,553	7,336
Additions	-	3,400	681	4,081
Reversals	(372)	(206)	(1,032)	(1,610)
Utilisation	-	(3,403)	(345)	(3,748)
At 31 December 2020	-	5,202	857	6,059
Of which:				
Non-current liabilities	-	1,608	-	1,608
Current liabilities	-	3,594	857	4,451

Onerous contract provision

Onerous contract provision of £nil (2019: £0.4m) relates to loss on customer contracts where the expected total revenues will not be sufficient to cover the expected total contract costs.

Restructuring provision

At 31 December 2020 the provision of £0.9m (2019: £1.5m) represents the restructuring provision for severance and other termination costs provided for in relation to the continuing cost reduction measures undertaken by the company. The overall provision is expected to be realised by the end of 2021.

Long Term Variable pay

As at 31 December 2020 the provision of £5.2m (2019 £5.4m) represents the estimated cost of Long Term Variable pay compensation. There are two plans.

The Plans are cash-settled retention plans. Employees are selected as participants annually through a nomination process. Participants are assigned a potential award based on a percentage of their annual gross salary, which is converted into a number of synthetic shares based on the same market price of Ericsson B shares used for the respective year's LTV.

One plan is a retention plan, therefore there are no performance criteria for vesting of awards. In general, there is a three-year service period for receiving the award in full and the award is subject only to continued employment during the service period.

On the second plan the vesting level of the award is subject to the achievement of the same performance criteria over the same performance period defined for the respective year and generally requires that the participant retains his or her employment over the vesting period.

At the end of the vesting period, the allotted synthetic shares are converted into a cash amount, based on the market price of Ericsson B shares at Nasdaq Stockholm at the pay-out date, and this final amount is paid to the participant in cash gross before tax.

14 Share capital

Authorised

	2020	2019
	£000	£000
31,000,000 ordinary shares of £1 each	31,000	31,000
139,000,000 Redeemable ordinary shares of £1 each	139,000	139,000
	170,000	170,000

Allotted, called up and fully paid

	2020	2019
	£000	£000
30,600,000 ordinary shares of £1 each	30,600	30,600
22,000,000 Redeemable ordinary shares of £1 each	22,000	22,000
	52,600	52,600

The redeemable ordinary shares can be redeemed at par by the company giving notice in writing of not less than one month. Both classes of shares of the company rank parri passu in all respects.

Notes to the financial statements (continued)
For the year ended 31 December 2020

15 Retained earnings

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2019	52,600	95,555	148,155
Profit for the year	-	19,336	19,336
Transactions with owners:			
Dividends paid	-	(12,500)	(12,500)
Other comprehensive income:			
Actuarial loss on pension	-	(50,834)	(50,834)
Related deferred tax	-	9,028	9,028
At 31 December 2019	52,600	60,585	113,185
Profit for the year	-	4,987	4,987
Transactions with owners:			
Dividends paid		(16,000)	(16,000)
Other comprehensive income:			
Actuarial loss on pension	-	(4,246)	(4,246)
Related deferred tax	-	172	172
At 31 December 2020	52,600	45,498	98,098

16 Lease liabilities

Leasing with the Company as lessee

In January 2019 Ericsson applied the new lease standard IFRS 16, which replaced IAS 17 Leases and the related Interpretations IFRIC 4, SIC-15 and SIC-27. The definition of a lease is amended which impacts the accounting both from a lessee and lessor perspective. The new standard will put leased assets on the balance sheet.

i) Right of use assets

Buildings	2020 £000	2019 £000
Opening balance at 1 January 2019	12,512	18,951
Depreciation charge of right of use assets	(2,647)	(3,710)
Retirements - cost	(3,967)	-
Impairment charge of right of use assets	-	(2,729)
Retirements - depreciation	2,761	-
Closing balance at 31 December 2019	8,659	12,512

Vehicles	2020 £000	2019 £000
Opening balance at 1 January 2019	2,769	4,275
Depreciation charge of right of use assets	(1,011)	(1,493)
Additions	181	-
Retirements - cost	(327)	-
Impairment charge of right of use assets	-	(13)
Retirements - depreciation	190	-
Closing balance at 31 December 2019	1,812	2,769
Closing balance of right of use assets at 31 December 2019	10,471	15,281

ii) Lease liabilities

Lease liabilities	2020 £000	2019 £000
Non-current	10,376	13,780
Current	3,309	5,623
	13,685	19,403

	2020 £000	2019 £000
Interest expense (included in finance costs)	(768)	(1,032)
Total cash outflow for leases during the financial year	3,435	4,871

Notes to the financial statements (continued)
For the year ended 31 December 2020

17 Financial risk management and financial instruments

The Company's capital and financial risk management policies are governed at the Ericsson Group level.

