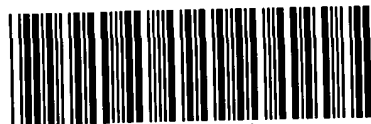


SCA Hygiene Products Manchester Limited
Annual report and financial statements
for the year ended 31 December 2016

Registered number: 04119442

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SCA Hygiene Products Manchester Limited
Annual report and financial statements
for the year ended 31 December 2016
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SCA Hygiene Products Manchester Limited

Directors and advisers

Directors

P A Bailey
C Rydebrink
K J Starr

Company secretary and registered office

P A Bailey
Southfields Road
Dunstable
Bedfordshire
LU6 3EJ

Independent auditors

Ernst & Young LLP
Chartered Accountants and Statutory Auditors
400 Capability Green
Luton
LU1 3LU

Solicitors

Reynolds Porter Chamberlain
Chichester House
278/282 High Holborn
London
WC17 7HA

Bankers

Natwest Bank Plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

SCA Hygiene Products Manchester Limited

Strategic report for the year ended 31 December 2016

Review of business and future developments

Raw material prices eased towards the end of the year but market conditions remain very competitive. The company continues to focus on product innovation and operational savings through efficiency programmes in manufacturing. This sentiment is expected to continue throughout 2017.

The company manufactures disposable hygiene products which are being sold to our sister company, SCA Hygiene Products UK Limited.

Key Performance Indicators (“KPIs”)

The company relies on different Key Performance Indicators at an operational level. Such KPIs are used by the management team to monitor performance on a regular basis and are monitored at business group level.

The main KPIs are as follows:

	2016	2015
Current Ratio – current assets divided by current liabilities	1.2	2.1
External Current Ratio – 3rd party current assets divided by 3rd party current liabilities	1.0	1.6
Gross Margin - the ratio of gross profit to turnover expressed as a percentage	7.3%	8.0%
Pre Tax Profit Margin – the ratio of the profit before tax to turnover expressed as a percentage	6.8%	3.2%

Principal risks and uncertainties

The management of the business and execution of the company’s strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to the competitive nature of the market place and fluctuations in energy and raw materials costs.

The board has overall responsibility for the company’s risk management and internal control systems and for reviewing their effectiveness. The systems are designed to provide reasonable control over the activities of the company and to enable the board to comply with the Directors’ responsibilities.

Financial risk management

The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

SCA Hygiene Products Manchester Limited

Strategic report for the year ended 31 December 2016 (continued)

The finance department has a policy and procedure manual set by the SCA AB Board that sets out specific guidelines to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments.

Currency risk – transaction exposure

The company has import costs in different currencies. This exposes the company to currency fluctuations. SCA's financial policy provides guidelines for managing the company's transaction exposure.

Cash management

As a member of the SCA cash pool arrangement, the company's cash management is effectively controlled by SCA Capital NV, a fellow group company. The SCA treasury function conducts an annual risk assessment exercise, taking into account credit rating information regarding the company, provided by an external credit rating agency. This information is used to provide a risk adjusted interest rate which is applied between the company and its parent in respect of any loans receivable or payable, on an arm's length basis.

Interest rate and cash flow risk

The company has an interest bearing asset and liability consisting of a loan to and from other related companies. The interest rate is calculated on an arm's length basis and is variable in nature.

Energy price risk

Due to its energy intensive operations, the company is exposed to risks relating to the changes in the price of energy, particularly gas and electricity. When the energy price risk is not hedged, price changes in the energy market have a direct impact on the company's operating result. The SCA group's energy price policy forms a framework of guidelines for managing energy price risk.

Dividends

The directors do not propose the payment of a dividend (2015: £nil).

By Order of the Board



Paul Bailey
Company secretary
27 July 2017

SCA Hygiene Products Manchester Limited

Directors' report for the year ended 31 December 2016

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2016.

Principal activities

The company's principal activity during the year was the manufacture of disposable hygiene products.

Future developments

See the Strategic report on page 2 for information on future developments.

Dividends

See the Strategic report on page 3 for information on dividends.

