

Essity Operations Manchester Limited
Annual report and financial statements
for the year ended 31 December 2018

Registered number: 04119442

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Essity Operations Manchester Limited
Annual report and financial statements
for the year ended 31 December 2018
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Essity Operations Manchester Limited

Directors and advisers

Directors

P A Bailey

K J Starr

D P R Minney

Company secretary and registered office

P A Bailey

Southfields Road

Dunstable

Bedfordshire

LU6 3EJ

Independent auditors

Ernst & Young LLP

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

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2018

Review of business and future developments

Market conditions remain very competitive. The company continues to focus on product innovation and operational savings through efficiency programmes in manufacturing.

The company manufactures disposable hygiene products which are being sold to its sister company, Essity 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:

	2018	2017
Current Ratio – current assets divided by current liabilities	(0.5)	(0.6)
External Current Ratio – 3rd party current assets divided by 3rd party current liabilities	2.7	2.2
Gross Margin - the ratio of gross profit to turnover expressed as a percentage	7.6%	5.4%
Pre Tax profit Margin – the ratio of the profit before tax to turnover expressed as a percentage	1.8%	3.0%

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.

Essity Operations Manchester Limited

Strategic report for the year ended 31 December 2018 (continued)

The finance department has a policy and procedure manual set by the Essity 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. Essity's financial policy provides guidelines for managing the company's transaction exposure.

Cash management

As a member of the Essity cash pool arrangement, the company's cash management is effectively controlled by Essity Treasury AB, a fellow group company. The Essity 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 Essity 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 (2017: £nil).

By Order of the Board



Paul Bailey
Company secretary
18 October 2019

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2018

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2018.

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
K J Starr	
D P R Minney	(appointed 13 November 2018)
C M Rydebrink	(resigned 13 November 2018)

Employees

The company's policy is to consult and discuss with employees, through unions, works councils and at meetings, to raise common awareness on the part of all employees of the financial and economic factors affecting the company's performance and to enable employees to raise views.

Information on matters of concern to employees is given through information bulletins, briefings and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company's policy is not to discriminate on grounds of sex, age, national origin, disability or sexual orientation in any aspect of the employment relationship, including recruitment, training, career development, or other employment benefits.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2018 (continued)

Employees (continued)

Consultations with employees or their representatives have continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues with works councils and the in-house intranet.

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 Essity Aktiebolag (publ).

The directors have received confirmation that the company's immediate parent company, Essity Holding UK Limited, intends to support the company for at least one year after these financial statements are signed.

Independent auditors

In accordance with s485 of the Companies Act 2006, a resolution has been proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors of the Company.

Statement of disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware.

Each director has taken all the steps that ought to have been taken in their duty as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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.

Essity Operations Manchester Limited

Directors' report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities (continued)

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

A handwritten signature in black ink, appearing to be 'Paul Bailey', written over a horizontal line.

Paul Bailey
Company secretary
18 October 2019

Independent auditor's report to the members of Essity Operations Manchester Limited

Opinion

We have audited the financial statements of Essity Operations Manchester Limited (Formerly SCA Hygiene Products Manchester Limited) for the year ended 31 December 2018 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. 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 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report to the members of Essity Operations Manchester Limited (continued)

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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Independent auditor's report to the members of Essity Operations Manchester Limited (continued)

Responsibilities of directors

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, 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

A handwritten signature in black ink that reads "Ernst & Young LLP".

Chris Nobbs (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
18 October 2019

Essity Operations Manchester Limited

Income Statement for the year ended 31 December 2018

		2018	2017
	Note	£'000	£'000
Turnover	2	87,939	62,355
Cost of sales		(81,229)	(59,013)
Gross profit		6,710	3,342
Other operating charges	3	(5,590)	(1,095)
Other operating income	4	108	374
Operating profit	6	1,228	2,621
Interest payable and similar charges	7	(1,045)	(834)
Other finance income	17	1,359	76
Profit on ordinary activities before taxation		1,542	1,863
Tax on profit on ordinary activities	8	505	371
Profit for the financial year		2,047	2,234

All activities are in respect of continuing operations.