Capital Management

Ericsson Group defines its managed capital as the total of Company's equity, therefore uses Equity / Total Assets ratio as a measure of determining the appropriate capital structure of its group companies.

The capital structure is managed by balancing equity, intercompany loans and liquidity in such as way that the Company secures funding of its operations in a cost effective way for the Ericsson Group.

The Company achieves its funding needs solely through Ericsson Group Treasury and does not negotiate any external borrowing independently. This provides financial flexibility and independence to operate and manage variations in working capital needs as well as to capitalize on business opportunities.

The Company strives to finance growth, normal capital expenditures and dividends to Ericsson Group by generating sufficient positive cash flows from operating activities.

Capital objectives information:

	2020 £000	2019 £000
Equity	98,098	113,185
Total assets	459,002	423,385
Equity ratio	21.4%	26.7%
Cash flow from operating activities	62,651	27,127

Financial Management

The Company's financial risk management policy is primarily driven by Ericsson Group Treasury. The principal role is to ensure that appropriate financing is in place to manage the Company's liquidity as well as financial assets and liabilities, and to control financial risks exposures in a manner consistent with underlying business risks and financial policies. The Company does not undertake any local hedging activities.

Foreign exchange risk

The Company is exposed to foreign exchange risk in the normal course of business for transactions not denominated in GBP Sterling. For intercompany transactions, Ericsson Group Treasury seeks to minimize such risk by dictating the currency of trade between the Company and its group undertakings.

Although the Company does not undertake any local hedging activities, the Ericsson Group policy is to hedge the transaction exposure in its *subsidiaries' balance sheet (i.e. trade receivables and payables) through offsetting derivatives. Therefore the Company is obliged to enter into* such offsetting derivatives transaction with counterparty Ericsson Group Treasury at the end of each month. The value of such outstanding derivatives, all maturing within 30 days, at year end was £Nil receivable (2019: £Nil).

Interest rate risk

The Company is exposed to interest rate risk through market value fluctuations in certain balance sheet items and through changes in interest revenues and expenses. The net cash position at year end was £63.6m (2019: £27.2m net cash). There were no interest bearing liabilities at year end (2019: £nil)

Cash or overdraft balances are managed through a cash pooling arrangement, subject to floating rates applicable to the cash pooling arrangement with the Ericsson Group Treasury. No assets or liabilities are subject to fixed interest rate exposure.

The Company policy is to avoid a significant fixed rate exposure in its assets and liabilities.

Price risk

The Company is exposed to low price risks due to prices being regulated at a Group level. The Company receives market support and has transfer pricing arrangements in place with the Group company.

Liquidity risk

Liquidity risk is that the Company is unable to meet its short-term payment obligations due to insufficient funds or illiquid cash reserve. The Company minimizes the liquidity risk by maintaining a sufficient net cash position and having Ericsson Group Treasury loan facilities in place to meet potential funding needs.

All financial instruments of the company fall under level 3 of the fair value hierarchy.

During 2020, net cash balance increased from £27.2m net cash to £63.6m net cash.

The entire cash balance is held with reputable financial institutions.

Notes to the financial statements (continued)
For the year ended 31 December 2020

17 Financial risk management and financial instruments (continued)

Carrying amounts of financial instruments

	Trade receivables & Intercompany (note 10)	Lease liabilities (note 16)	Trade payables & Intercompany (note 12)	2020	2019
	£000	£000	£000	£000	£000
Loans and receivables	154,567	-	-	154,567	157,647
Financial liabilities at amortised cost	-	(13,685)	(173,577)	(187,262)	(151,451)
Total	154,567	(13,685)	(173,577)	(32,695)	6,196

The following table shows analysis of financial liabilities, including lease liabilities by contractual maturity.