Financial risk management

See the Strategic report on page 2 for information on financial risk management.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

P A Bailey	Company secretary
C Rydebrink	
K J Starr	(appointed 3 March 2017)
S A Barker	(resigned 3 March 2017)

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed:

- As far as they are 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 to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The board has appointed Ernst & Young LLP as the new company auditor effective for periods from 31 December 2016.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Svenska Cellulosa Aktiebolaget SCA (Publ). On April 5th 2017 SCA's shareholders voted in favour of the proposal to split the Group into two separate listed companies. The hygiene business will become a leading global hygiene and health company operating under the name Essity. Therefore from June 15th 2017 the ultimate parent company will be Essity Aktiebolag (publ).

The directors have received confirmation that Essity Aktiebolag (publ) intend to support the company for at least one year after these financial statements are signed.

SCA Hygiene Products Manchester Limited

Directors' report for the year ended 31 December 2016 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

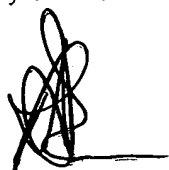
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

By Order of the Board



27 July 2017
Company secretary
Paul Baine

SCA Hygiene Products Manchester Limited

Independent auditors' report to the members of SCA Hygiene Products Manchester Limited

We have audited the financial statements of SCA Hygiene Products Manchester Limited for the year ended 31 December 2016 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

SCA Hygiene Products Manchester Limited

Independent auditors' report to the members of SCA Hygiene Products Manchester Limited (continued)

Opinion on other matter 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Ernst & Young LLP

John Dervley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
Date 28 July 2017

SCA Hygiene Products Manchester Limited

Income Statement for the year ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Turnover	2	63,588	66,460
Cost of sales		(58,964)	(61,098)
Gross profit		4,624	5,362
Other operating charges	3	(1,704)	(594)
Other operating income	4	-	63
Operating profit		2,920	4,831
Interest receivable and similar income	6	2	-
Interest payable and similar charges	7	(1,211)	(1,305)
Other finance income/(expense)	18	(473)	(1,413)
Profit on ordinary activities before taxation	8	1,238	2,113
Tax on profit on ordinary activities	9	514	(556)
Profit for the financial year		1,752	1,557

All activities are in respect of continuing operations.

SCA Hygiene Products Manchester Limited

Statement of comprehensive income for the year ended 31 December 2016

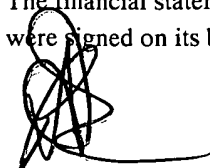
		2016	2015
	Note	£'000	£'000
Profit for the financial year		1,752	1,557
Actuarial loss on pension scheme	18	(16,833)	(4,916)
Movement on deferred tax relating to pension scheme	17	2,339	883
Transfer of Pension Scheme	18	3,073	-
Cash flow hedges		2,114	(280)
Movement on deferred tax relating to cash flow hedges		43	-
Other comprehensive expenses for the year		(9,264)	(4,313)
Total comprehensive expense for the year		(7,512)	(2,756)

SCA Hygiene Products Manchester Limited

Statement of financial position as at 31 December 2016

		2016	2015
	Note	£'000	£'000
Fixed assets			
Intangible assets	10	5,579	5,503
Tangible assets	11	53,672	55,374
		59,251	60,877
Current assets			
Stocks	12	5,743	4,792
Debtors (of which £11,885,000 (2015: £11,885,000) is due after more than one year)	13	36,082	45,820
Cash at bank and in hand		3	-
		41,828	50,612
Creditors: amounts falling due within one year	14	(31,768)	(22,740)
Net current assets		10,060	27,872
Total assets less current liabilities		69,311	88,749
Creditors: amounts falling due after more than one year	15	(31,072)	(31,272)
Provisions for liabilities	16	(4,080)	(3,997)
Net assets excluding pension deficit		34,159	53,480
Pension deficit	18	(13,233)	(25,042)
Net assets including pension deficit		20,926	28,438
Capital and reserves			
Called up share capital	19	65,000	65,000
Hedge accounting reserve		1,261	(896)
Profit and loss account		(45,335)	(35,666)
Total shareholders' funds		20,926	28,438

The financial statements on pages 8 to 34 were approved by the board of directors on 27 July 2017 and were signed on its behalf by:


PAUL BAILEY
 Director

SCA Hygiene Products Manchester Limited is registered in England and Wales under company number 04119442.