Essity Operations Manchester Limited

Statement of comprehensive income for the year ended 31 December 2018

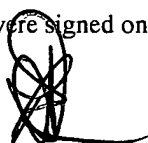
		2018	2017
	Note	£'000	£'000
Profit for the financial year		2,047	2,234
Actuarial losses on pension scheme	17	(44,889)	(3,716)
Movement on deferred tax relating to pension scheme		7,631	(12)
Pension settlement gain	17	-	3,786
Cash flow hedges		151	(332)
Movement on deferred tax relating to cash flow hedges		(133)	(71)
Current tax charge relating to cash flow hedges		(11)	-
Other comprehensive expense for the year		(37,251)	(345)
Total comprehensive income/(expense) for the year		(35,204)	1,889

Essity Operations Manchester Limited

Statement of financial position as at 31 December 2018

		2018	2017
	Note	£'000	£'000
Fixed assets			
Intangible assets	9	5,486	5,360
Tangible assets	10	51,396	52,362
		56,882	57,722
Current assets			
Stocks	11	7,265	8,426
Debtors: amounts falling due after more than one year	12	50,338	41,912
Debtors: amounts falling due within one year	12	1	2
Cash at bank and in hand		54	1
		57,658	50,341
Creditors: amounts falling due within one year	13	(124,206)	(82,299)
Net current liabilities		(66,548)	(31,958)
Total assets less current liabilities		(9,666)	25,764
Creditors: amounts falling due after more than one year	14	(21,761)	(31,074)
Provisions for liabilities	15	(9,274)	(10,988)
Net (liabilities)/assets excluding pension surplus/(deficit)		(40,701)	(16,300)
Pension surplus	17	28,313	39,113
Net (liabilities)/assets including pension surplus		(12,388)	22,815
Capital and reserves			
Called up share capital	18	65,000	65,000
Hedge accounting reserve		876	858
Profit and loss account		(78,264)	(43,043)
Total shareholders' (deficit)/funds		(12,388)	22,815

The financial statements on pages 10 to 38 were approved by the board of directors on 18 October 2019 and were signed on its behalf by:



Paul Bailey
Director

Essity Operations Manchester Limited is registered in England and Wales under company number 04119442.

Essity Operations Manchester Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Hedge reserve	Profit and loss account	Total shareholders' (deficit)/funds
	£'000	£'000	£'000	£'000
As at 1 January 2017	65,000	1,261	(45,335)	20,926
Profit for the financial year	-	-	2,234	2,234
Pension settlement gain	-	-	3,786	3,786
Actuarial loss recognised in the pension scheme	-	-	(3,716)	(3,716)
Movement on deferred tax relating to pension scheme	-	-	(12)	(12)
Movement on hedge reserve	-	(332)	-	(332)
Movement on deferred tax relating to hedge reserve	-	(71)	-	(71)
As at 31 December 2017	65,000	858	(43,043)	22,815
As at 1 January 2018	65,000	858	(43,043)	22,815
Profit for the financial year	-	-	2,047	2,047
Actuarial loss recognised in the pension scheme	-	-	(44,889)	(44,889)
Movement on deferred tax relating to pension scheme	-	-	7,632	7,632
Movement on hedge reserve	-	151	-	151
Movement on deferred tax relating to hedge reserve	-	(133)	-	(133)
Current tax charge relating to cash flow hedges	-	-	(11)	(11)
As at 31 December 2018	65,000	876	(78,264)	(12,388)

Essity Operations 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 Essity Group Holding BV (formerly 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.

Changes in accounting policy and disclosures

IFRS 15, 'Revenue from Contracts with Customers' replaces IAS 11 Construction Contracts, IAS18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIS 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard establishes a new regulatory framework for the manner in which a company should recognise revenue relating to commercial agreements (contracts) with customers in which the delivery of goods/services is divided up into separate identifiable performance obligations that are reported independently.