	Lease liabilities	Trade payables & Intercompany	Total 2020
	£000	£000	£000
Less than 1 year	3,309	173,577	176,886
1 - 3 years	3,708	-	3,708
3 - 5 years	3,100	-	3,100
More than 5 years	3,568	-	3,568
Total	13,685	173,577	187,262

	Lease liabilities	Trade payables & Intercompany	Total 2019
	£000	£000	£000
Less than 1 year	5,623	132,048	137,671
1 - 3 years	5,530	-	5,530
3 - 5 years	3,510	-	3,510
More than 5 years	4,740	-	4,740
Total	19,403	132,048	151,451

18 Pension commitments

The company operates two final salary defined pension schemes, the Ericsson Employee Benefits Scheme ("EEBS") and the Ericsson Marconi Pension Plan ("EMPP") and the Ericsson Televison Defined Benefit Scheme. All the schemes are closed to new entrants and to future accruals for existing members. In addition, the company operates a defined contribution scheme with defined benefit underpin - the Ericsson Television Pension Plan. The Ericsson Television Pension Plan was closed to future defined benefit accrual as at 31 May 2016. The assets for each scheme are held separately from those of the Company in independently administered funds. The trustee boards are composed of representatives from both employers and plan members. The trustee boards of the schemes are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The trustee boards of the schemes are responsible for the investment policy with regard to the assets of the fund.

On the 31st January 2019 Ericsson Limited became the sponsoring employer for two funded pensions previously belonging to Ericsson Television Limited (Ericsson Televsion Defined Benefit Scheme and Ericsson Television Pension Plan, as referenced above), a subsidiary member of the same group as the Company. On the 31st January 2019 a deed of amendment was completed to apportion the assets and obligations of the pension scheme from Ericsson Television Limited to Ericsson Limited on completion of the Mediakind transaction. From 31 January 2019 Ericsson Television Limited settled its obligation relating to the pension scheme and Ericsson Limited became the sponsoring employees to the remaining members of the scheme.

The pension asset comprises:

	2020	2019
	£000	£000
Defined contribution scheme with underpin	(26,745)	(23,232)
Defined benefit scheme	187,420	174,761
	160,675	151,529

There are no amounts of unpaid contributions at the year end relating to the defined benefit scheme or the defined contribution scheme as all payments were made within the month due.

Administration costs incurred to administer and govern the pension plan have been expensed through the income statement. Administration costs incurred for directly managing the plan assets such as fees paid to the bank for asset management services and salaries of the management board who manage the trust are included in the return in plan assets.

Notes to the financial statements (continued)

For the year ended 31 December 2020

18 Pension commitments (continued)

The schemes typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and inflation. In addition the defined contribution scheme with a defined benefit underpin has annuity risks.

Investment risk - The present value of each scheme's liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on the scheme asset is below this rate, it will create a scheme deficit. Due to the long-term nature of the scheme liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the scheme assets should be invested in equity securities and real estate to leverage the return generated by the scheme. As the defined contribution scheme with the defined benefit underpin is primarily a defined contribution arrangement, the board of this scheme considers it appropriate to invest the majority of the scheme's assets in equity funds.

Interest risk - A decrease in bond interest rate will increase the liabilities; however, for the defined benefit scheme, this will be partially offset by an increase in the return on the plan's debt investments. The trustees of the defined benefit schemes have substantially hedged the assets against interest rate risk, relative to a gilts measure. Therefore the key exposure relative to the accounting assumptions for the defined benefit schemes relates to movements in corporate bond spreads.

Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the scheme's liability.

Inflation risk - The present value of the defined benefit liability is linked to inflation, and higher inflation will lead to higher liabilities. The majority of the scheme's assets however are aligned to movements in liabilities due to the hedging arrangements in place, with the exception of the defined contribution scheme, where assets are only loosely correlated with inflation, meaning that an increase in inflation will increase the deficit shown in respect of this Plan.

Defined benefit pension schemes

Actuarial valuations for scheme funding purposes were carried out at 31 December 2018 EMPP and EEBS and 30 September 2017 for ETDBS. The valuations have been updated at 31 December 2020 by a qualified and independent actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at market value.

During the year the company paid cash contributions of £9.5m for the EEBS scheme and £2.3m for the EMPP scheme, in accordance with the Schedule of Contributions agreed with the pensions trustees during the year. Contributions are expected to be £2.8m and £0.6m in the coming year for EEBS and EMPP respectively.