SCA Hygiene Products Manchester Limited

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £'000	Hedge reserve Energy/Tax £'000	Profit and loss account £'000	Total shareholders' funds £'000
As at 1 January 2015	-	(616)	(33,191)	(33,807)
Profit for the financial year	-	-	1,557	1,557
Actuarial loss recognised in the pension scheme	-	-	(4,916)	(4,916)
Movement on deferred tax relating to pension scheme			883	883
Hedge reserve account	-	(280)	-	(280)
New ordinary shares issued	65,000	-	-	65,000
As at 31 December 2015	65,000	(896)	(35,666)	28,438
As at 1 January 2016	65,000	(896)	(35,666)	28,438
Profit for the financial year	-	-	1,752	1,752
Transfer of pension scheme	-	-	3,073	3,073
Actuarial loss recognised in the pension scheme		-	(16,833)	(16,833)
Movement on deferred tax relating to pension scheme		-	2,339	2,339
Hedge reserve account	-	2,157	-	2,157
As at 31 December 2016	65,000	1,261	(45,335)	20,926

SCA Hygiene Products Manchester Limited

Statement of accounting policies

General information

The principal activity of the company is the manufacture, distribution and sale of paper based hygiene products. The company is a private company incorporated in the United Kingdom. Its registered address is Southfields Road, Dunstable, Bedfordshire, LU6 3EJ.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 “Reduced Disclosure Framework” (“FRS101”) and the Companies Act 2006.

The financial statements are prepared in sterling which is also the functional currency.

The accounting policies set out below have been consistently applied to all the years presented unless otherwise stated. They have been prepared under the historical cost convention, and on a going concern basis.

Consolidated financial statements have not been prepared by the Company as it is entitled to the exemption under section 400 of the Companies Act 2006, by virtue of being included in the consolidated financial statements of SCA Group Holding BV. These financial statements present information about the company as an individual undertaking and not about its group.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, ‘Share-based payment’ (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- IFRS 7, ‘Financial Instruments: Disclosures’
- Paragraphs 91 to 99 of IFRS 13, ‘Fair value measurement’ (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, ‘Presentation of financial statements’:

SCA Hygiene Products Manchester Limited

Statement of accounting policies (continued)

- 10(d), (statement of cash flows)
- 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
- 16 (statement of compliance with all IFRS),
- 38A (requirement for minimum of two primary statements, including cash flow statements),
- 38B-D (additional comparative information),
- 40A-D (requirements for a third statement of financial position)
- 111 (cash flow statement information), and
- 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

Intangible assets

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to the CGU, and then to other assets within that CGU on a pro rata basis.

In accordance with FRS 101, goodwill is not amortised and is instead subject to an annual impairment review. The requirement of the Companies Act 2006 is to amortise goodwill over its deemed useful life, however this requirement conflicts with the generally accepted accounting principles set out in FRS 101. The Directors consider that to amortise this goodwill would not give a true and fair view, but that a true and fair view is given by following FRS 101 as described above.

Royalties

Royalties are charged on the net invoiced external sale value on products under the sub-licence agreement.

Tangible fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold improvements	2-5
Buildings	2-5
Plant and machinery	3-33

SCA Hygiene Products Manchester Limited

Statement of accounting policies (continued)

Tangible fixed assets and depreciation (continued)

No depreciation is provided on freehold land or assets under construction.

Assets held for sale are written down to net realisable value and reclassified to current assets.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing arrangements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over their useful economic lives.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, work in progress, and consumables, the first in first out basis is used. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Debtors

Short term debtors are measured at transaction price less any impairment.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Short term creditors are measured at the transaction price.

Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Provisions

Provisions are recognised when the company has a present obligation, as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of that obligation can be made. Provisions for restructuring measures are made when a detailed, formal plan for the measures exists and well-founded expectations have been created among those who will be affected by the measures.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

SCA Hygiene Products Manchester Limited

Statement of accounting policies (continued)

Derivative financial instruments

The company uses derivative financial instruments such as forward currency and energy contracts to hedge its risks associated with foreign currency and energy prices. All derivatives are initially and continuously recognised at fair value in the balance sheet.

The fair value of forward contracts is calculated by reference to current forward exchange rates/energy prices for contracts with similar maturity profiles.

When using hedge accounting, the relationship between the hedge instrument and the hedged item is documented. Assessment of the effectiveness of the hedge is also documented, both when the transaction is initially executed and on an ongoing basis. Hedge effectiveness is the extent to which the hedging instrument offsets changes in value in a hedged item's fair value or cash flow. The ineffective portion is recognised directly in profit or loss.

Cash flow hedges

Gains and losses on remeasurement of derivatives intended for cash flow hedging are recognised in equity under other comprehensive income and reversed to profit or loss at the rate at which the hedged cash flow affects profit or loss.

Cash flow hedges relating to transaction exposure affect other operating income/expenses. Cash flow hedges relating to energy affect cost of sales.

Emissions rights

Emission allowances relating to carbon-dioxide emissions are recognised as an intangible asset and as deferred income (liability) when they are received. Allowances are received free of charge and measured and reported at market value as of the day to which the allocation pertains. For allocated emission allowances, the reported cost and provisions for emissions amount to the market value as of the day to which the allocation pertains. For purchased emission allowances, the reported cost and provisions for emissions amount to the purchase price. During the year, the initial liability for emission allowances received is recognised through the profit and loss account as income in pace with carbon-dioxide emissions made. If the market price of emission allowances on the balance sheet date is less than reported cost, any surplus emission allowances that are not required to cover emissions made are written down to the market price applying on the balance sheet date. In conjunction with this, the remaining part of the deferred income is recognised as income by a corresponding amount and therefore no net effect occurs in profit and loss account. The emissions allowances are used as payment in the settlement with the UK Government regarding liabilities for emissions. If the emission allowances received do not cover emissions made, SCA makes a provision to reserves for the deficit valued at the market value on the balance sheet date. Sales of surplus emission allowances are recognised as income on the settlement date.

Turnover

Turnover, which excludes value-added tax, represents the amounts derived from the provision of goods and services to customers during the year. Turnover is recognised when title passes to the customer. All turnover is to associated group companies.

SCA Hygiene Products Manchester Limited

Statement of accounting policies (continued)

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

The company operates various post-employment schemes, including both defined benefit and a defined contribution pension plan.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past-service costs are recognised immediately in the income statement.

SCA Hygiene Products Manchester Limited

Statement of accounting policies (continued)

Employee benefits (continued)

For the defined contribution plan, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Svenska Cellulosa Aktiebolaget SCA (Publ). On April 5th 2017 SCA's shareholders voted in favour of the proposal to split the Group into two separate listed companies. The hygiene business will become a leading global hygiene and health company operating under the name Essity. Therefore from June 15th 2017 the ultimate parent company will be Essity Aktiebolag (publ).

The directors have received confirmation that Essity Aktiebolag (publ) intend to support the company for at least one year after these financial statements are signed.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 18 for the disclosures of the defined benefit pension scheme.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016

1 Directors emoluments

The directors received £nil remuneration from the company during the year (2015: £nil). The directors were remunerated by fellow group companies in the year. No allocation of the directors' emoluments has been made as the directors provide minimal services to the company.

2 Turnover

The analysis by geographical area of the destination of the company's turnover is set out below.

	2016	2015
	£'000	£'000
United Kingdom	63,588	66,460

All turnover is derived from one class of business. Principally all of the profit and net assets of the business are in the United Kingdom.