The company has applied IFRS 15 prospectively from 1 January 2018. Comparative information for 2017 has not been restated and instead 2017 is recognised according to the previous rules, mainly IAS 18, which IFRS 15 replaced. A review of the company's reporting of revenue from contracts with customers under new IFRS 15 criteria did not result in any changes to their reporting in either the income statement or statement of financial position.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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:
 - o paragraph 79(a)(iv) of IAS 1
 - o paragraph 73(e) of IAS 16 Property, plant and equipment
 - o 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':

- o 10(d), (statement of cash flows)
- o 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)
- o 16 (statement of compliance with all IFRS)
- o 38A (requirement for minimum of two primary statements, including cash flow statements)
- o 38B-D (additional comparative information)
- o 40A-D (requirements for a third statement of financial position)
- o 111 (cash flow statement information)
- o 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.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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

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.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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.

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.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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, Essity 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.

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.

Essity Operations Manchester Limited

Statement of accounting policies (continued)

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.

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 Essity Aktiebolag (publ).

The directors have received confirmation that the company's immediate parent company, Essity Holding UK Limited, intends 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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018

1 Directors emoluments

The directors received £nil remuneration from the company during the year (2017: £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.

	2018	2017
	£'000	£'000
United Kingdom	83,907	62,355
Rest of Europe	2,673	-
Rest of the world	1,359	-
	87,939	62,355

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

3 Other operating charges

	2018	2017
	£'000	£'000
Administrative expenses	5,170	1,095
Selling expenses	116	-
Exchange losses	304	-
	5,590	1,095

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

4 Other operating income

	2018	2017
	£'000	£'000
Rental income	108	-
Exchange gains	-	374
	108	374

5 Employee information

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

	2018	2017
	Number	Number
By activity		
Production and distribution	166	166
Administration	1	2
	167	168
	2017	2016
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	6,524	6,637
Social security costs	664	669
Other pension costs	3,113	2,764
	10,301	10,070

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

6 Operating Profit

	2018	2017
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation charge for the year on owned tangible fixed assets	4,644	4,701
Inventory recognised as an expense	48,277	33,186
Exchange losses/(gains)	304	(374)
Operating lease charges	10	8

Auditors' remuneration has been met on behalf of the company by Essity UK Limited. Services provided by the company's auditors: Fees payable for the audit of £42,000 (2017: £45,000).

7 Interest payable and similar charges

	2018	2017
	£'000	£'000
On amounts owed to group undertakings	1,045	834

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Tax on profit on ordinary activities

Tax credit included in the income statement

	2018	2017
	£'000	£'000
Current tax:		
United Kingdom corporation tax on profit for the year		
- Current tax on profit	(6,210)	(10,399)
- Adjustments in respect of prior year	(22)	157
Total current tax credit	(6,232)	(10,242)
Deferred tax:		
- Origination and reversal of timing differences	6,538	11,078
- Rate change	(687)	(1,295)
- Prior year adjustment	(124)	88
- Pension costs in excess of relief	-	-
Total deferred tax charge (note 15)	5,727	9,871
Tax on profit on ordinary activities	(505)	(371)

Tax charge included in other comprehensive expense

	2018	2017
	£'000	£'000
Current tax	11	-
Deferred tax:		
- Origination and reversal of temporary differences	(7,499)	83
Total tax (credit)/charge included in other comprehensive income/expenses	(7,488)	83

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 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 19% (2017: 19.25%). The actual tax credit for the year is lower (2017: lower) than the standard rate for the reasons set out in the following reconciliation:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	1,542	1,863
Profit on ordinary activities multiplied by the standard rate of corporation tax 19% (2017: 19.25%)	293	359
Effects of:		
- Expenses not deductible for tax purposes	35	320
- Deferred tax effect of reduction in main rate of Corporation Tax	(687)	(1,295)
- Capital allowances more than depreciation	-	-
- Adjustments in respect of prior year	(146)	245
- Other short term timing differences	-	-
Tax credit	(505)	(371)

The Finance Act 2016, which was enacted on 15 September 2016 included legislation to reduce the main rate of Corporation Tax from 20% to 19% from 1 April 2017, resulting in a current tax rate of 19% for the period (2017: 19.25%). A further reduction in the UK Corporation Tax rate to 17% from 1 April 2020 was also included in the Finance Act 2016 and consequently deferred tax has been recognised at a rate of 17%.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Intangible assets