The major assumptions used for the actuarial valuation were:

	2020		2019	
	ETDBS	EEBS & EMPP	ETDBS	EEBS & EMPP
	%	%	%	%
Rate of increase in pensions in payment	2.75	2.70	2.90	2.85
Discount rate	1.45	1.45	2.05	2.10
Inflation assumptions (RPI)	2.85	2.80	3.00	2.95
Inflation assumptions (CPI) [pre 2030 / post 2030]	1.85 / 2.85	1.80 / 2.80	2.00	1.95

For the purpose of 31 December 2020 actuarial valuation the discount rate is based on high quality corporate bonds rated AA by at least one of two principle credit rating agencies and which have an outstanding debt issue of at least £50m. This is consistent with the prior year.

The mortality assumptions used for the 2020 year end are the *S3PA / S2PA tables with CMI 2019 improvements and a 1.5% long term trend.* Average life expectancy for mortality tables used to determine the defined benefit obligation at 31 December 2020 were:

	2020		2019	
	Male	Female	Male	Female
EEBS, EMPP & ETDBS :				
Aged 65 now; average life expectancy	22.2	24.5	21.9	23.9
Aged 45 now; average life expectancy on retirement at age 65	24.3	26.6	23.6	25.7

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

Notes to the financial statements (continued)
For the year ended 31 December 2020

18 Pension commitments (continued)

Defined benefit pension schemes (continued)

	2020	2019
	£000	£000
Equity investments categorised by risk:		
- Unquoted	201,472	49,677
- Quoted	12,593	148,545
Subtotal	214,065	198,222
Percentage of total asset	16.3%	16.9%
Bonds		
- Government (fixed linked)	258,720	209,698
- Government (index linked)	610,185	549,676
- Corporate bonds (investment grade)	85,013	80,749
Subtotal	953,918	840,123
Percentage of total asset	72.7%	71.8%
Property	4,914	4,956
Percentage of total asset	0.4%	0.4%
Other	58,474	43,337
Percentage of total asset	4.5%	3.7%
Cash and cash equivalents categorised by risk:		
- Quoted	71,874	69,564
- Unquoted	9,666	14,608
Subtotal	81,540	84,172
Percentage of total asset	6.2%	7.2%
Total market value of assets	1,312,911	1,170,810
Present value of scheme liabilities	(1,125,491)	(996,049)
Net pension asset	187,420	174,761

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair value of properties are not based on quoted market prices in active markets.

Changes in the present value of benefit obligation:	2020	2019
	£000	£000
Opening benefit obligation	996,049	822,540
Benefit obligation transferred in	-	53,958
Interest cost	20,707	25,402
Past service cost	1,019	-
Benefits paid	(27,668)	(32,068)
Actuarial losses	135,384	126,217
Closing benefit obligation	1,125,491	996,049

Notes to the financial statements (continued)
For the year ended 31 December 2020

18 Pension commitments (continued)

Changes in the value of scheme assets:	2020 £000	2019 £000
Opening value of scheme assets	1,170,810	1,010,960
Value of scheme assets transferred in	-	63,366
Interest income	24,488	31,370
Employer contributions	11,865	11,851
Benefits paid	(27,668)	(32,068)
Expenses	(1,183)	(1,364)
Actuarial gains	134,599	86,695
Value of scheme assets at end of year	1,312,911	1,170,810
Surplus recognised	187,420	174,761

	2020 £000	2019 £000
Actual return on plan assets	159,087	118,065

Analysis of the amount charged to operating profit:

	2020 £000	2019 £000
Administration expenses	(1,183)	(1,364)
Net charged to operating profit	(1,183)	(1,364)

Analysis of the amount charged to net finance charges:

	2020 £000	2019 £000
Interest income on pension scheme assets	24,488	31,370
Interest expense on pension scheme liabilities	(20,707)	(25,402)
Net interest income	3,781	5,968

Analysis of the actuarial losses recognised in the statement of comprehensive income:

	2020 £000	2019 £000
Actual return less interest income on pension scheme assets	134,599	86,695
Experience losses arising on the scheme liabilities	10,707	2,016
Changes in demographic assumptions	(20,688)	17,129
Changes in financial assumptions underlying the present value of scheme liabilities	(125,403)	(145,362)
	(785)	(39,522)

Notes to the financial statements (continued)
For the year ended 31 December 2020

18 Pension commitments (continued)

Movement in scheme surplus during the year:

	2020 £000	2019 £000
Pension scheme surplus at start of year	174,761	188,420
Pension scheme surplus transferred in	-	9,411
Administration expenses	(1,183)	(1,364)
Past Service Costs	(1,019)	-
Contributions	11,865	11,851
Net finance income	3,781	5,968
Actuarial losses	(785)	(39,522)
Pension scheme surplus at end of year	187,420	174,761

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, long-term expected inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting year, while holding all other assumptions constant.