3 Other operating charges

	2016	2015
	£'000	£'000
Administrative expenses	1,703	905
Selling expenses	1	45
	1,704	950

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

4 Other operating income

	2016	2015
	£'000	£'000
Exchange gains	-	63

5 Employee information

The average monthly number of persons (excluding executive directors) employed by the company during the year was:

	2016	2015
	Number	Number
By activity		
Production and distribution	163	161
	2016	2015
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	6,059	5,924
Social security costs	618	540
Other pension costs	2,135	2,416
	8,812	8,880

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

6 Interest receivable and similar income

	2016	2015
	£'000	£'000
On amounts owed by group undertakings	2	-

7 Interest payable and similar charges

	2016	2015
	£'000	£'000
On amounts owed to group undertakings	1,211	1,305

8 Profit on ordinary activities before taxation

	2016	2015
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year on owned tangible fixed assets	4,824	5,208
Inventory recognised as an expense	23,454	32,517
Exchange losses	776	842

Auditors' remuneration has been met on behalf of the company by SCA Hygiene Products UK Limited. Services provided by the company's auditors: Fees payable for the audit of £53,000 (2015: £53,000 paid to PWC).

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Tax on Profit on ordinary activities

Tax credit included in the income statement

	2016	2015
	£'000	£'000
Current tax:		
United Kingdom corporation tax on profit for the year		
- Current tax on profit	(5,919)	-
- Group relief claimed	-	(9,700)
- Adjustments in respect of prior year	-	21
Total current tax charge	(5,919)	(9,679)
Deferred tax:		
- Origination and reversal of timing differences	5,285	4,986
- Rate change	121	1,151
- Prior year adjustment	-	(17)
- Pension costs in excess of relief	-	4,115
Total deferred tax credit (note 15)	5,405	10,235
Tax on profit on ordinary activities	(514)	556

Tax credit included in other comprehensive expense

	2016	2015
	£'000	£'000
Current tax	-	-
Deferred tax:		
- Origination and reversal of temporary differences	(2,382)	(883)
- Impact of change in tax rate	-	-
Total tax credit included in other comprehensive expenses	(2,382)	(883)

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Tax on profit on ordinary activities (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.0% (2015: 20.25%). The actual tax credit for the year is lower (2015: higher) than the standard rate for the reasons set out in the following reconciliation:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	1,238	2,113
Profit on ordinary activities multiplied by the standard rate of corporation tax 20.0% (2015: 20.25%)	248	428
Effects of:		
- Expenses not deductible for tax purposes	505	194
- Group relief before payment	-	(2)
- Capital allowances more than depreciation	275	(334)
- Adjustments in respect of prior year	120	20
- Other short term timing differences	(1,662)	250
Tax credit	(514)	556

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 20% (2015: 20.25%). A change to the UK Corporation tax rate was announced in the Chancellor's budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK Corporation tax rate from 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% was substantively enacted on 6 September 2016 its effects are included in these financial statements.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Intangible assets

	Emission rights £'000	Patents/ licence £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2016	334	24	5,169	5,527
Additions	207	-	-	207
Disposals	(131)	-	-	(131)
At 31 December 2016	410	24	5,169	5,603
Accumulated amortisation				
At 1 January 2016	-	24	-	24
Charge for the year	-	-	-	-
At 31 December 2016	-	24	-	24
Net book amount				
As at 31 December 2016	410	-	5,169	5,579
As at 31 December 2015	334	-	5,169	5,503

The goodwill arose on the acquisition of the trade and assets of the business from Procter & Gamble.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

11 Tangible fixed assets

	Freehold land and improvements £'000	Buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2016	6,471	20,087	74,037	45	100,640
Additions	-	-	537	2,606	3,143
Disposal	-	-	(105)	-	(105)
Reclassifications	-	-	29	(29)	-
At 31 December 2016	6,471	20,087	74,498	2,622	103,678
Accumulated depreciation					
At 1 January 2016	413	7,420	37,433	-	45,266
Charge for the year	54	904	3,866	-	4,824
Disposal	-	-	(84)	-	(84)
At 31 December 2016	467	8,324	41,215	-	50,006
Net book amount					
At 31 December 2016	6,004	11,763	33,283	2,622	53,672
At 31 December 2015	6,058	12,667	36,604	45	55,374

The value of freehold land not depreciated as at 31 December 2016 was £5,640,000 (2015: £5,640,000).