	Emission rights £'000	Patents/ licence £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2018	191	24	5,169	5,384
Additions	317	-	-	317
Disposals	(191)	-	-	(191)
At 31 December 2018	317	24	5,169	5,510
Accumulated amortisation				
At 1 January 2018	-	24	-	24
Charge for the year	-	-	-	-
At 31 December 2018	-	24	-	24
Net book amount				
As at 31 December 2018	317	-	5,169	5,486
As at 31 December 2017	191	-	5,169	5,360

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

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 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 2018	6,766	20,244	74,815	4,453	106,278
Additions	-	-	367	3,388	3,755
Disposals	-	-	(215)	-	(215)
Reclassifications	26	77	3,192	(3,295)	-
At 31 December 2018	6,792	20,321	78,159	4,546	109,818
Accumulated depreciation					
At 1 January 2018	535	9,235	44,146	-	53,916
Charge for the year	55	916	3,673	-	4,644
Disposals	-	-	(138)	-	(138)
At 31 December 2018	590	10,151	47,681	-	58,422
Net book amount					
At 31 December 2018	6,202	10,170	30,478	4,546	51,396
At 31 December 2017	6,231	11,009	30,669	4,453	52,362

The value of freehold land not depreciated as at 31 December 2017 was £5,740,000 (2017: £5,740,000).

11 Stocks

	2018 £'000	2017 £'000
Raw materials and consumables	3,177	2,209
Work in progress	1,401	3,598
Engineering stores	2,687	2,619
	7,265	8,426

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

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

12 Debtors

	2018	2017
	£'000	£'000
Amounts falling due within one year		
Trade debtors	804	817
Amounts owed by group undertakings	24,163	23,099
Corporation tax	21,839	16,103
Other taxation and social security	3,227	1,060
Other debtors	-	90
Prepayments and accrued income	305	743
	50,338	41,912
	2018	2017
	£'000	£'000
Amounts falling due after more than one year		
Deferred tax (note 16)	1	2
	1	2

Amounts owed by group undertakings include:

- i) The fair value of gains on contracts at the balance sheet date relating to currency of £4,000 (2017: £nil) and relating to energy of £990,000 (2017: £792,000).
- ii) A balance due from Essity UK Limited of £nil (2017: £11,885,000) which is unsecured, has no fixed date of repayment and is interest free.

All other amounts owed by group undertakings are trading balances.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	7,610	6,534
Amounts owed to group undertakings	111,817	69,975
Accruals and deferred income	4,779	5,790
	124,206	82,299

Amounts owed to group undertakings include:

- i) An amount owed to Essity Treasury AB of £109,298,000 (2017: £67,536,000) on which interest is payable at the 6 month GBP LIBOR rate.
- ii) Accrued interest owed to Essity UK Limited of £nil (2017: £2,224,000).
- iii) The fair value of losses on contracts at the balance sheet date relating to currency of £nil (2017: £9,000) and relating to energy of £66,000 (2017: £2,000).

All other amounts owed to group undertakings are trading balances.

14 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Amounts owed to group undertakings	21,761	31,074

Amounts owed to group undertakings comprise:

- i) An amount owed to Essity UK Limited of £21,755,000 (2017: £31,072,000) which is unsecured, has no fixed date of repayment and on which interest is payable at the Bank of England base rate plus 0.5%.
- ii) The fair value of losses on contracts at the balance sheet date relating to energy of £6,000 (2017: £2,000).

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Provisions for liabilities

	Deferred tax liability (Note 17)	Emission rights	Total
	£'000	£'000	£'000
At 1 January 2018	10,807	181	10,988
Profit and loss account charge for the year	5,727	-	5,727
Statement of Comprehensive Income	(7,498)	-	(7,498)
Emissions for the year	-	238	238
Utilised during the year	-	(181)	(181)
At 31 December 2018	9,036	238	9,274

Emissions

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

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

16 Deferred tax

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

	2018	2017
	£'000	£'000
Deferred tax assets due within 12 months	-	-
Deferred tax liabilities due within 12 months	167	25
Total deferred tax due within 12 months	167	25
	2018	2017
	£'000	£'000
Deferred tax assets due after 12 months	(1)	(2)
Deferred tax liabilities due after 12 months	8,869	10,783
Total deferred tax due after 12 months	8,868	10,781
	2018	2017
	£,000	£,000
Total liability	9,035	10,806

Deferred tax	Accelerated capital allowances £'000	Other £'000	Total £'000
At January 2018	3,897	6,909	10,806
Charged to the income statement	(102)	5,829	5,727
Charged to other comprehensive income	-	(7,498)	(7,498)
At 31 December 2018	3,795	5,240	9,035

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 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.