EEBS & EMPP:

- If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by £112.2m (increase by £129.5m).
- If the inflation rates are 0.5% higher (lower), the defined benefit obligation would increase by £95m (decrease by £86.3m).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by £43.6m (decrease by £43m).

ETDBS:

- If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by £5.6m (increase by £6.2m).
- If the inflation rates are 0.5% higher (lower), the defined benefit obligation would increase by £6m (decrease by £5.7m).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by £2.8m (decrease by £3.1m).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting year, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The plan trustees and the Company regularly review the plan's investment strategy to ensure that it remains appropriate for risk and return profiles.

As the plan is closed to future accrual, employees pay no further contributions to the plan. The Company's funding requirements depend on the level of any deficit in the plan and are based on the local actuarial measurement framework.

The average duration of the defined benefit obligation at 31 December 2020 is 23 years (2019: 23 years).

The Company expects to make a contribution of £3.4m to the defined benefit schemes during the next financial year.

Defined contribution pension plan with defined benefit underpin

The Ericsson Television Limited Pension Plan ("ETPP") is defined contribution in nature but a defined benefit underpin applies up to 1 June 2016. After this date, employees moved to a defined contribution arrangement (see note 4). The Company pays contributions of 8% of pensionable earnings into the DC arrangement. In addition, the Company will pay £25,000 per month in deficit recovery contributions towards the Old Section until 30 June 2019 and £35,000 per month from 1 July 2019 to 30 September 2027. The Company also made a one-off additional contribution to the Old Section of £7m on 24 December 2018. On 31 January 2019, a deed of amendment was completed to apportion the assets and obligations of the Plan from Ericsson Television Limited to Ericsson Limited on completion of the Mediakind transaction and from this date Ericsson Television Limited has settled its obligation relating to the Plan.

A member by member valuation is carried out by a qualified and independent actuary using assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at market value.

The major assumptions used for the actuarial valuation were:

	2020 %	2019 %
Net discount rate underlying annuity purchase	(2.45)	(2.40)
Pre-retirement discount rate	1.45	2.05
Inflation assumptions	2.85	3.00

Notes to the financial statements (continued)
For the year ended 31 December 2020

18 Pension commitments (continued)

	2020		2019	
	Male	Female	Male	Female
Aged 65 now; average life expectancy	21.9	23.9	21.9	23.8
Aged 45 now; average life expectancy on retirement at 65	23.6	25.7	23.8	25.7

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	2020		2019	
	%	£000	%	£000
Equity investments categorised by region:				
- UK		24,431		24,163
- Europe		8,508		8,417
- North America		8,508		8,417
- Other		7,293		7,214
Subtotal	73%	48,740	76%	48,211
Bonds				
- Government		15,224		12,109
- Corporate bonds (investment grade)		1,469		1,404
Subtotal	25%	16,693	21%	13,513
Cash	2%	1,646	2%	1,326
Total market value of assets	100%	67,079	100%	63,050
Present value of scheme liabilities		(93,824)		(86,282)
Net pension liability		(26,745)		(23,232)

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair value of properties are not based on quoted market prices in active markets.