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

12 Stocks

	2016	2015
	£'000	£'000
Raw materials and consumables	1,310	1,135
Work in progress	2,140	1,447
Engineering stores	2,293	2,210
	5,743	4,792

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

13 Debtors

	2016	2015
	£'000	£'000
Amounts falling due within one year		
Trade debtors	636	223
Amounts owed by group undertakings	24,120	23,654
Corporation tax	5,919	14,690
Deferred tax (note 17)	3,052	6,038
Other taxation and social security	1,260	602
Other debtors	85	141
Prepayments and accrued income	1,010	472
	36,082	45,820

Included above is an amount of £11,885,000 (2015: £11,885,000) owed by group undertakings which is due after more than one year. This is unsecured, interest free and has no fixed date of repayment.

The fair value of any gain on contracts at the balance sheet date is currency £83,000 (2015: £8,000) and energy £694,000 (2015:£nil). These figures are disclosed in the Amounts owed by group undertakings above.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

14 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	7,162	4,616
Amounts owed to group undertakings	17,707	10,324
Other creditors	-	18
Accruals and deferred income	6,899	7,782
	31,768	22,740

Amounts due to SCA Capital NV of £14,716,000 (2015: £nil) bear interest at the Natwest Bank base rate plus 0.5% (2015: 0.5%). Amounts due to SCA UK Holdings Limited of £nil (2015: £7,230,996) bear interest at the Natwest Bank base rate plus 0.5% (2015: 0.5%). All other amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

The fair value of any loss on energy contracts at the balance sheet date is £6,000 (2015: £1,029,000). These figures are disclosed in the Amounts owed to group undertakings above.

15 Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Amounts owed to group undertakings	31,072	31,272

The amount owed to SCA Hygiene Products UK Limited of £31,072,000 (2015: £31,072,000) is unsecured, has no fixed date of repayment and interest is payable at the Natwest Bank base rate plus 0.5% (2015: 0.5%).

The amount owed to SCA Finans AB of £nil (2015: £200,000) is unsecured, has no fixed date of repayment and is interest free.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

16 Provisions for liabilities

	Deferred tax liability (Note 17) £'000	Emission rights £'000	Total £'000
At 1 January 2016	3,866	131	3,997
Profit and loss account charge for the year	2,420	-	2,420
Statement of Comprehensive Income	(2,382)	-	(2,382)
Emissions for the year	-	177	177
Utilised during the year	-	(132)	(132)
At 31 December 2016	3,904	176	4,080

Emissions

The emissions allowance is expected to be utilised within one year of receipt by April every year.

17 Deferred tax

The provision for deferred tax consists of the following deferred tax assets:

	2016 £'000	2015 £'000
Deferred tax assets due within 12 months	(678)	(718)
Deferred tax liabilities due within 12 months	15	-
Total deferred tax due within 12 months	(663)	(718)
	2016 £'000	2015 £'000
Deferred tax assets due after 12 months	(2,374)	(5,320)
Deferred tax liabilities due after 12 months	3,889	3,866
Total deferred tax due after 12 months	1,515	(1,454)
	2016	2015
Total liability/(asset)	852	(2,172)

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

17 Deferred tax (continued)

Deferred tax	Accelerated capital allowances £'000	Other £'000	Total £'000
At January 2016	2,412	(4,584)	(2,172)
Reclassification	1,310	(1,310)	-
Charged to the income statement	(98)	5,504	5,406
(Credited) to other comprehensive income	-	(2,382)	(2,382)
At 31 December 2016	3,624	(2,772)	852

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Post-employment benefits

The company operated both a defined benefit and a defined contribution scheme during the year.

Defined benefit scheme

Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan – including investment decisions and contribution schedules – lies jointly with the company and the board of directors of the fund.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the plans mature, the company intends to reduce the level of investment risk by investing more in assets that better match the liabilities. However, the company believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently.