On 30 September 2018, the defined benefit pension scheme was closed to future accrual for all members.

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.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 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 2018	At 31 December 2017
	%	%
Rate of increase in pensions	2.90%	2.90%
Rate of increase for deferred pensions	2.90%	2.90%
Salary increase	3.00%	3.00%
Discount rate	2.72%	2.64%
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 2018	31 December 2017
	Number of years	Number of years
Longevity at age 65 for current pensioners		
- Men	22.1	21.9
- Women	24.3	24.0
Longevity at age 65 for future pensioners		
- Men	24.2	24.0
- Women	26.5	26.3

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2018	1,104,504	(1,065,391)	39,113
Service cost	(1,600)	(1,148)	(2,748)
Member contributions	20	-	20
Interest expense	-	(26,295)	(26,295)
Benefits paid	(51,800)	51,800	-
Employer contributions	35,375	-	35,375
Curtailment gains	-	83	83
Actuarial gains/(losses)	(76,073)	31,184	(44,889)
Actual return on plan assets	27,654	-	27,654
At 31 December 2018	1,038,080	(1,009,767)	28,313

The total contributions to the defined benefit schemes in 2019 are expected to be £33,750,000 (2018: £34,826,000).

Total cost recognised as an expense:

	2018 £'000	2017 £'000
Current service cost	2,728	2,459
Interest income	(1,359)	(76)
	1,369	2,383

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 Post-employment benefits (continued)

The fair value of plan assets were:

	2018 £'000	2017 £'000
Equities	628,039	668,224
Corporate Bonds	316,614	336,873
Other – Cash/Property	93,427	99,405
Total market value of assets	1,038,080	1,104,504

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

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5% pa	(83,215)	91,546
Salary growth rate	0.5% pa	-	-
Pension growth rate	0.5% pa	68,484	(64,631)
Life expectancy	1 year	49,018	(46,800)

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 £468,000 (2017: £274,000). Contributions totalling £nil (2017: £nil) were payable to the funds at the year end.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

18 Called-up share capital

	2018 £'000	2017 £'000
Authorised		
6,500,000,101 (2016: 6,500,000,101) ordinary shares of £0.01 each	65,000	65,000
Allotted and fully paid		
6,500,000,101 (2016: 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.

19 Financial commitments

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

	2018 £'000	2017 £,000
Not later than one year	6	8
Later than one and not later than five years	2	8
Later than five years	-	-
	8	16

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

20 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The company plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The company has leases of certain office equipment that are considered of low value.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

20 Standards issued but not yet effective (continued)

The company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	£'000
Assets	
Tangible assets – Plan and machinery (right of use assets)	8
Liabilities	
Lease liabilities due within one year	(5)
Lease liabilities due after more than one year	(3)
Net impact on equity	-

Reconciliation of minimum lease payments according to IAS 17 and recognised lease liability according to IFRS 16:

	£'000
Future minimum lease payments at 31 December 2018 according to Note 13	8
Present value calculated with the company's incremental borrowing rate at 1 January 2019	(1)
Lease liabilities at 1 January 2019	7

Due to the adoption of IFRS 16, the company's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

Essity Operations Manchester Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

21 Ultimate and immediate parent undertaking and controlling party

The company is a subsidiary of Essity Group Holding BV, a company registered in the Netherlands. By virtue of their shareholding, the ultimate parent company and controlling party of the company is Essity Aktiebolag (publ) a company incorporated in Sweden. The immediate parent company is Essity Holding UK Limited a company registered in England and Wales

Essity Aktiebolag (publ) was the parent company of the largest and smallest group to prepare consolidated financial statements for 2018. Copies of these financial statements for the year ended 31 December 2018 may be obtained from the following address:

Southfields Road, Dunstable, Bedfordshire, LU6 3EJ