Changes in the present value of benefit obligation:

	2020	2019
	£000	£000
Benefit obligation at start of year/(transferred in prior year)	86,282	67,883
Interest expense	1,757	1,787
Benefits paid	(270)	(1,172)
Actuarial losses	6,055	17,784
Closing benefit obligation	93,824	86,282

Changes in the value of scheme assets:

	2020	2019
	£000	£000
Opening value of scheme assets	63,050	55,941
Interest income	1,285	1,474
Employer contributions	420	335
Benefits paid	(270)	(1,172)
Actuarial gains	2,594	6,472
Value of scheme assets at end of year	67,079	63,050
Deficit recognised	(26,745)	(23,232)

	2020	2019
	£000	£000
Actual return on plan assets	3,879	7,946

Analysis of the amount charged to net finance charges:

	2020	2019
	£000	£000
Interest income on pension scheme assets	1,285	1,474
Interest expense on pension scheme liabilities	(1,757)	(1,787)
Net interest expense	(472)	(313)

Analysis of the actuarial losses recognised in the statement of comprehensive income:

	2020	2019
	£000	£000
Actual return less interest income on pension scheme assets	2,594	6,472
Experience losses arising on the scheme liabilities	3,875	(3,975)
Changes in demographic assumptions underlying the present value of scheme liabilities	180	1,023
Changes in financial assumptions underlying the present value of scheme liabilities	(10,110)	(14,832)
	(3,461)	(11,312)

Notes to the financial statements (continued)
For the year ended 31 December 2020

18 Pension commitments (continued)

Movement in scheme deficit during the year:

	2020 £000	2019 £000
Pension scheme deficit at start of year/(transferred in prior year)	(23,232)	(11,942)
Contributions	420	335
Net finance income	(472)	(313)
Actuarial (losses)/gains	(3,461)	(11,312)
Pension scheme surplus at end of year	(26,745)	(23,232)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate assumption and mortality assumption. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting year, while holding all other assumptions constant.

• If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by £12.6m (increase by £15.1m).

• If the inflation rates are 0.5% higher (lower), the defined benefit obligation would increase by £14.5m (decrease by £11.9m).

• If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by £4.1m (decrease by £4m).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The average duration of the defined benefit obligation at 31 December 2020 is 29 years (2019: 29 years).

The Company expects to contribute £0.4m to the Plan during the next financial year.

19 Related parties

Parent and ultimate controlling party

The Company's immediate parent undertaking is Ericsson (Holdings) Limited. Its registered office being the 14th Floor, Thames Tower, Station Road, Reading, Berkshire RG1 1LX.

The ultimate parent undertaking and controlling party is Telefonaktiebolaget LM Ericsson, a Company incorporated in Sweden (which is domiciled in Sweden at Torshamnsgatan 21, SE-164 83 Stockholm), is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of Telefonaktiebolaget LM Ericsson may be obtained from www.ericsson.com.

Transactions with key management personnel
Key management personnel compensation comprised of the directors noted in the Directors report.

	2020 £000	2019 £000
Salaries and short-term employee benefits	883	775
Company contributions paid to post-employment benefits	19	17
	902	792

	2020 No.	2019 No.
Members of post-employment benefits schemes	2	2

	2020 £000	2019 £000
Highest paid director		
Emoluments and amounts receivable under incentive schemes	554	476

Other related party transactions
Related party transactions during the year are as follows:

	2020 £000	2019 £000
Immediate & ultimate parent		
- Interest on Group loan facility	5,606	5,813
- Dividend paid	16,000	12,500
- Recharges back	6,305	6,710
Fellow subsidiaries		
- Sales	14,912	17,367
- Purchases	(222,653)	(176,321)

Notes to the financial statements (continued)
For the year ended 31 December 2020

19 Related parties (continued)

Other related party transactions (continued)

Related party balances as at the year end are as follows:

	2020 £000	2019 £000
Immediate & ultimate parent		
- Receivables	6,783	4,717
- Liabilities	67,347	70,151
Fellow subsidiaries		
- Receivables	38,556	79,684
- Liabilities	70,942	31,122

A number of these companies transacted with the Company during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel-related companies on an arm's length basis.

20 Commitments

Bank guarantees of £0.1m (2019: £0.1m) have been made to HMRC in the ordinary course of business.

21 Post Balance Sheet Events

On 22 June 2021 a new loan agreement from the ultimate parent undertaking and controlling party Telefonaktiebolaget LM Ericsson was signed by the company. This loan amounted to £50m, the prior loan between Ericsson Limited and Telefonaktiebolaget LM Ericsson amounted to £70m, which has in part been paid, and the remainder rolled forward into this new loan amount. The loan is repayable in full (including any accrued interests) in 1 years time from the date of disbursement, with interest being charged quarterly calculated at LIBOR plus agreed markup, and payable on the last day of the quarter.