(b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Post-employment benefits (continued)

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 31 December 2014 by Towers Watson LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	At 31 December 2016	At 31 December 2015
	%	%
Rate of increase in pensions	2.90%	2.90%
Rate of increase for deferred pensions	2.90%	2.90%
Salary increases	3.00%	3.50%
Discount rate+	2.37%	3.68%
Inflation assumptions (RPI)	3.00%	3.00%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	31 December 2016	31 December 2015
	Number	Number
Longevity at age 65 for current pensioners		
- Men	22.1	22.0
- Women	24.7	24.6
Longevity at age 65 for future pensioners		
- Men	24.3	24.2
- Women	27.0	26.9

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2016	852,473	(877,515)	(25,042)
Service cost	(825)	(1,114)	(1,939)
Member contributions	30	-	30
Interest expense	-	(33,276)	(33,276)
Benefits paid	(31,315)	31,315	-
Employer contributions	27,951	-	27,951
Transfer in	7,997	(4,924)	3,073
Actuarial gain/(losses)	67,615	(84,448)	(16,833)
Actual return on plan assets	32,803	-	32,803
At 31 December 2016	956,729	(969,962)	(13,233)

The total contributions to the defined benefit schemes in 2017 are expected to be £27,896,000 (2016: £27,950,000).

Total cost recognised as an expense:

	2016 £'000	2015 £'000
Current service cost	1,909	2,213
Interest	473	1,413
	2,382	3,626

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

18 Post-employment benefits (continued)

The fair value of plan assets were:

	2016 £'000	2015 £'000
Equities	569,253	506,369
Corporate Bonds	301,370	265,972
Other – Cash/Property	86,106	80,132
Total market value of assets	956,729	852,473

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	Change in assumption	Increase in assumption	Decreases in assumption
Discount rate	0.5% pa	(97,232)	107,730
Salary growth rate	0.5% pa	406	(407)
Pension growth rate	0.5% pa	79,654	(74,556)
Life expectancy	1 year	50,106	(48,034)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Defined contribution schemes

The Group's defined contribution schemes are funded by the payment of contributions to independently administered funds and the assets of the schemes are held separately from those of the company. The pension cost charges for the year amounted to £227,000 (2015: £204,000). Contributions totalling £nil (2015: £nil) were payable to the funds at the year end.

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

19 Called-up share capital

	2016 £'000	2015 £'000
Authorised		
6,500,000,101 (2015: 6,500,000,101) ordinary shares of £0.01 each	65,000	65,000
Allotted and fully paid		
6,500,000,101 (2015: 6,500,000,101) ordinary shares of £0.01 each	65,000	65,000

Equity share capital

The balance classified as equity share capital includes the total net proceeds on issue of the Company's equity share capital, comprising £0.01 ordinary shares.

20 Financial commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016 £'000	2015 £,000
Not later than one year	3	10
Later than one and not later than five years	3	8
Later than five years	-	-
	6	18

SCA Hygiene Products Manchester Limited

Notes to the financial statements for the year ended 31 December 2016 (continued)

21 Ultimate and immediate parent undertaking and controlling party

The company is a subsidiary of SCA Group Holding BV, a company registered in the Netherlands. By virtue of their shareholding, the ultimate parent company and controlling party of the company was Svenska Cellulosa Aktiebolaget SCA (Publ) ('SCA'), a company incorporated in Sweden. On April 5th 2017 SCA's shareholders voted in favour of the proposal to split the Group into two separate listed companies. The hygiene business will become a leading global hygiene and health company operating under the name Essity. Therefore from June 15th 2017 the ultimate parent company will be Essity Aktiebolag (publ) a company incorporated in Sweden. The immediate parent company is SCA UK Holdings Limited a company registered in England and Wales

Svenska Cellulosa Aktiebolaget SCA (Publ) was the parent company of the largest and smallest group to prepare consolidated financial statements for 2016. Copies of these financial statements for the year ended 31 December 2016 may be obtained from the following address:

Southfields Road, Dunstable, Bedfordshire, LU6 3EJ